

ENERGEX Limited

ABN 40 078 849 055

Statement of Corporate Intent 2011/12

**Prepared by the Directors and Management of ENERGEX Limited
for the shareholding Ministers:**

Minister for Finance and The Arts

Minister for Energy and Water Utilities

Final

"Commercial in Confidence"

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1 SCOPE/POLICY POSITION

1.1 Main Undertakings - Core Business

The core of ENERGEX's business is the provision of a reliable, secure, and efficient distribution of electricity to more than 1.3 million residential, commercial and industrial connections across South East Queensland (SEQ). ENERGEX has an electricity distribution network that spans approximately 25,000 square kilometres, including the high growth regions of Brisbane, the Gold Coast and the Sunshine Coast.

ENERGEX has identified its core business functions:

- Deliver a safe, efficient, reliable and quality supply of electricity through its infrastructure;
- Engage the community and manage electricity supply relationships with end use customers and electricity retailers including delivering a value proposition for each;
- Balance short term network management and long term network aspirations by improving network performance and emergency response plus progressing towards delivery of an intelligent connective network and the provision of best practice energy solutions to customers;
- Meet regulatory and shareholder requirements including producing sustainable and sound commercial operations evidenced by affordable expenditure levels, a managed balance sheet and delivered shareholder value.

ENERGEX is authorised under the *Electricity Act 1994* (Electricity Act) as a distribution entity with a supply area covering SEQ. The corporation's entire network is classified as a distribution network for the purposes of the National Electricity Rules (the Rules). Under the Electricity Act, the Queensland Competition Authority (QCA) issued an Electricity Industry Code (the Code) within which ENERGEX must operate. This Code prescribes requirements relating to industry planning, reporting and service standards. Under this Code, Minimum Service Standards (MSS) and Guaranteed Service Levels (GSLs) have been established along with a requirement for a Network Management Plan (NMP).

ENERGEX's core business is subject to economic regulation under the Australian Energy Regulator (AER). Under the National Electricity Law and the National Electricity Rules, the AER is responsible for ensuring that capital and operating expenditure plans are prudent and efficient and result in a fair rate of return on that investment. The QCA maintains responsibility for non economic regulation matters pertaining to ENERGEX.

Key stakeholders governing and influencing ENERGEX's business model include customers, retailers, shareholders, the QCA and the AER as discussed above. A tripartite relationship exists between ENERGEX, customers and retailers, whereby retailers' contract with customers to sell electricity and ENERGEX provides the transportation of that electricity from and to designated connection points. ENERGEX is responsible for ensuring a safe, reliable supply of electricity. Whilst operating within the Code to meet regulatory requirements, ENERGEX must be responsive to the expectations of its shareholding Ministers – the Minister for Finance and The Arts and the Minister for Energy and Water Utilities. ENERGEX also maintains significant relationships with industry players including those that connect to its distribution network infrastructure such as transmission networks, other distribution networks and distributed generators. Finally, ENERGEX must operate within the normal commercial and regulatory frameworks appropriate to a Government Owned Corporation (GOC).

Central to the delivery of ENERGEX's electricity distribution responsibilities is the development and execution of an annual NMP as required under the Code. The NMP provides a transparent view to customers and stakeholders about ENERGEX's proposed network performance and customer service, maintenance and infrastructure investment actions over the next five years. Included in the plan is past and proposed expenditure on network development, augmentation, operation and maintenance. It also covers investment strategies that ENERGEX will undertake towards building a future state "smart" network. Execution of the plan allows ENERGEX to build and manage its network assets to provide a safe, reliable and cost effective electricity supply to its SEQ customer base and meet its legislated and regulatory obligations.

In addition to building and managing network assets, ENERGEX has a small fully integrated portfolio of non-regulated businesses that provide metering, minor electricity generation and generation facility services to customers. Over the last two years, ENERGEX has disposed of a number of non-regulated businesses. These businesses were not integrated. ENERGEX only has a small portfolio of non-integrated businesses which are in the process of being divested. **Table 1** lists the ENERGEX Group operating companies and their activities including an assessment of the current strategic fit for that business:

Table 1 - Operating Companies within the ENERGEX Group

| COMPANY NAME | STRUCTURE | FUNCTION |
|--|---|---|
| ENERGEX Limited. | Government Owned Corporation. | Distribution business. |
| Queensland Energy Services Team Pty Ltd. | Proprietary company, limited by shares and wholly owned by ENERGEX. | Holding company, not otherwise actively operating at present. |
| SPARQ Solutions Pty Ltd. | Joint ownership between ENERGEX (50%) and Ergon Energy Corporation Limited (Ergon Energy) (50%). | SPARQ owns and develops joint Information Communications and Technology (ICT) assets and provides ICT management services for ENERGEX and Ergon Energy. |
| Metering Dynamics Business Support Pty Ltd. | Proprietary company, limited by shares and ultimately owned by ENERGEX Limited through Queensland Energy Services Team Pty Ltd. | No current business operations. |
| Varnsdorf Pty Ltd. VH Finance Pty Ltd. VH Energy Holdings Pty Ltd. VH Operations Pty Ltd. | All companies ultimately owned by ENERGEX Limited through Energy Impact Pty Ltd. | No current business operations. |
| Energy Impact Pty Ltd. | Ultimately owned by ENERGEX Limited through Queensland Energy Services Team Pty Ltd. | Established to hold non regulated assets. |
| Service Essentials Pty Ltd. | Joint ownership between ENERGEX (90%) and Ergon Energy Corporation Limited (Ergon Energy) (10%). | Subject to voluntary deregistration or winding up during 2010/11. |

1.1.1 Diagrammatical Representation

The following diagram, **Diagram 1** represents the flow of the Statement of Corporate Intent framework for ENERGEX.

Diagram 1 - Statement of Corporate Intent Framework



1.1.2 Vision

The Vision for ENERGEX is represented below and continues to define our future state;

By 2015 we will transform ENERGEX into a customer-centric organisation providing sustainable energy solutions. Our skilled and capable people will see us an employer of choice as we create new customer solutions and opportunities. We will support our customers' 21st century lifestyle aspirations and partner with the community to build sustainable economic growth in South East Queensland. In alignment with our shareholders we will be a safe, efficient, environmentally sustainable and commercial organisation.

1.1.3 Purpose

The ENERGEX purpose is – “Powering Lifestyles Forever”;

Powering - describes the core network and the need to utilise our people and technical capabilities to deliver network performance that achieves legislated minimum service standards (MSS), guaranteed service levels (GSL) and associated network standards.

Lifestyles - reflects ENERGEX’s desire to understand the lifestyle preferences of its customers and the implications for the way ENERGEX meets these requirements through the delivery of power.

Forever - reflects that ENERGEX must produce results that ensure the future sustainability of the network and corporation.

1.1.4 Values

ENERGEX’s vision and purpose are underpinned by six core values, which are detailed in **Diagram 2**. At ENERGEX we conduct our day-to-day activities in accordance with our values and these values embody ENERGEX’s culture.

Diagram 2 - ENERGEX Values and Statements

| | |
|---|--|
|  Put safety FIRST | Think safe, work safe, home safe. We are committed to achieving an injury free workplace. |
|  Respect and support each other | We respect and support each other. We value each others’ views. Together we create ENERGEX’s success. |
|  Impress our customers | We find ways of impressing our customers at every opportunity so that they tell others about their positive experiences. |
|  Set a great example | We “live” our corporate values every day. We create an environment that encourages people to grow and achieve and show courage in making changes for the better. |
|  Be a team player | We operate as a team and leverage and learn from each other. |
|  Deliver balanced results | We are passionate and disciplined about achieving ENERGEX’s set of performance targets. We deliver sustainable performance. |

1.2 Corporate Objectives & Strategies

1.2.1 Corporate Objectives

ENERGEX's long term objective is "delivering long term sustainable outcomes" and this is diagrammatically represented by the balanced commercial outcomes model which is detailed in **Diagram 3**. The model guides strategic and operational decision making at ENERGEX and reflects ENERGEX's values, vision and purpose and recognises the need to balance customer outcomes, financial sustainability and effective risk management. Delivering balanced outcomes is fundamental to our long term strategic direction and core to our daily operations.

Diagram 3 - ENERGEX Balanced Commercial Outcomes Model



ENERGEX's corporate objectives are:

1. Improve Customer Benefits

ENERGEX is focused on maintaining and strengthening its standing with its key stakeholders, being customers, retailers, government and regulators including options for customers to manage the price of electricity and the delivery of service outcomes and cooperating with retailers to manage demand and service customers. It is imperative that ENERGEX understands customer and retailer value drivers and finds cost effective ways of delivering them. In pursuing this corporate objective, ENERGEX will need to keep abreast of technological developments, manage expenditure, work closely with retailers to improve pricing signals and influence policy setting and market rules that provide the parameters around ENERGEX's license to operate.

2. Increase Asset Productivity

Improving asset productivity i.e. the ratio of output to capacity, is focused on enhancing the capital efficiency of the business and delivering more for every dollar invested in our asset base. Relative efficiency, sound commercial practice and prudent investment are key criteria that the Regulator considers in determining allowed revenue. The capability of assets will need to be significantly enhanced to accommodate an increasing penetration of distributed energy resources. This corporate objective seeks to drive investment at more sustainable levels and respond to the growing focus on benchmarking and efficiency in the national electricity market.

3. Improve Business Performance

A responsible business will always seek to improve traditional business performance metrics such as EBIT and OPAT by driving operating efficiencies, capturing opportunities to improve, scale efficiencies and identifying ways to grow revenue. This corporate objective is important to ensure that ENERGEX maintains a culture of prudent financial and business management and builds credibility in the eyes of government, regulators and shareholders. This objective will ensure ENERGEX achieves a competitive benchmark rating.

1.2.2 Corporate Strategies

ENERGEX will achieve its strategic challenge and deliver balanced commercial outcomes and the high level corporate objectives through a focus on our corporate strategies of Business Transformation, Business Performance and maintenance of a solid foundation. The corporate strategies are a key element of our overall strategic framework and support the achievement of ENERGENX's vision and purpose; our medium to longer term objectives and the short term priorities.

1.2.2.1 Solid Foundation

This strategy focuses on performing core business functions, maintaining operational control and embedding the practices of a preferred employer. Maintaining a solid foundation is fundamental to ENERGENX being a successful business delivering sustainable outcomes. We must continue with key focus on safety, people and culture, skills and capability, processes and systems as well as industry and stakeholder engagement and maintaining corporate reputation.

ENERGEX's solid foundation will be established through:

- Strong, proactive, achievement and safety oriented staff culture, supported by Power to Perform
- Alignment between our workforce and business objectives, supported by our resourcing and people strategies
- Constructive retailer and community relationships
- Proactive involvement in national policy debates and positioning of ENERGENX in those arenas.

1.2.2.2 Business Performance Strategy

ENERGEX's Business Performance Strategy is directed at delivering its business outcomes prudently and efficiently, including delivering financial and physical commitments in line with or better than its AER Final Determination. The strategy will support ENERGENX to live within its means and achieve sustainable business outcomes through supported business improvement initiatives and a focus towards operational efficiency at all levels of the business. Improved efficiency will produce more competitive benchmarking performance within ENERGENX's AER regulatory framework and will influence its positioning in the next regulatory control period.

This strategy focuses on business and financial sustainability with an outcome of:

- Reducing regulatory benchmarking risk
- Minimising price increases
- Freeing up capital to invest in longer term strategic trials and studies
- Optimising non regulated revenue opportunities and pricing structures
- Reducing resource requirements through improved economies of scale.

1.2.2.3 Business Transformation Strategy

Business Transformation Strategy has been identified as fundamental to achieving ENERGENX's long term network position commensurate with future customer lifestyle expectations. This includes a focus on stabilising network charges, harnessing demand, keeping pace with technological change, while ensuring customer expectations for performance and choice options are fulfilled.

ENERGENX's Network Vision is the foundation for this strategy and provides a long-term strategic view for the development of ENERGENX's network for the next 15 to 20 years. It is key to delivering on ENERGENX's vision to be customer centric and provide efficient energy solutions.

Through its Network Vision ENERGENX will position itself to:

- Distribute electricity to meet 21st century needs and deliver customer value
- Manage a community connective network that, together with electricity retailers, offers customers choice
- Reduce capital investment through effective peak demand management
- Promote energy efficiency and achieve sustainability by enabling distribution of electricity from alternative generation sources
- Operate a sustainable business that provides commercial returns to shareholders.

1.2.3 Key Result Areas (KRAs)

As part of ENERGEX's strategic framework, the performance against the ENERGEX five-year corporate and operational objectives are measured against a targeted set of Key Result Areas (KRAs). The Key Results Areas and their statement outcomes are represented in **Table 2** below.

Table 2 - ENERGEX Key Result Areas and Objective Statement Outcomes

| Key Result Area (KRA) | Statement Outcomes |
|------------------------|--|
| Safety | ENERGEX will achieve an injury-free workplace and will develop a workplace culture where employees take personal responsibility for their safety. Safety risk will be reduced through a targeted and structured approach to safety that delivers legislative compliance and best practice business operations. |
| People | ENERGEX is committed to building an organisation that people want to be a part of and to create an environment that supports the successful implementation of the business strategy. We will build a sustainable, adaptable and engaged workforce that has the people, skills, culture and performance required to deliver strong business results for ENERGEX. |
| Financial Performance | ENERGEX will deliver its regulated financial targets in a sustainable manner, through improved productivity and the cost effective delivery of electricity to retailers and services to customers. ENERGEX will pursue a series of reforms and initiatives to assist in meeting the financial expectations of its shareholders, while working within the regulatory allowances provided under the Australian Energy Regulator. Non Regulated businesses that integrate with and leverage the core business will be pursued where profitable opportunities exist. |
| Operational Excellence | ENERGEX will develop best practice skills, processes and systems to support delivery of its strategic vision and associated plans and initiatives. ENERGEX will deliver commitments outlined in its Network Management Plan (NMP) and Summer Preparedness Plan (SPP) to ensure the continued operation and growth of its distribution network and the satisfaction of stakeholders. ENERGEX will deliver on its legal, compliance and corporate governance obligations. |
| Network Performance | ENERGEX will continue to improve network performance and emergency response to meet customer expectations for reliability and deliver on MSS. Our long term aspiration is to operate an intelligent connective network and provide best practice energy solutions to customers. Increasing focus on demand management activities will be pursued to enable more effective options for delivery of electricity supply. |
| Customers | Achieve network performance outcomes and customer service improvements to meet customer requirements and support our customer's demand for greater choice and positive relationships with retailers. |
| Community | Engage the community in the planning and delivery of our network and be a "good neighbour" and a leader in environmental sustainability. |
| Environment | ENERGEX will deliver commitments within its carbon reduction plan and achieve a sustainable environmental position through implementing compliance activities and business practices that minimise harm to the environment. |

1.3 Operational Objectives & Strategies

ENERGEX's corporate objectives described above have been translated into a number of 5-year operational objectives. These operational objectives are detailed below and support the achievement of the broader corporate objectives and address each of the ENERGEX Key Result Areas (KRAs).

The key 2011/12 operational strategies that support the achievement of the ENERGEX operational objectives are detailed in **Table 3** below. The strategies we employ to meet our objectives include undertaking initiatives, programs, projects and core business activities and these are consistent with the Corporate Plan.

Table 3 – ENERGEX's Operational Objectives & Operational Strategies

| KRAs | Operational Objectives to 2015/16 | 2011/12 Operational Strategies |
|------------------------|---|---|
| Safety | Delivering with Safety as ENERGEX's first corporate value | <ul style="list-style-type: none"> Target zero injuries by developing a culture of personal accountability for safety at work and outside work |
| People | Build a sustainable and productive workforce that delivers strong business results | <ul style="list-style-type: none"> Be prepared for the future workforce and skill requirements of ENERGEX Enhance our performance focused culture by embedding Power to Perform |
| Financial Performance | Deliver economic value and meet shareholder commitments | <ul style="list-style-type: none"> Exercise sound commercial judgment and 'live within our means' Identify opportunities for non-regulated business by leveraging our comparative advantage and customers needs |
| Operational Excellence | Deliver operational excellence on our program of work and AER commitments and deliver on legal, compliance and corporate governance obligations | <ul style="list-style-type: none"> Understand opportunities for increased efficiency through economies of scale and improvements Deliver the program of work (PoW) and AER Commitments on time and on budget |
| Network Performance | Deliver a network that meets current needs whilst transforming to the smart network of the future | <ul style="list-style-type: none"> Prepare for the future network transformation through smart network pilots and technology upgrades Deliver excellence in Network Performance |
| Customer | Respond to growing pressure to stabilise network prices & satisfy customer performance and choice expectations | <ul style="list-style-type: none"> Implement strategies to influence demand to stabilise capital investment & price increases Understand customers' willingness to pay for flexible services. |
| Community | Maintain strong community relationships | <ul style="list-style-type: none"> Balance network project outcomes and community acceptance |
| Environment | Achieve a sustainable environmental position | <ul style="list-style-type: none"> Minimise harm to the environment Respond to the risks of climate change |

The following strategies support the operational objectives per **Table 3** above. Activities, initiatives and the critical success factors that support each of the 2011/12 Operational Strategies are included in the detail below.

1.3.1 Safety Operational Objective - Delivering with Safety as ENERGENX's First Corporate Value

Strategy 1 - Target Zero Injuries by Developing a Culture of Personal Accountability for Safety at Work and Outside Work

ENERGENX is committed to ensuring that "safety is first". We are targeting the achievement of zero injuries at work and outside of work in the broader community. Progressing towards zero injuries will be through the development of a culture of personal accountability and responsibility as well as demonstration of positive safety behaviours. This will ensure that ENERGENX is compliant with relevant legislation, able to address health and safety risks and to achieve optimum health and safety performance.

ENERGENX will continue to deploy safety initiatives for staff, contractors and the community to ensure safety remains ENERGENX's first corporate value.

Key initiatives that will be undertaken in 2011/12 include:

- Continue embedding the Zero Incident Program (ZIP) and train new employees
- Implement Alcohol and Other Drugs Program
- Benchmarking – Best practice benchmarking to inform next step change in safety performance
- Reduce the risk of identified high and medium risk work activities
- National Harmonised Safety legislation deployment into business as necessary.

Core Business activities planned for 2011/12 to support this strategy are focused on the development and implementation of safety and risk mitigation strategies and plans and specifically include:

- Deploy initiatives as per the Occupational Health and Safety Strategy and Community Safety Plan;
 - Plans for Occupational Health and Safety, Community Safety, Safety Communications, and Contractor Safety Management.
 - Complete workplace safety projects including community safety projects
- Development of safety training, awareness and competency at all times
- Provide employees and contractors with education and tools for effective safety management performance
- Monitor changes to relevant legislation and deploy elements into business as necessary
- Maintain ISO9001 AS/NZS 4801 certification
- Compliance with ENERGENX Health & Safety Risk Management Manual.

The outcomes of the initiatives and activities that will be deployed in 2011/12 as part of this Safety operational strategy will be measured through the KPIs detailed in **Table 4**. Critical success factors that underpin the effective deployment of the strategy are also detailed in **Table 4**.

Table 4 - Critical Success Factors (CSF), KPIs and Targets

| Strategy 1 - Target Zero Injuries by Developing a Culture of Personal Accountability for Safety at Work and Outside Work | | | |
|---|---|---|---|
| 2011/12 Critical Success Factor | KPI | KPI Measure | Target |
| <ul style="list-style-type: none"> • Complete roll-out of education programs • Maintaining the focus on completing risk assessments • Effective messaging on manual handling | <ul style="list-style-type: none"> • Lost Time Injury Frequency Rate (Employees) - LTIFR | <ul style="list-style-type: none"> • # of lost time occurrences or disease for every million hours worked | <ul style="list-style-type: none"> • 1.0 – 1.5 |
| | <ul style="list-style-type: none"> • Compensable Claims Frequency Rate Severity (CCFRS) | <ul style="list-style-type: none"> • # of compensation claims expressed as a percentage of the workforce | <ul style="list-style-type: none"> • 3.1 |
| | <ul style="list-style-type: none"> • All Injury Frequency Rate | <ul style="list-style-type: none"> • # of occurrences or disease for every million hours worked | <ul style="list-style-type: none"> • 9.5 |
| | <ul style="list-style-type: none"> • Lost Time Injury Frequency Rate – Contractors – LTIFR | <ul style="list-style-type: none"> • # of lost time occurrences or disease for every million hours worked | <ul style="list-style-type: none"> • 10 |
| | <ul style="list-style-type: none"> • Lost Time Duration Rate - Employees | <ul style="list-style-type: none"> • Total days of lost time for injury and disease for every million hours worked | <ul style="list-style-type: none"> • <50 |

1.3.2 People Operational Objective – Build a Sustainable and Productive Workforce that delivers Strong Business Results

Strategy 1 for People - Be Prepared for the Future Workforce and Skill Requirements of ENERGEX

Workforce Planning

The transition to a nationally regulated environment, coupled with shifts in workloads expected over the next 5-10 years and the introduction of new work driven by technological changes such as 'Smart Grid' means that ENERGEX has to carefully, and proactively consider our long-term workforce requirements. In line with the strategic direction, we recognise that key to success for ENERGEX is ensuring we have the capability, capacity and culture to deliver business outcomes. A sustainable workforce will come through ensuring our future workforce has the skill requirements to match our business expectations and a balanced set of measures for tracking the performance of our people against our corporate management strategies.

In order to build a sustainable, adaptable and engaged workforce, ENERGEX will focus its workforce and workplace development on strategies to optimise workforce productivity, continue to foster equity and diversity in the workforce and ensure the safety and wellbeing of our staff is well managed.

In 2011/12, ENERGEX will continue to progress the ENERGEX Workforce Planning project that aims to ensure that ENERGEX transitions smoothly from the current workforce to the workforce required in the next regulatory period. This means that potential workforce risks and issues need to be highlighted early so that steps can be taken to mitigate any risks. Specifically the Workforce Planning project will:

- Develop and embed a workforce planning process that provides visibility of workforce numbers, costs and skill mix required over the short, medium to long term, in line with changing business drivers and priorities and identifies key workforce risks
- Articulate workforce issues and plans for the remainder of the current and for the next AER regulatory periods
- Be a key input to refresh the 2010-15 People Strategy, to ensure that people plans reflect ENERGEX's strategic requirements through to 2020.

Workforce planning will enable ENERGEX to transition smoothly from the current workforce to the workforce required in the next regulatory period.

Enterprise Bargaining Agreement

ENERGEX has commenced initial scoping and preparation for a replacement Enterprise Bargaining Agreement to be negotiated in 2011. The nominal expiry date of the current enterprise agreement is 13 October 2011.

ENERGEX aims to achieve wages outcomes consistent with Government Wages Policy and with ENERGEX's AER determination whilst also achieving workforce productivity and flexibility offsets to support business performance requirements.

ENERGEX aims to achieve in principle agreement on EBA 2011 by October 2011 and commence implementation of the outcomes.

The outcomes of the initiatives and activities that will be deployed in 2011/12 as part of this People operational strategy will be measured through the KPIs detailed in **Table 5**, below. Critical success factors that underpin the effective deployment of the strategy are also detailed in **Table 5**, below.

Table 5 - Critical Success Factors, KPIs and Targets

| Strategy 1 - Be prepared for the Future Workforce and Skill Requirements of ENERGEX | | | |
|--|--|---|---|
| 2011/12 Critical Success Factor | KPI | KPI Measure | Target |
| <ul style="list-style-type: none"> • Completion of an initial Workforce Plan based on understanding of future workforce requirements and cost constraints • Approval of a replacement enterprise agreement that is in compliance with the AER Determination and Government Wages Policy • New Agreement meets business requirements | <ul style="list-style-type: none"> • Net FTE Staff Numbers • Staff Turnover • Bargaining outcomes meet business needs • Management of labour costs | <ul style="list-style-type: none"> • Actual Establishment FTE / Budgeted Establishment FTE • Total separations percentage by headcount • Key milestones achieved with buy-in from stakeholders • Labour costs managed within AER Determination and in compliance with Government Wages Policy • Achievement of productivity off-sets | <ul style="list-style-type: none"> • =<100% • 10% • Fair Work Australia approval of replacement enterprise agreement • Labour cost targets met per AER Determination and Government Wages Policy • Milestones delivered |

Strategy 2 for People - Enhance our Performance Focused Culture by embedding Power to Perform

The Power to Perform framework is focused on improving our performance management processes and practices across ENERGEX and strives for a flexible productive and adaptive organisation with strong technical and people leadership of people who are engaged and change ready.

The focus of Power to Perform in 2011/12 is to strengthen business leadership capability and provide comprehensive support to leaders in key aspects of the performance management cycle. Completion of the new Power to Perform processes including reporting, measurement and moderation will help build the quality and consistency of objectives, performance conversations and performance ratings.

The outcomes of the initiatives and activities that will be deployed in 2011/12 as part of this People operational strategy will be measured through the KPIs detailed in **Table 6** below. Critical success factors that underpin the effective deployment of the strategy are also detailed in **Table 6**, below.

Power to Perform 2011/12 Activities

Strengthen business capability and finalise processes. Complete a post implementation review and make required improvements to the framework and processes (especially testing new processes such as moderation and the new tools and templates introduced), provide comprehensive support to leaders on goal setting and introduce ENERGEX wide moderation of goals to build the quality and consistency of objectives, review and improve development planning practices, improve data capture and reporting, and ensure regular quality conversations are occurring by implementing leadership capability initiatives that support the Leadership Development Framework.

Table 6 - Critical Success Factors, KPIs and Targets

| Strategy 2 - Enhance our Performance Focused Culture by embedding Power to Perform | | | |
|---|--|--|---|
| 2011/12 Critical Success Factor | KPI | KPI Measure | Target |
| <ul style="list-style-type: none"> Effective 2nd year implementation of Power to Perform leading to increased number and quality of performance-focused conversations | <ul style="list-style-type: none"> Employee Motivation Performance Index (EMPI) | <ul style="list-style-type: none"> EMPI Tally Score | <ul style="list-style-type: none"> 66.11 (This target is based on Statistically Significant Improvement (SSI) on the 10/11 estimated actual of 65.8) |

1.3.3 Financial Performance Operational Objective - Deliver Economic Value and Meet Shareholder Commitments

Strategy 1 for Financial Performance - Exercise Sound Commercial Judgment and “Live Within our Means”

“Living within our means” of the AER Determination is key to the long term business sustainability for ENERGEX. It is a clear Shareholder expectation and achievement over the Determination period means that financial and business metrics have successfully been delivered in accordance with Shareholder’s expectations and the benchmarks set by the AER. This objective is a fundamental element of the Business Performance Corporate Strategy.

ENERGEX has set a clear financial strategy that allows ENERGEX to “live within our means” and position the business to successfully transition into the next Regulatory period. This strategy has been translated into clear 2011/12 financial targets and the five-year Business Plan contains the roadmap of initiatives to lift business performance to the AER benchmarks. One of these initiatives is the development of a benchmarking strategy, which will not only indicate positioning against external benchmark performance levels but also provide a line of sight to the direction of benchmarking the Regulator may seek to introduce in the next Regulatory Determination.

ENERGEX Performance Management Program (EPM)

Another key priority for 2011/12 is progressing the ENERGEX Performance Management Program (EPM) to Delivery phase. EPM will focus on delivering improved operating efficiencies for ENERGEX through addressing the key disciplines of:

- KPI alignment with strategic objectives and KRAs
- Alignment of process level measures to KPIs (accountability and monitoring)
- Information Management (ownership, quality management of data)
- Organisational Change Management
- Enabling technology (data warehousing) and reporting.

Program outcomes will be achieved through:

- Enhancement of existing performance management processes and practices to further mature ENERGEX’s existing performance management capability;
- Provision of trusted and reliable corporate data and information to decision makers by:
 - Enhancing ENERGEX’s processes and practices around data ownership, management and quality
 - Simplification and standardisation of key business information across ENERGEX
 - Progressive implementation of an Enterprise Data Warehouse to facilitate the provision of a single source of truth for key management information
 - Implementation of dashboard reporting and analytical tools designed to complement the needs and existing tools of decision makers.

The Foundation Stage was completed on time and within budget in 2010/11. A review of the Foundation Stage undertaken by Deloitte concluded that the project had met its objectives and provides the basis to move forward into the Delivery Phase.

Core Business activities planned for 2011/12 to support this strategy include:

- Target delivery from critical corporate projects in support of business efficiencies including and cost efficiency management
- Enhance processes, change management, investment and portfolio management and program/project frameworks and a continuing focus on risk and compliance management

- Embed regulatory reporting requirements and scheme management (Efficiency Benefits Sharing Scheme, Demand Management Incentive Scheme, Service Target Performance Incentive Scheme)
- Monitor regulatory schemes including the Efficiency Benefits Sharing Scheme, Demand Management Incentive Scheme and Service Target Performance Incentive Scheme. Deliver financial performance expectations in line with year two of the five year AER Final Determination “Live within our Means”
- ENERGEX to produce more competitive benchmarking performance within the AER regulatory framework. This will involve implementing performance improvement, cost efficiency, and balance sheet management initiatives to support delivery of EBIT and physicals targets across the five year regulatory period.
- The outcomes of the initiatives and activities that will be deployed in 2011/12 as part of this Financial Performance operational strategy will be measured through the KPIs detailed in **Table 7** below Critical success factors that underpin the effective deployment of the strategy are also detailed in **Table 7**.

Table 7 – Critical Success Factors, KPIs and Targets

| Strategy 1 - Exercise Sound Commercial Judgment and “Live Within our Means” | | | |
|---|---------------------------|---|------------------------|
| 2011/12 Critical Success Factor | KPI | KPI Measure | Target |
| <ul style="list-style-type: none"> • Sound corporate planning and budgeting framework • Meet 2011/12 budget targets • Improve the quality of data on which commercial decisions are made | • EBIT ⁽¹⁾ | • Group Earnings before Interest & Tax | • EBIT \$670.5M |
| | • OPAT | • ENERGEX Group Operating Profit after Tax | • OPAT \$223.2M |
| | • ROA – Statutory | • Return on Assets - ENERGEX Group EBIT divided by ENERGEX Group Total Assets | • Statutory ROA – 6.5% |
| | • Interest Cover (EBITDA) | • EBITDA divided by Interest cost | • 2.8 |

Notes:

(1) EBIT results meet the target of generating EBIT improvements of \$16M from 2011/12 ongoing, as detailed in the letter from the Shareholding Ministers to the ENERGEX chairman dated 7 January 2011

Strategy 2 for Financial Performance - Identify Opportunities for Non-Regulated Business by Leveraging our Comparative Advantage and Customers Needs

In delivering the financial targets contained in the Statement of Corporate Intent / Corporate Plan, ENERGEX has the opportunity to build its financial performance through growth in unregulated revenue based through:

- Keeping the current non-regulated businesses profitable by retaining market share and implementing effective cost management strategies;
- Setting and delivering against organic growth targets in current unregulated businesses and identifying overlapping markets within these businesses to leverage growth across these customer bases; and
- Pursue new non-regulated services opportunities through leveraging the “Comparative Advantage” i.e. skill and service capability required for the regulated business to provide services in competitive markets and thereby earn unregulated profit
- Learning from our non-regulated business experience and focus on integrated business opportunities.

The initial focus in 2011/12 is to leverage the learnings from existing unregulated businesses and establish a framework for agreeing opportunities to pursue and benefits to be delivered into the future.

The above Financial Performance operational strategy will contribute to achieving the Financial Performance objective and this translates into the following performance outcomes for 2011/12 (see

Table 8, below).

Table 8 – Critical Success Factors, KPIs and Targets

| Strategy 2 - Identify Opportunities for Non-Regulated Business by Leveraging our Comparative Advantage and Customers Needs | | | |
|--|--|--|---|
| 2011/12 Critical Success Factor | KPI | KPI Measure | Target |
| <ul style="list-style-type: none"> • Profitability of existing businesses • Understand areas of comparative advantage • Understand learnings from previous non-regulated businesses | <ul style="list-style-type: none"> • EBIT | <ul style="list-style-type: none"> • Group Earnings before Interest & Tax | <ul style="list-style-type: none"> • EBIT \$670.5M |

1.3.4 Operational Excellence Operational Objective - Deliver Operational Excellence on our Program of Work & AER Commitments and deliver on Legal, Compliance and Corporate Governance Obligations

Strategy 1 for Operational Excellence - Deliver the Program of Work (PoW) and AER Commitments on Time and on Budget and Deliver on Legal, Compliance and Corporate Governance obligations

Significant focus will be placed on the delivery of the PoW physicals contained in an increasing capital program for 2011/12. ENERGEX will be focused on managing its PoW cost base within the benchmarks set by the AER.

Program of Work Improvement Program (PoW IP)

A key priority for 2011/12 is to embed the outcomes from the Program of Work Improvement Program (PoW IP). PoW IP builds on current PoW delivery performance to better support the efficient delivery of the Program of Work through the period 2010 to 2015. The program is implementing efficiencies in all aspects of the PoW delivery chain to support operating with in AER funding.

The program is focused on meeting these requirements through the efficient use of the existing resource base, by examining current work processes and systems and ensuring best practices are in place.

Realising the benefits of PoW IP will enable ENERGEX to achieve this operational strategy as it will:

- Reduce current bottlenecks in the pipeline across all functions
- Decrease frustrations, delays and the need for rework
- Improve our estimations for all work types and manage our costs
- Ensure best practice program and project management
- Clarify and align accountabilities for all work for the control of time, cost and scope
- Deliver improved performance reporting to support timely and effective management decisions.

Core Business activities planned for 2011/12 to support this strategy include:

- Sustainable regulated targets, with the costs of servicing those targets not exceeding the provisions of the AER Final Determination
- Continue to provide support to ENERGEX's Contractor Management Framework (continuing value improvements in contract management) and Prequalification Scheme (improving flexibility and speed to market)
- Embed regulatory reporting requirements and scheme management (Efficiency Benefits Sharing Scheme, Demand Management Incentive Scheme, Service Target Performance Incentive Scheme)
- ENERGEX to produce more competitive benchmarking performance within the AER regulatory framework. This will involve implementing performance improvement, cost efficiency, and balance sheet management initiatives to support delivery of EBIT and physicals targets across the five year regulatory period.
- A focus on continuous improvement in compliance management systems.

The outcomes of the initiatives and activities that will be deployed in 2011/12 as part of this Operational Excellence operational strategy will be measured through the KPIs detailed in **Table 9**. Critical success factors that underpin the effective deployment of the strategy are also detailed in **Table 9**, below.

Table 9 – Critical Success Factors, KPIs and Targets

| Strategy 2 - Deliver the program of work (PoW) and AER Commitments on time and on budget | | | |
|--|---------------------------------------|---|--|
| 2011/12 Critical Success Factor | KPI | KPI Measure | Target |
| <ul style="list-style-type: none"> • Deliver key projects to plan • Effective Program management of PoW • Effective resourcing strategy | • CAPEX Plan (NMP) | <ul style="list-style-type: none"> • Key Capital expenditure physicals per the Network Management Plan (NMP), delivered favourable to Plan | <ul style="list-style-type: none"> • Key physicals delivered to NMP |
| | • OPEX Plan (NMP) | <ul style="list-style-type: none"> • Key Operating expenditure physicals per the NMP, delivered favourable to Plan | <ul style="list-style-type: none"> • Key physicals delivered to NMP |
| | • Key Projects – delivered as per NMP | <ul style="list-style-type: none"> • As determined in NMP | <ul style="list-style-type: none"> • Key physicals delivered as per NMP |

Strategy 2 for Operational Excellence - Understand Opportunities for Increased Efficiency through Economies of Scale and Improvements

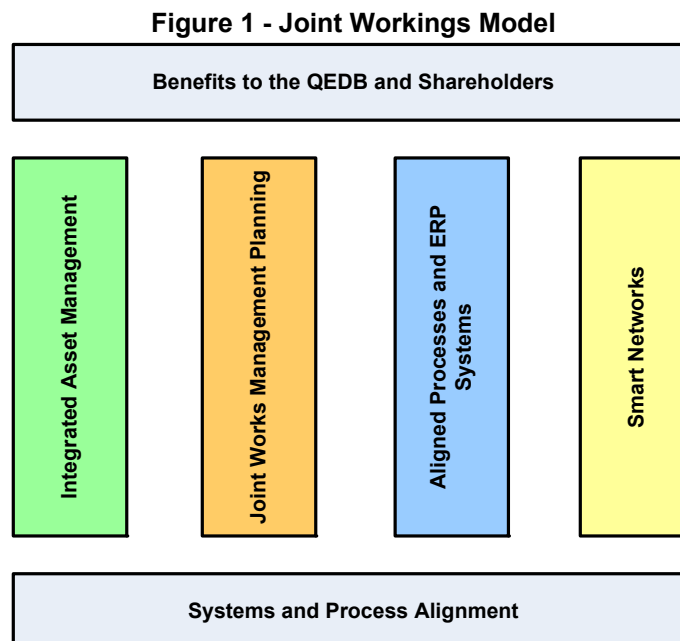
In response to the shareholding Ministers request that ENERGEX and Ergon Energy (the QEDB) further explore joint workings initiatives, our respective executive management teams have been tasked with reviewing the Stage 2 initiatives and developing a more detailed program. In progressing this task, QEDB management have also been requested to prioritise the joint initiatives identified against individual business improvement opportunities to ensure an optimum “hybrid” of both business specific and joint improvement opportunities.

This range of initiatives has been initially scoped and defined with the objective of providing an optimised hybrid investment and development model with a number of lower value initiatives deferred until other intra company activities are completed (for ENERGEX this would include PoWIP completion, DMS implementation and EPM implementation).

The key elements of the second phase of Joint Workings include:

- Joint Integrated Asset Management enabled through an appropriate joint vehicle,
- An integrated works management approach including systems alignment and replication where appropriate,
- Joint trades and technical resource capability, planning and development,
- Alignment of ICT Systems and associated processes where prudent and efficient,
- Strategic Sourcing and Logistics management (including strategic spares),
- Smart Network trials and implementation planning, and
- Alignment of financial and performance reporting and support services.

The joint workings model is detailed in **Figure 1** and the mix of business specific and joint improvement opportunities are detailed in **Table 10**.



The QEDB have identified a number of potential Joint Workings initiatives that will be assessed, prioritised and progressed to business case development over the next three to four years.

Table 10 - Joint Workings Initiatives

| INITIATIVE | IMPLEMENTATION | TIMING AND BENEFITS |
|---|---|--|
| Integrated Asset Management | | |
| Strategic Asset Management | <ul style="list-style-type: none"> Strategic Asset Management alliance to deliver shared and coordinated Asset Management Policies, Standards and Network Architecture. Will require the approval of the Boards of ENERGEX and Ergon Energy. | <ul style="list-style-type: none"> Business Case by November 2011. Strategic Asset Management alliance established and operational by July 2012. |
| Strategic Sourcing and Logistics | <ul style="list-style-type: none"> Completion of standardisation of specifications for electrical plant and high volume/cost items procured by ENERGEX and Ergon Energy to optimise benefits of joint procurement and sourcing. Further assessment to be completed of the types and quantities of strategic spares (re plant and equipment spares for critical or rare items of plant and equipment) to rationalise the storeholding. | <ul style="list-style-type: none"> Program of specification standardisation complete by July 2011. All strategic contracts and procurement mechanisms reviewed for alignment by January 2013. Strategic Spares review completed by January 2012 and plan in place for efficient disposal of surplus spares. Joint assessment of Service Contracts opportunities by January 2012. |
| Aligned Processes & ERP Systems | | |
| Systems and Process Alignment | <ul style="list-style-type: none"> SPARQ is coordinating a Joint ICT Blueprinting initiative leading to the initiation of the next set of projects in the ICT Programs for ENERGEX and Ergon Energy. Blueprinting will take as input, business decisions on the degree of alignment/Jointness of key systems: ERP; GIS; DMS; FFA for implementation by 2015. Blueprinting will require the identification and exploration of joint systems and process benefits arising from common or coordinated ICT architecture and applications. The outcomes will then be incorporated into the ERP solution and IT architecture. | <ul style="list-style-type: none"> Initial Blueprinting to commence in March 2011 and conclude by August 2011. Recommendations to be made to ENERGEX and Ergon Energy for approval of Project Scopes and Business Cases for core systems upgrades by November 2011. Implementation planned for 2012 & 2013. Opportunities for additional business efficiencies arising from aligned/joint solutions will be included in 2012/13 SCI/CP. QEDB will assess individual opportunities in the short to medium term. A Joint Back Office Business Model and Resource Efficiency Review to commence following implementation of Blueprinting. |
| Smart Networks | | |
| Smart Networks Architecture & Knowledge Sharing | <ul style="list-style-type: none"> Development of a coordinated Smart Network assessment framework including pilot architecture, plant and equipment field trials, customer interfaces and knowledge database. This initiative will also include coordination with the Smart Grid Smart City program hosted by AusGrid in New South Wales and alignment with the NBN Program. | <ul style="list-style-type: none"> Joint Smart Network initiative is underway. Joint knowledge management database to be established by July 2011. Joint Smart Network architecture finalised for inclusion in 2014 Regulatory Proposal. |
| Smart Network Trials | <ul style="list-style-type: none"> Undertake Co-ordinated Smart Network trials. | <ul style="list-style-type: none"> Smart Network Trials initiated by Ergon Energy and ENERGEX by 2011. Assessment of benefits in 2013. Inclusion in the QEDB 2015-2020 Regulatory Proposal. |

| INITIATIVE | IMPLEMENTATION | TIMING AND BENEFITS |
|--|--|---|
| Joint Works Management Planning | | |
| Integrated Works Management | <ul style="list-style-type: none"> • High Level Executive Joint Works Management Steering Committee to consider customer demand and the impact on investment and works plan sculpting. • Interim resource balancing/sharing protocols will be implemented through Joint Works Planning Coordination to manage prioritised regional development initiatives. • ENERGEX will complete POWIP implementation during 2011. • Ergon Energy assessment of ENERGEX model and supporting systems and processes with implementation linked to positive business case. • Interim Disaster Recovery capability is currently in place but will be reviewed as part of the current disaster response reviews. | <ul style="list-style-type: none"> • Steering Committee to commence by July 11 and meet twice a year. • Joint Works Planning Coordination Protocols developed and implemented by October 2011. • ENERGEX POWIP Implementation complete by July 2011 with post implementation review complete by January 2012. • Ergon Energy assessment of ENERGEX's POWIP implementation complete by January 2012 with Business case due by July 2012. • Disaster Recovery Review in progress to conclude by December 2011. |
| Joint Resource Development | <ul style="list-style-type: none"> • Technical and Trades capability planning and development to be reviewed to ensure capacity and capability to meet future POW and market demands. This will most likely be coordinated with Skills Management Queensland. | <ul style="list-style-type: none"> • Business Case/Project Scope to be led by ENERGEX for completion by July 2011. • Review completed and proposals to be submitted to ENERGEX and Ergon Energy by September 2011. |
| Geographic Boundary Review | <ul style="list-style-type: none"> • A Geographic Boundary review, although included in the October QEDB Submission is regarded as being inferior to the Integrated Works Management initiatives in delivering against a two speed economy risk. | <ul style="list-style-type: none"> • Requirement for Geographic Boundary Review to be revisited in September 2012 after a review of integrated works management effectiveness. |

ICT Blueprinting

The Joint ICT Plan identified a substantial program of forward investment in information systems projects during the current regulatory control period (2010-2015). In order to derive the maximum value from the major systems investments, it has been agreed that the companies will initiate a joint program of Business and Information Blueprinting.

Business cases for the program were endorsed by Investment Review Committees (IRC's) of ENERGEX and Ergon Energy in December 2010. These business cases proposed that the Blueprinting program would be delivered in three phases as follows:

Phase One - Scoping (April – May):

- Program Goals including Business Alignment summary and Goals and Objectives of the Investment program.
- Blueprint Program Scoping document including Current state analysis, assessment of change capacity and summary of Business case streams and options.
- Plan for future phases. Plan for Options Analysis (Phase 2) and High-level roadmap for the Business Case Phase (Phase 3).
- Recommendations to build momentum. Any short term actions identified that can help accelerate the program.

Phase Two - Options Analysis (June – July):

- High Level options analysis including definition of IT Investment options and goals.
- Cases for change. Preparation and development of information to support initiative case for change.
- Joint working decisions. Any decisions on Joint Working opportunities to be reviewed and finalised during this phase.

Phase Three - Business Case (August – November):

- Conceptual Design of initiative solution.
- Development of initiative business cases including benefits and proposed implementation / delivery plans.
- Project Approvals. Submission of Business Cases and accompanying documentation through the organisation's project approval channels and establishment of the initiative on the delivery roadmap.

The outcomes of the initiatives and activities that will be deployed in 2011/12 as part of this Operational Excellence operational strategy will be measured through the KPIs detailed in **Table 11**. Critical success factors that underpin the effective deployment of the strategy are also detailed in **Table 11**, below.

Table 11 – Critical Success Factors, KPIs and Targets

| Strategy 1 - Understand opportunities for increased efficiency through economies of scale and improvements | | | |
|---|---|---|--|
| 2011/12 Critical Success Factor | KPI | KPI Measure | Target |
| <ul style="list-style-type: none"> • Deliver Joint Workings initiatives to plan | <ul style="list-style-type: none"> • Projects developed and implemented per project plan | <ul style="list-style-type: none"> • # of milestones in project plan | <ul style="list-style-type: none"> • 100% of milestones delivered |

1.3.5 Network Performance Operational Objective - Deliver a Network that meets Current Needs whilst transforming to the Smart Network of the Future

Strategy 1 for Network Performance - Prepare for the Future Network Transformation through Smart Network Pilots and Technology Upgrades

ENERGEX's overarching Network Vision is a core element of the Business Transformation Strategy and provides a long-term strategic view of ENERGEX's Network (a joint initiative with Ergon Energy). It shows the roadmap for the development of ENERGEX's network for the next 15 to 20 years.

Smart Network

The broader plan for Smart Network initiatives which will be addressed over future horizons are in direct response to key challenges which have been identified for ENERGEX as an electricity distributor. The program will oversee the introduction of computing and communications infrastructure into the broader electrical distribution network.

The key focus areas for the trials in the next two years are:

1. Creating the ability to reduce peak demand, and the need for network spend on growth assets, demonstrating the following capability:
 - Systems optimisation – Transmission (defer new substation and transmission lines)
 - Systems optimisation – Distribution
 - Active Voltage Management (improve Power Quality).
2. Improve network reliability to meet or exceed future Service Target Performance Incentive Scheme (STPIS) requirements, by demonstrating capability which delivers:
 - Improved unplanned outage management
 - Improved restoration time and reduced operations and maintenance due to predictive analytics and self healing attribute of the grid
 - Improved number of planned outages and interruptions
 - Improved power quality, system availability and capacity due to improved power flow.
3. Building capability to reduce energy usage and line losses, resulting in lower carbon emissions, by demonstrating demand and voltage management capability.

National Broadband Network

Another key initiative being progressed under this operational strategy is in the area of the National Broadband Network. The Federal Government has established the National Broadband Network Co. to deliver a network of fibre optic cable to the home. The Queensland State Government has indicated that access to public infrastructure, e.g. electricity poles and ducts, could be made available on commercial terms to assist in the rollout of the network. The focus of this initiative in 2011/12 is to negotiate the terms and conditions under which ENERGEX would engage with NBN Co. The benefits include mitigating risks to the business of terms and conditions for access to electricity network infrastructure being imposed on ENERGEX, the ability to earn additional non regulated income and the potential to acquire access to fibre capacity for network operational purposes in the 11kV network earlier and for lower cost than would have been the case if ENERGEX were to undertake the rollout itself in the future.

Distribution Management System

The current ENERGENX Distribution Management System (DMS) consists of a Supervisory Control and Data Acquisition (SCADA) master station with almost no implemented advanced distribution management functionality. The operation of the 11kV system still relies on the same manual processes using pins and panels that have been widely in use for more than 50 years, and which were introduced to the Victoria Park control centre when it was opened in 1975. This does not adequately meet the needs of a large, complex and rapidly growing network.

The Distribution Management System (DMS) Project's purpose is to implement a key strategic initiative in the ENERGENX Strategic Plan and IT roadmap, the GE PowerOn Distribution Management System. The two key modules of PowerOn are the Network Management System (real time state of the distribution network on an accurate network model) and the Outage Management System (fault identification and management of outage incidents) in order to:

- Enable a key component of the "Smart Grid" systems, the control of the transmission and distribution grids offered by a DMS. This technology in conjunction with energy management systems help provide the critical real-time knowledge required to control the distribution and transmission Networks
- Improve safety through: improved data integrity on the status of the network, enhanced decision making through the ability to simulate network scenarios, better communication between control room and field staff and the removal of the need for manual handling of wallboards in the control room
- Improve restoration times through on screen displays to diagnose fault locations, reduced time to write switching steps down manually in the field, and future automatic switching of Automatic Circuit Reclosers (ACRs)
- Better data and more efficient access to outage data for regulatory reporting and incidents analysis
- Reduced field time in the preparation and execution of switching sheets and fault restoration
- Improve load transfer decisions by provide greater accuracy, in real time, of load calculations on the network requiring less 'rules of thumb' calculations
- Improve business continuity and disaster recovery through removal of the reliance on pin boards and more effective and targeted load switching
- Improved ability to meet statutory voltage requirements, manage distributed generation and reduce network losses
- Improved targeted network planning through better real time load information
- Improved customer information on restoration times and the ability to prioritise restoration of priority and sensitive customers
- Reduction in the number of systems and the associated complexities.

Network Service Standards

Based on recent discussion nationally about the impact of security and reliability standards on customer electricity prices, ENERGENX will work with the State Government to provide advice and input in to national reviews and reforms relating to reliability and security standards appropriate for Queensland.

The outcomes of the initiatives and activities that will be deployed in 2011/12 as part of this Network Performance operational strategy will be measured through the KPIs detailed in **Table 12** below. Critical success factors that underpin the effective deployment of the strategy are also detailed in **Table 12**.

Table 12 – Critical Success Factors, KPIs and Targets

| Prepare for the future network transformation through smart network pilots and technology upgrades | | | |
|--|---|---|--|
| 2011/12 Critical Success Factor | KPI | KPI Measure | Target |
| <ul style="list-style-type: none"> • Deliver key Smart network and Demand Management initiatives to plan • Deliver DMS program to plan | <ul style="list-style-type: none"> • Projects developed and implemented per project plan | <ul style="list-style-type: none"> • # of milestones in project plan | <ul style="list-style-type: none"> • 100% of milestones delivered |

Strategy 2 for Network Performance - Deliver Excellence in Network Performance

The Network strategies and plans focus on a number of key functional areas including Network Development, Reliability Improvement, Demand Management, Asset Renewal, Maintenance, Power Quality and Smart Networks. ENERGEX's Network objectives include the improvement of network performance and emergency response (in accordance with MSS), and where commercially feasible meet customer demands beyond MSS, whilst transforming to an intelligent connective network.

In 2011/12 ENERGEX must plan and deliver a Network Management Plan and Summer Preparedness Plan to meet AER Final Determination Year 2 physicals targets and comply with the Electricity Distribution Service Delivery (EDSD) Review requirements and codified reliability and service standards.

Key focus areas in 2011/12 include:

- Maintain compliance with codified legislative codified reliability and service standards including the Electricity Distribution Service Delivery Review, Minimum Service Standards (MSS) and Guaranteed Service Levels (GSLs), Service Target Performance Incentive Scheme (STPIS), and deliver the NMP and Summer Preparedness Plan commitments for 2011/12
- Deliver traditional network initiatives including reliability programs, joint standards and refurbishment strategies.

Core Business activities planned for 2011/12 to support this strategy include:

- Transmission and distribution planning
- System energy and demand forecasts
- Asset maintenance, reliability, refurbishment and performance
- Design and construction standards for network assets and operational technology
- Management of network data
- Acquisition of network sites and corridors
- Development of long term network strategic plans and regulatory reports

- Network risk, contingency and work optimisation planning
- Continue to deploy ENERGEX's Energy Conservation and Demand Management program.

The outcomes of the initiatives and activities that will be deployed in 2011/12 as part of this Network Performance operational strategy will be measured through the KPIs detailed in **Table 13**. Critical success factors that underpin the effective deployment of the strategy are also detailed in **Table 13**, below.

Table 13 - Critical Success Factors, KPIs and Targets

| Deliver excellence in Network Performance | | | |
|---|---|---|--|
| 2011/12 Critical Success Factor | KPI | KPI Measure | Target |
| <ul style="list-style-type: none"> • Implement key projects to minimise network risk • Implement network transformation / demand side management trials • Deliver the NMP and Summer Preparedness Plans • Deliver network performance outcomes in terms of cost, performance and risk | <ul style="list-style-type: none"> • MSS Favourable performance including SAIDI and SAIFI for CBD, Urban and Rural • STPIS Reliability Total Cumulative Monthly Revenue Reward/ Penalty | <ul style="list-style-type: none"> • SAIDI & SAIFI • The revenue impact of ENERGEX's reliability performance under the STPIS scheme for unplanned SAIDI and SAIFI | <ul style="list-style-type: none"> • SAIDI CBD - 15 • SAIDI Urban - 102 • SAIDI Rural - 216 • SAIFI CBD - 0.15 • SAIFI CBD - 1.22 • SAIFI Rural - 2.42 • \$0M |

1.3.6 Customer Operational Objective - Respond to Growing Pressure to Stabilise Network Prices & Satisfy Customer Performance and Choice Expectations

Strategy 1 for Customer – Implement Strategies to Influence Demand to Stabilise Capital Investment & Price Increases

Critical to ENERGEX's future success will be our ability to deliver value for customers and retailers through future network charge stability.

ENERGEX's Energy Conservation and Demand management initiative is being undertaken in response to the increase in peak demand growth on the network in summer and winter. This increase changes the utilisation of the network assets and is the major driver of augmentation costs which are recovered from customers through network charges. The initiative focuses on customers managing their own contribution to peak demand through the choices they make. ENERGEX has developed a long term strategy for 'bending the forward demand curve' and slow the rate of peak demand increase by 209MW by 2016.

ENERGEX's demand management strategy delivery comprises three elements:

1. Initiatives funded from the Demand Management Innovation Allowance (DMIA) under the Demand Management Incentive Scheme

2. Broad-based demand management programs that also provide reductions in energy consumption
3. Peak demand management programs that are targeted towards specific constraints in the network.

ENERGEX commenced the Energy Conservation and Demand Management Program midway through 2009/10 with the support of \$26.9M funding deed with the Queensland Government that will 'prime the pump' to get the initiatives started and continuing to 31 December 2012.

ENERGEX also produces a Demand Management Plan which is submitted to the Director-General of the Department of Employment, Economic Development & Innovation (the Regulator, DEEDI) annually for each upcoming financial year. The Demand Management Plan sets out a long term strategy for demand management over five years.

Other key focus areas in 2011/12 include:

- Understanding and significantly influencing consumer energy usage behaviour
- Consistent, reliable and compliant energy market operations and interaction (AEMO, Retailer) including meter reading and energy market processes
- Customer data and information integrated into ENERGEX's internal business processes and representative of a customer centric culture, enabling improved decision making, work planning and the formulation of future strategy.

The outcomes of the initiatives and activities that will be deployed in 2011/12 as part of this Customer operational strategy will be measured through the KPIs detailed in **Table 14**. Critical success factors that underpin the effective deployment of the strategy are also detailed in **Table 14**, below.

Table 14 – Critical Success Factors, KPIs and Targets

| Strategy 1 - Identify Strategies to Influence Demand to Stabilise Capital Investment & Price Increases | | | |
|---|--|---|--|
| 2011/12 Critical Success Factor | KPI | KPI Measure | Target |
| <ul style="list-style-type: none"> • Understand consumer energy usage behaviour • Consistent energy market operations • Integration of customer data into business decisions | <ul style="list-style-type: none"> • Deliver projects to plan | <ul style="list-style-type: none"> • Projects developed and implemented per project plan | <ul style="list-style-type: none"> • 100% of milestones delivered |

Strategy 2 for Customer - Understand Customers' Willingness to Pay for Flexible Services

ENERGEX is concerned about the potential network price impact in 2012/13 arising from a number of cost and revenue factors outside of the corporation's control and the fact that these coincide with the impact of the introduction of a carbon charge.

These external factors include the downward revision of energy consumption forecasts for the remainder of the regulatory period and rewards arising from the Service Target Performance Incentive Scheme during 2010/11 and the change to gamma (Taxation allowance in the Distribution Determination) arising from the decision by the Australian Competition Tribunal and ENERGEX's Merits review application. Whilst the outcomes are uncertain, the introduction of a tax on carbon during this five-year period will further impact network pricing.

A priority for ENERGEX is ensure the business can deliver value for customers and retailers through new and/or improved services that balance lifestyle and price imperatives. Value adding relationships with and mutual understanding of our customers and key external stakeholders: i.e. Retailers, The Australian Energy Market Organisation (AEMO), Energy and Water Ombudsman Queensland (EWOQ), Government, AER, Industry and Community Groups, is vital for ENERGEX ongoing sustainability and success. This will be achieved through the use of robust stakeholder management practices and by communicating and advocating customer and stakeholder requirements into the business.

Key focus areas in 2011/12 include:

- Customer Service Standards Program - review of all customer service interactions and their alignment, within the context of ENERGEX's new operating environment. Benefits are the identification of what customer services ENERGEX should or should not be performing, how these services should be performed, and an improved understanding of the financial impacts of performing these services
- Service Interactions - provide electrical contractors and retailers with visibility of service order progress and improved efficiency of market service order requests. Also increase the choice of communication channels for customer self service including: SMS, IVR, Twitter etc
- Following the release of the Queensland Government National Energy Customer Framework (NECF) Implementation Decision Paper in April 2011, ENERGEX is now focusing its attention to fully understand the new regulatory requirements and make the necessary system and process changes as well as educate relevant stakeholders to ensure full compliance by 1 July 2012.
- Alternate Control Services (ACS) Contestability of Services Review
- Consistent, reliable and compliant customer service delivery performance outcomes that are favourably benchmarked against Code compliance and that of other Australian distribution networks
- Priorities for the coming year will focus on: increasing ENERGEX's understanding of its customer base, the drivers of different segments and the implications for network management; investigating the relationship between distributors, retailers and the regulator and developing and managing these relationships to enable mutual beneficial outcomes
- Delivery of customer performance outcomes (contact centre, complaints, GSLs, customer satisfaction) that meets Minimum Service Standards and Guaranteed Service Levels, and progress on a path towards being equal to or greater than the average for other Australian distribution networks
- Undertake initiatives within the Customer Strategy to enhance knowledge of customers (customer segmentation and data tools and customer tipping point model)
- Undertake initiatives within the Customer Strategy to ensure customers are educated about ENERGEX's operations and impacts (e.g. education campaigns)
- Enhance retailer relationships and investigate opportunities to support retailers in delivering improved value in their business, including the introduction of new retailer satisfaction measures

- Grow our participation on regulatory and legislative change forums with the intention of providing the best possible sustainable service outcomes for our customer and our business.
- Develop and deliver effective process to promote the efficient application of solar PV in the ENERGEX network
- Monitor and develop an awareness of customer issues complaints and opportunities throughout ENERGEX
- Participate and contribute to ENERGEX and industry forums representing customer needs.

In addition to these strategies, ENERGEX is undertaking an initiative to comply with the National Energy Customer Framework. Refer to **Section 3.5.9** on page 69 for details.

The outcomes of the initiatives and activities that will be deployed in 2011/12 as part of this Customer operational strategy will be measured through the KPIs detailed in **Table 15**. Critical success factors that underpin the effective deployment of the strategy are also detailed.

Table 15 – Critical Success Factors, KPIs and Targets

| Strategy 2 - Understand Customers' Willingness to Pay for Flexible Services | | | |
|---|--|--|--|
| 2011/12 Critical Success Factor | KPI | KPI Measure | Target |
| <ul style="list-style-type: none"> • Understand customers' perception of value for services • Understand what services ENERGEX should or should not be performing | <ul style="list-style-type: none"> • Service Performance Index | <ul style="list-style-type: none"> • Measure of customers' perceptions of the services they receive from ENERGEX | <ul style="list-style-type: none"> • > 80% |
| | <ul style="list-style-type: none"> • Complaints registered to Ombudsman or Customer | <ul style="list-style-type: none"> • No of Complaints registered with the Electricity ombudsman | <ul style="list-style-type: none"> • 150 |
| | <ul style="list-style-type: none"> • Service Delivery Compliance | <ul style="list-style-type: none"> • Is ENERGEX is meeting its service obligations to customer and how effectively ENERGEX is meeting its service delivery QCA targets. | <ul style="list-style-type: none"> • 99% |

1.3.7 Community Operational Objective - Maintain Strong Community Relationships

Strategy 1 for Community - Balance network project outcomes and community acceptance

ENERGEX is committed to maintaining strong community relationships and being very conscious of the community acceptance for network project outcomes. As achieving community acceptance of key projects is becoming a more demanding process, delivering increasing Programs of Work over this Determination period whilst balancing community acceptance for desired network outcomes will be a challenge for ENERGEX.

The key focus areas for 2011/12 include:

- Foster cooperative whole-of-industry approaches in the Australian electricity distribution industry. This will involve actively participating in industry regulation and engaging with community lobby groups, including Queensland Council of Social Service (QCOS) and Australian Council of Social Service (ACOSS)
- Optimise community obligations and environmental impact interfaces including developing a better understanding of the impact of the network on the community and taking actions that enable ENERGEX to build community trust and cooperation in supporting its infrastructure growth.
- Development of the Community Strategy & Plan will include the following elements:
 - Provide support to ENERGEX's network and demand management imperatives through sourcing data in support of energy efficiency, conservation and demand management
 - Undertake initiatives within the Customer Strategy to ensure consumers are educated about ENERGEX's operations and impacts (Community safety campaigns)
 - Continue significant work with the national policy-makers to ensure that the high quality of the customer relationships that are integral to ENERGEX's connection services continue to be delivered in Queensland
 - Manage issues in the development of the framework including the protection of the customer / distributor relationship, critical in the future of demand-side management and energy efficiency initiatives.

The outcomes of the initiatives and activities that will be deployed in 2011/12 as part of this Community operational strategy will be measured through the KPIs detailed in **Table 16**. Critical success factors that underpin the effective deployment of the strategy are also detailed in **Table 16**, below.

Table 16 – Critical Success Factors, KPIs and Targets

| Strategy 1 - Balance network project outcomes and community acceptance | | | |
|--|--|---|--|
| 2011/12 Critical Success Factor | KPI | KPI Measure | Target |
| <ul style="list-style-type: none"> • Ensure a high level of corporate responsibility • Understand network project outcomes and community views • Energy education and information to the community • Ongoing community safety initiatives • Build better outage and storm response capabilities | <ul style="list-style-type: none"> • Community Regard Index | <ul style="list-style-type: none"> • Measures customers' perception on whether ENERGEX plays a sustainable part in the community | <ul style="list-style-type: none"> • > 63% |

1.3.8 Environment Operational Objective - Achieve a Sustainable Environmental Position

Strategy 1 for Environment - Minimise Harm to the Environment

To deliver ENERGEX's objectives must continually monitor, assess, respond and influence its environment to give maximum opportunity to the achievement of its sustainable position whilst complying with its many obligations. ENERGEX will be required to continue to monitor and integrate changing business and environment drivers into its current and future plans.

Key initiatives that will be undertaken in 2011/12 to be undertaken in support of this strategy include:

- Carbon Management Plan initiatives (CO₂ emissions, electricity consumption)
- Offsets policy – Whole of Government.

Core Business activities that will be undertaken in 2011/12 to support this strategy include:

Within the Environment Operational Plan, the continued deployment and monitoring of the Environment Compliance Plan and completion of associated annual reports including the National Greenhouse and Energy Act 2007 reporting and environmental incident response and reporting to the Environmental Protection Agency or local authority

- Maintaining certification of the AS/NZS ISO 14401 Environmental Management System
- Deploy ENERGEX's Environment Communications Plan
- Develop and deploy ENERGEX's Corporate Sustainability framework
- Participate in the Corporate Responsibility Index Program
- Progress initiatives for Cultural Heritage and Biodiversity Management
- Continue ENERGEX environment systems compliance initiatives
- Monitor changing business and environment opportunities and respond through ENERGEX's Business Performance Strategy and Transformation Strategy
- Monitor changes to relevant legislation and deploy elements into business as necessary.

The outcomes of the initiatives and activities that will be deployed in 2011/12 as part of this Environment operational strategy will be measured through the KPIs detailed in **Table 17**. Critical success factors that underpin the effective deployment of the strategy are also detailed in **Table 17**, below.

Table 17 – Critical Success Factors, KPIs and Targets

| Strategy 1 - Minimise Harm to the Environment | | | |
|--|---|--|--|
| 2011/12 Critical Success Factor | KPI | KPI Measure | Target |
| <ul style="list-style-type: none"> • Provide leadership to the business and progress towards an environmentally sustainable position • ENERGEX's transition from being environmentally compliant to environmentally proactive • Business activities that do not breach environmental guidelines | <ul style="list-style-type: none"> • Carbon Reduction per Carbon Management Plan • Environmental EPA Breaches | <ul style="list-style-type: none"> • ENERGEX's carbon management targets • Number of reportable breaches | <ul style="list-style-type: none"> • Tracking to Plan • None |

Strategy 2 for Environment – Respond to the Risks of Climate Change

ENERGEX needs to consider the impact of climate change on its network and how this might influence future plant and equipment specifications and the way ENERGEX operates its network into the future.

In 2011/12 and as part of informal Joint Workings, Ergon Energy and ENERGEX propose to engage consultants to undertake a Network Adaptation Plan for Climate Change for both organisations. Included in the scope of consultancy is a vulnerability assessment, potential for mitigation of existing network and methods to adapt new network to withstand potential climate change impacts.

The outcomes of the initiatives and activities that will be deployed in 2011/12 as part of this Environment operational strategy will be measured through the KPIs detailed in **Table 18**. Critical success factors that underpin the effective deployment of the strategy are also detailed in **Table 18**, below.

Table 18 – Critical Success Factors, KPIs and Targets

| Strategy 2 - Respond to the Risks of Climate Change | | | |
|--|---|--|--|
| 2011/12 Critical Success Factor | KPI | KPI Measure | Target |
| <ul style="list-style-type: none"> Respond to the risks of climate change ENERGEX's transition from being environmentally compliant to environmentally proactive | <ul style="list-style-type: none"> Carbon Reduction per Carbon Management Plan Environmental EPA Breaches | <ul style="list-style-type: none"> ENERGEX's carbon management targets Number of reportable breaches | <ul style="list-style-type: none"> Tracking to Plan None |

1.4 Performance Drivers

The strategic framework at ENERGEX begins with the process of identification and analysis of major external drivers and is integral in the development of ENERGEX's Strategic Direction. This strategic planning process enables the review, update and assessment of the impacts of commercial and regulatory changes which may influence the strategic direction. In progressing towards achieving our vision ENERGEX must continually take into account changes and challenges being experienced within its internal operating environment and the external market. ENERGEX's corporate strategies and the Corporate Risk Plan include assessment of these drivers and potential mitigations in response to these. The key external and internal drivers impacting ENERGEX in the short term are briefly noted below and discussed further in the Corporate Plan:

1.4.1 Key External Drivers

A summary of the drivers affecting and influencing ENERGEX's external business environment are detailed below.

1.4.1.1 Rising Electricity Cost

| Summary | Impact / response |
|---|--|
| Recent increases in electricity prices and continuing media coverage of anticipated future price increases related to the potential carbon cost will generate significant community concern. Other factors driving rising prices include fuel used in generation; providing a return for the level of infrastructure required to meet demand growth; ongoing investment driven by the steepening load duration curve. | <p><i>Impact</i></p> <p>Ongoing electricity price rises are of concern to customers, governments and regulators attempting to balance societal impacts and energy security.</p> <p>As a result, ENERGEX will face growing scrutiny of its costs, capital program and how effectively it utilises its infrastructure. There is also likely to be increasing expectation to provide customers with greater options to manage their rising energy usage and associated network price increases.</p> <p><i>Response</i></p> <p>ENERGEX's pricing strategy centres around network prices which reflect a customer's utilisation of the network and encourages efficient use of the network to minimise the level of investment required to meet demand.</p> |

1.4.1.2 Climate Change and Carbon

| Summary | Impact / response |
|---|--|
| The requirement for reductions of greenhouse gas (GHG) emissions is anticipated to be a significant driver of change for the electricity sector, which accounts for one third of Australia's emissions. | <p><i>Impact</i></p> <p>Addressing GHG emissions will result in additional price rises for electricity customers and place pressure on ENERGEX to find other means of offsetting these costs for customers.</p> <p><i>Response</i></p> <p>ENERGEX must maintain a priority focus and response to its surrounding environmental considerations.</p> |

1.4.1.3 Demographics

| Summary | Impact / response |
|--|---|
| <p>Continued strong population growth in SEQ, combined with the manner in which the community uses electricity, will require ongoing expenditure on electricity infrastructure.</p> <p>Generational change may result in changes to energy consumption associated with increasing consciousness around technology, energy and the environment.</p> | <p><i>Impact</i></p> <p>Demographic changes are expected to continue to place downward pressure on ENERGEX's load factor if the associated load is not managed.</p> <p>Significant network upgrades may be required to accommodate increased population in established areas. This is being driven by the QLD Government's plan to increase urban density to avoid urban sprawl and develop three Greenfield cities ahead of the original plan. ENERGEX may face constraints in acquiring new equity and land for infrastructure build,</p> <p><i>Response</i></p> <p>ENERGEX is aware of reducing the environment and lifestyle impacts of future infrastructure development.</p> <p>The changing demographics have implications for ENERGEX's workforce and are likely to exacerbate skill shortages for technical staff. These are being considered as part of ENERGEX's workforce planning.</p> |

1.4.1.4 Technology Change

| Summary | Impact / response |
|--|---|
| <p>The electricity industry is experiencing technological change that offers opportunities for ENERGEX to manage network augmentation, offer tools to customers to influence their electricity usage and present solutions for more environment friendly generation. Changes include smart grid, smart meters, electric vehicles and home management systems.</p> <p>Consumer technology developments could drive changes in the network load shape and the distributor's role in the supply chain. Increasing uptake of Solar PV will place downward pressure on load factor and affect system security and power quality, whilst providing an opportunity in behind the meter solutions for customers.</p> | <p><i>Impact</i></p> <p>Uptake by consumers of technology developments will likely lead to an energy intensive, instantaneous, 24 hour access environment. ENERGEX will need to assess the impact of consumer technology on electricity usage and load profiles.</p> <p><i>Response</i></p> <p>ENERGEX is focused on overlaying its existing grid with equipment that modernises the network while staying abreast of the technological advances that will deliver improved outcomes for customers, the network and the environment. This includes technologies that assist with management of network issues around peak load management, reliability, security and quality of supply. ENERGEX will need to be in a position by the next regulatory control period to identify and assess technological advances requiring investment.</p> |

1.4.1.5 Energy Policy and Regulation

| Summary | Impact / response |
|---|---|
| <p>The energy sector is undergoing significant change driven by strong demand for energy resources and potentially emerging supply limitations (peak oil). The development of national electricity regulation continues with a focus on national consistency. The focus on national benchmarking by the AER is expected to highlight performance differences and drive efficiencies for all distributors.</p> | <p><i>Impact</i> The move to a national regulator has resulted in new compliance obligations that must be managed with respect to existing state based compliance requirements.</p> <p><i>Response</i> ENERGEX is monitoring global regulation trends and building relationships with other distributors to develop an awareness of alignment or conflict with its strategic direction. ENERGEX has commenced preparations for the 2015-20 regulatory proposal, which include benchmarking analysis to understand cost drivers and potential efficiency improvements.</p> |

1.4.1.6 Customer Behaviour Change

| Summary | Impact / response |
|--|---|
| <p>An understanding of customer attitudes and behaviours is critical to the ability of distributors to influence future customer energy usage and support future lifestyles. To achieve change in customer behaviour, particularly around peak demand, ENERGEX will need to identify and offer the incentives and options that encourage customers to take action.</p> | <p><i>Impact</i> Energy usage patterns are expected to change and customer participation in energy solutions increase as technology advances and lifestyle expectations evolve.</p> <p><i>Response</i> ENERGEX will need to work with key stakeholders, including retailers, to identify initiatives for increased customer choice options and gain support for their introduction. These will need to vary by customer segment to target the different values and needs of each group.</p> |

1.4.1.7 Industry Change

| Summary | Impact / response |
|---|--|
| <p>Australian energy markets are becoming increasingly concentrated and dominated by a few large national players covering generation and retail.</p> <p>Together with government and regulatory desires to improve market efficiency, the need for distributors to operate on a nationally consistent basis is intensifying. In the absence of a coordinated approach from distributors, retailers are likely to make a strong case to policy makers and regulatory bodies that they should be charged with the responsibility for services that affect their profitability such as metering and load control.</p> | <p><i>Impact</i></p> <p>The current trend will require distributors to work together to offer greater levels of consistency to meet retailer and regulatory objectives. Opportunities exist to influence the national agenda in relation to future industry/market reform. The role of distributors within the supply chain may change as the sector transitions to smart networks, a low carbon economy and increased use of distributed energy resources.</p> <p><i>Response</i></p> <p>ENERGEX actively participates in national forums and consultation regarding the development of national regulation. ENERGEX regularly engages with retailers, as this is likely to become more important as they seek a more active metering role.</p> |

1.4.1.8 Rising Community Concern regarding Infrastructure Development

| Summary | Impact / response |
|---|---|
| <p>Community concern is rising over the perceived negative impacts that new infrastructure projects are having on the visual amenity of communities, property values and exposure to electromagnetic fields. This community concern is directed towards not only electricity distributors and transmission, but also other GOCs including road, rail and water.</p> | <p><i>Impact</i></p> <p>This community concern demands longer and more intense community engagement and as local politicians at all levels become engaged in the process, the additional engagement mechanisms consume additional resources and extend the project commencement timeframes</p> <p><i>Response</i></p> <p>ENERGEX will increase the level of community engagement and commence engagement earlier in the planning process. A “soft start” engagement process is now being implemented. This process focuses on detailed explanation of the need for the project and allows for the community to have a greater say on the negotiable aspects of the project.</p> |

1.4.1.9 Macroeconomic Conditions Change

| Summary | Impact / response |
|---|--|
| <p>The world economy is in a mixed recovery, with the implications of over-leverage and credit crunch still being worked through.</p> <p>While the fundamentals of the Australian economy are good, the overall economic performance is linked to the world, and more specifically the Chinese performance.</p> <p>The implications of widespread de-leveraging of government and bank balance sheets give rise to a risk that medium term growth is below average levels over the next five years.</p> | <p><i>Impact</i></p> <p>The future economic outlook is still uncertain, de-leveraging by banks may have continued implications for the financing options available for large investment programs. If economic growth in Australia is below long run averages for a sustained period, then electricity price rises will face intense scrutiny from customers, already experiencing tight economic conditions. In SEQ the key economic drivers are likely to remain population growth, retail spending and construction, due to limited direct exposure to the resource based projects. Although an upturn in the mining industry is likely to reignite competition for skills and resources for ENERGEX.</p> <p><i>Response</i></p> <p>ENERGEX will continue to monitor economic conditions to identify potential risks and mitigate appropriately.</p> |

1.4.2 Key Internal Drivers

ENERGEX has identified a number of internal business drivers that are influencing its operations, which are summarised below.

1.4.2.1 Safety Performance

| Summary | Impact / response |
|---|---|
| The need to continue to drive safety performance as ENERGEX's first value, to ensure the safety of staff, contractors and the community. Additional safety drivers include: compliance with legal obligations and compliance with Electrical Safety and Workplace Health and Safety legislation | ENERGEX's duty of care to protect staff, contractors and the community; maintaining ENERGEX's reputation, trust and regard with community and stakeholders; the contribution that safety plays in building and maintaining capability through attracting and retaining skilled personnel in a skilled resource constrained market; and the financial and operational costs associated with failure to comply/incidents. |

1.4.2.2 Business Efficiency and Cost Management

| Summary | Impact / response |
|---|--|
| ENERGEX needs to achieve efficiencies and control costs to deliver physical and financial results in line with the AER Final Determination. | Key cost and financial drivers include capital expenditure growth and funding constraints; regulatory, shareholder and customer scrutiny on price and performance; the need to manage costs and deliver ROA and OPAT outcomes that ensure business sustainability; the need for the corporation to perform within the parameters of the AER Final Determination; opportunities for business model consolidation to facilitate improved business efficiency; and the cost impact of levels of direct program of work delivery costs and associated overheads costs. |

1.4.2.3 Alignment of Human Resources with Business Needs

| Summary | Impact / response |
|--|---|
| Key issues in managing Human Resources will be competition for skilled resources, time to develop skilled resources, an ageing workforce, improving our workforce flexibility and constraining growth to live within regulatory funding constraints. | ENERGEX recognises the role that its people, their availability, their skills, their leadership, teamwork and their performance plays in the delivery of all aspects of the performance of the business. ENERGEX must have the right mix of internal resources and effective contracting strategies, to optimise ENERGEX's PoW delivery capability. |

1.4.2.4 Increasing Program of Work (PoW)

| Summary | Impact / response |
|--|---|
| ENERGEX's PoW for 2011/12 continues to grow from previous years. | Significant focus will be placed on the delivery of the PoW to align with the physical and financial commitments, which will require the achievement of internal efficiencies including the PoWIP project. Again, ENERGEX recognises that the embedding of the PoWIP changes will incur a level of uncertainty amongst staff as per any change management initiative. |

1.4.2.5 EUCA

| Summary | Impact / response |
|---|--|
| In 2011/12 ENERGEX will deliver a critical human resources project outcomes which will require targeted change management and project management. | ENERGEX recognises the need for constructive engagement with employees and unions. |

1.4.3 Business Risks and Emerging Issues

Strategic and operational risks are continuously reviewed to evaluate their potential impact on corporate objectives. This ensures that material corporate risks are identified and appropriate mitigation actions undertaken. Management and Board oversight is exercised by monitoring management decisions and actions taken to address risk.

Table 19 details the key immediate risks currently facing ENERGEX having given full regard to external and internal risk factors.

These risks are updated as necessary to ensure that the risk profile is a current and accurately representation of the operating environment. Changes to the external landscape are monitored and will result in additional risks being added if necessary. The Executive Management Team holds delegated authority to update the risk profile through the monthly reporting process with all changes reported to the Board on a monthly basis.

Mitigations to these risks are reflected within the corporate performance outcomes detailed in section and in further detail within Divisional Business Plans after being incorporated into ENERGEX's budgetary and business planning processes.

Risks are considered and reported on both an inherent and residual basis. This allows for well-controlled risks to be recognised and tracked, ensuring that a tolerable level of residual risk does not trend upward over time. It should be noted that the risks detailed in **Table 19** have either been assessed as within risk appetite or subject to action planning through the business planning process.

Table 19 - Key Business Risks and Emerging Issues

| KRA | Business Risk / Emerging Issue | Key Mitigations / Action Plan |
|-----------------------|---|---|
| Safety | Injury or death of employees, contractors or public | <ul style="list-style-type: none"> • Maintain impetus and focus on safety performance • Continuous improvement in Safety Management System |
| Financial Performance | Inability to realise benefits from major projects | <ul style="list-style-type: none"> • Align workforce capability, composition and flexibility with variations in the Program of Work • Strong program governance and discipline • Accountability of benefits delivery |

| KRA | Business Risk / Emerging Issue | Key Mitigations / Action Plan |
|------------------------|--|--|
| Financial Performance | Inability to close funding gap between AER determination and budget | <ul style="list-style-type: none"> • Delivery of efficiencies from Joint Workings and PoWIP projects • Cost control discipline • Avoidance of creating new staff roles unless backed by hard benefits |
| Financial Performance | Unfavourable STPIS revenue / cost outcome | <ul style="list-style-type: none"> • Embed and refine operational practices implemented to give more tools during times of potential loss of supply (e.g. storms) • Deploy reporting tools to ensure organisational understanding of STPIS drivers |
| Financial Performance | Retailer credit risk | <ul style="list-style-type: none"> • Continuing negotiation of retailer operating conditions, financial security and guarantees |
| Financial Performance | Unsatisfactory cost outcomes from enterprise bargaining agreement | <ul style="list-style-type: none"> • Resourcing strategies to ensure right mix of contractors and internal staff • Align PoW with the physical and financial commitments • Realise internal efficiencies including the PoWIP project |
| Network Performance | Inadequate maintenance and operation of the network | <ul style="list-style-type: none"> • Delivery of Network Management Plan • Delivery of Summer Preparedness Plan • Ensure systems, capability and culture can meet demands of growing Program of Work |
| Operational Excellence | Insufficient resources to improve compliance management | <ul style="list-style-type: none"> • Prioritised effort embedded in Compliance Management Plan • Impact analysis process for new or changed legislation |
| Operational Excellence | Changes in State Procurement Policy may lead to additional cost structures result of requirements for increased transparency | <ul style="list-style-type: none"> • Mitigation strategy currently being developed |
| Operational Excellence | Regulatory benchmarking against other (non-GOC) distributors | <ul style="list-style-type: none"> • Continue preparations for the 2015-20 regulatory proposal by including benchmarking analysis to understand cost drivers and potential efficiency improvements. |
| Operational Excellence | Rising fuel and commodity prices | <ul style="list-style-type: none"> • Monitor price variations and continuously assess budgetary impact |

| KRA | Business Risk / Emerging Issue | Key Mitigations / Action Plan |
|------------------------|--|--|
| Operational Excellence | Risk events / compliance breaches | <ul style="list-style-type: none"> • Continuous improvement of compliance management program • Embedded accountability for risk and compliance management • Management and Board oversight of emerging issues |
| Operational Excellence | Increasing Community resistance to major infrastructure development | <ul style="list-style-type: none"> • Extensive community consultation for major works • Active stakeholder management and engagement at early stages of project development |
| Customers / Community | Failure to promote and protect the ENERGEX brand | <ul style="list-style-type: none"> • Targeted sponsorship • Promotion of community safety messages |
| Customers / Community | Tariff increases not accepted by customers | <ul style="list-style-type: none"> • Provide customers with options to self-manage their energy usage profile and associated pricing. • Encourage efficient use of the network to minimise the level of investment required to meet demand. |
| Customers / Community | Loss of goodwill with customers / community | <ul style="list-style-type: none"> • Focus on customer service standards • Continue to respond well to storm events and other serious outages |
| Customers / Community | Legal proceedings relating to exit of legacy businesses | <ul style="list-style-type: none"> • Pursue exit of non-core businesses • Consider incentives for early termination of contracts • Favourably resolve existing legal action |
| People | Industrial action (Enterprise Bargaining, PoWIP changes, AOD Policy) | <ul style="list-style-type: none"> • Recognise the role that people play in the delivery of all aspects of the ENERGEX business • Conduct Enterprise Bargaining negotiations with integrity and good faith • Continue to build positive relations with Unions |
| Environment | Failure to create an environmentally sustainable business | <ul style="list-style-type: none"> • Delivery of carbon reduction plan |

1.5 Strategic Expectations Letters

ENERGEX must address the matters in the shareholding Ministers' strategic expectations letters in the Statement of Corporate Intent. **Table 20** indicates the sections where matters raised in its strategic expectations letter have been addressed.

Table 20 – Strategic Expectations

| | Expectation | Addressed in Section/s |
|----------------------------|---|--|
| Regulatory Framework | The regulatory framework under which ENERGEX operates provides minimal opportunities to improve revenues and expand operations outside of the AER determination. Given this constraint, it is vital for ENERGEX to work within the allowances provided by the regulatory determination and to strive towards continuing improvements in operational efficiency at every level of the organisation. | See Corporate Strategy – Business Performance in Section 1.2.2.2 See Financial Performance Operational Objective in Section 1.3.3 See Operational Excellence Operational Objective in Section 1.3.4. under Strategy 1. |
| Joint Workings | Continuation of the Joint Workings initiatives with Ergon Energy has been identified as an area where productivity gains can be achieved. ENERGEX is requested to enthusiastically pursue these Joint Working initiatives with Ergon and actively work with shareholders in identifying, investigating and implementing initiatives and reforms where agreed. | See Operational Excellence Operational Objective in Section 1.3.4, under Strategy 2. |
| Demand Management | The work being undertaken by ENERGEX to progress Demand Management initiatives and its engagement with key industry and standards organisations to embed demand management response at a design and standards level is commendable. This work is considered essential to maximise long term productivity and utilisation of the distribution network and minimise the impacts from increased uptake of air-conditioning, other lifestyle devices and electrical vehicles into the future. | See Section 3.5.8 |
| Program of Work (PoW) | To minimise the potential for adverse impacts on profitability it will be important for ENERGEX to deliver its extensive capital program within the parameters established by the regulatory allowance over the regulatory period. | See Operational Excellence Operational Objective in Section 1.3.4, under Strategy 1. |
| Network Security Standards | Developing refined network security standards in conjunction with Ergon Energy and the Queensland government that utilise both network and non network solutions will assist over time with optimising capital investment. ENERGEX must support this important initiative. | See Section 1.3.5 |

| | Expectation | Addressed in Section/s |
|---|--|---|
| Community engagement of asset placement | Given the challenges that ENERGEX is facing in building, operating and maintaining its network in a growing urban environment, ENERGEX will need to undertake longer-term strategic planning for the placement of assets within the community and proactively and positively engage with the community on environmental and community issues to achieve business outcomes. | See Section 3.3.5.1 |
| NECF | Through the Council of Australian Governments the Queensland Government has supported the introduction of National Energy Customer Framework (NECF). The future implementation of the framework will impact on ENERGEX and its customers and it is important that the risks associated with the implementation of NECF are managed through its transition. | See Section 3.5.9 |
| EUCA | Negotiations leading up to the expiry of the current EUCA need to be consistent with relevant legislation, government policies, and the ENERGEX employment and Industrial Relations Plan. The negotiations will need to provide the outcome that is acceptable to ENERGEX and the State and managing this will be a significant challenge for ENERGEX | See Section 3.5.4 and the People Operational Objective in Section 1.3.2 |
| STPIS | The establishment of the Service Target Performance Incentive Scheme (STPIS) provides an opportunity for ENERGEX but also represents a key risk. Meeting performance targets for reliability of supply, quality of supply and customer service to maximise potential benefits of the scheme and ensure ENERGEX is not penalised is of key importance. | See the Network Excellence Operational Objective in Section 1.3.5 |
| Capital Investment | The GOC sector represents a significant investment for the Government with the returns provided by the sector used to support essential Government services. Prudential management of ENERGEX's business in accordance with its Commercial charter is essential to ensure business performance meets expectations and returns on the Government's investment is maximised. | See the Financial Performance Operational Objective Section 1.3.3 |
| Efficiency Savings | Exercise continued due diligence in the attainment of operational efficiencies as detailed in the Mid-Year Review outcomes letter of 8 December 2008, generating EBIT improvements of \$16m from 2011/12 ongoing. | See Section 2.1.3 |
| Entertainment | Corporate entertainment and hospitality activities should only be held where there is a clear commercial basis for ENERGEX to do so and all activities undertaken should be in accordance with guidelines. | See Section 3.6 |

2 MANDATORY MATTERS

In accordance with section 119(3) of the GOC Act, the Board of ENERGEX undertakes that the financial and non-financial targets in **Sections 2.1** and **2.2** and the financial statements in **Section 3.1** will form the basis for assessment of quarterly outcomes as reported to shareholding Ministers. Definitions for the financial and non-financial SCI targets are provided in **Attachment 1** and are consistent with the key performance indicator (KPI) definitions included in the corporate plan and quarterly reporting templates submitted by ENERGEX to shareholding Ministers. **Table 21** details ENERGEX's 2011/12 Key Performance Indicators (KPIs) and Targets.

Table 21 - 2011/12 Key Performance Indicators (KPIs) and Targets

| Key Result Area (KRA) | Key Performance Indicators | 2011/12 Target |
|-------------------------------|---|---|
| Safety | LTIFR - Employees ⁽¹⁾ | 1.0 - 1.5 |
| | CCFRS | 3.1 |
| People | ENERGEX EMPI Tally Score (%) ⁽²⁾ | Statistically Significant Improvement over 2010/11 result (66.11) |
| | OPAT (\$M) ⁽³⁾ | 223.2 |
| Financial Performance | Statutory ROA (%) | 6.5 |
| | Minimum Service Standards Favourable Performance | Favourable to Target |
| Network Performance | STPIS Reliability Total Cumulative Monthly Revenue / Reward Penalty | \$0M |
| | CAPEX Plan (NMP) ⁽⁵⁾ | Key Physicals Delivered to NMP |
| Operational Excellence | OPEX Plan (NMP) ⁽⁵⁾ | Key Physicals Delivered to NMP |
| | Key Projects ⁽⁵⁾ | Delivered as per NMP |
| | Compliance Improvement ⁽⁵⁾ | Tracking to Plan |
| Customers | Service Performance Index (%) | >80.0 |
| Community | Community Regard Index (%) | >63.0 |
| Environment | Carbon Reduction per Carbon Management Plan ^{(4) (5)} | Tracking to Plan |

Notes:

1. ENERGEX recognises that zero injuries is the ultimate business target. The target represents reductions in the current rate of LTIs as ENERGEX completes its journey to an injury free workplace. ENERGEX will prioritise CCFRS as its strategic measure of safety performance but will continue to measure LTIFR to meet OGOC requirements.
2. Achieve a Statistically Significant Improvement in Tally score and progress from Low High Performance to Secure High Performance range by May 2013 results
3. OPAT (\$M) is also representative of NPAT (\$M).
4. The Tracking to Plan target reflects the fact that measures in the Environment Strategy and subordinate plans (compliance etcetera) will be updated to ensure legal compliance.
5. Plans are available to shareholding Ministers if required.

2.1 Financial Key Performance Indicators and Targets

In accordance with its objectives and corporate strategies, ENERGEX is committed to achieving the following performance targets in 2011/12.

Table 22 – Financial KPIs and Targets

| Quarter 2011/12 | | | | 2011/12 20 | 10/11 | 2010/11 | 2009/10 | |
|-----------------------|-------|-------|-------|---|---------|---------|---------|---------|
| Financial Performance | | | | | | | | |
| Sept | Dec | Mar | Jun | Indicators | Target | Est Act | Budget | Actual |
| 232.3 | 244.5 | 266.0 | 238.4 | EBITDA (\$M) | 981.2 | 925.9 | 876.7 | 752.3 |
| 157.7 | 167.6 | 187.5 | 157.7 | EBIT (\$M) | 670.5 | 645.9 | 571.3 | 485.2 |
| 53.1 | 57.5 | 67.9 | 44.8 | OPAT (\$M) ^{(1) (3)} | 223.2 | 246.4 | 185.6 | 185.2 |
| N/A | N/A | N/A | N/A | Economic Profit (\$M) ^{(5) (6)} | (40.5) | 22.7 | (28.7) | N/A |
| N/A | N/A | N/A | N/A | Statutory ROA % ⁽³⁾ | 6.5 | 7.0 | 6.2 | 5.8 |
| N/A | N/A | N/A | N/A | ROE % | 7.8 | 9.2 | 7.1 | 7.6 |
| 63.7 | 64.6 | 65.0 | 65.5 | Debt / Debt & Equity % | 65.5 | 63.2 | 64.6 | 61.4 |
| 2.8 | 2.9 | 2.9 | 2.5 | Interest cover (EBITDA) | 2.8 | 3.1 | 2.9 | 3.0 |
| 53.8 | 55.4 | 55.8 | 55.8 | Debt / Regulated Asset Base ⁽²⁾ | 55.8 | 53.7 | 53.5 | N/A |
| 327.2 | 324.9 | 325.7 | 324.5 | Capital Expenditure (\$M) | 1,302.3 | 1,025.1 | 1,178.6 | 1,026.4 |
| N/A | N/A | N/A | N/A | Network Maintenance Costs / Regulated Asset Base (%) ⁽⁴⁾ | 2.5 | 2.9 | 2.7 | N/A |
| 105 | 105 | 105 | 105 | Regulatory Funding Matches Actual Opex (%) | 105 | 106 | 100-105 | 105 |
| 101 | 101 | 101 | 101 | Regulatory Funding Matches Actual Capex (%) | 101 | 87 | 100 | 115 |

Notes:

- OPAT (\$M) is also representative of NPAT (\$M).
- Regulated Asset Base is the value at the end of the financial year.
- Included in 2011/12 CEO Performance Agreement.
- Regulated Asset Base is calculated as an average of the forecast opening and closing balance.
- Economic Profit calculation includes forecast losses for retailer capped services and accelerated depreciation for assets replaced during the period.
- At the request of the Board, ENERGEX is currently undertaking a review of the calculation of Economic Profit.

2.1.1 2010/11 Financial Performance

ENERGEX's EBIT forecast for 2010/11 at \$645.9M is expected to be \$74.6M better than the budgeted result of \$571.3M. Forecast OPAT at \$246.4M is expected to be \$60.8M better than budget.

The EBIT increase is mainly due to:

- Recognition of Alternative Control Systems (ACS) revenue through customer contributions. The AER do not allow a return on ACS gifted/contributed assets; therefore, the 2010/11 SCI assumed any revenue through ACS customer contributions would be eliminated through the impairment of the asset. QAO subsequently completed a review of the accounting treatment and confirmed that ACS assets are integral to, and interdependent of, the regulated network supply system and as such cash flows will be combined as one cash generating unit for annual supply system valuation and impairment testing purposes. This result means that the assets will not be impaired and ENERGEX can recognise customer contributions as revenue.
- Lower than expected depreciation and amortisation.
- Increased revenue as a result of a favourable forecast outcome of STPIS. The additional revenue recognised as a reward incentive is a non-cash item in 2010/11 which will not be collected until 2012/13. Therefore, the additional revenue has not been included in the calculation of dividend payable for 2010/11.

These favourable movements have been partially offset by higher than expected operating expenditure incurred in the program of work due to the flooding experienced in South East Queensland in January 2011. The higher EBIT result has flowed through to OPAT with slightly lower than budgeted borrowing costs offset by higher taxation due to increased EBIT.

2.1.2 2011/12 Financial Performance

ENERGEX's financial performance for 2011/12 is expected to be improved from the forecast included for 2011/12 in the 2010/11 CP ("previous forecast"). EBIT is forecast at \$670.5M compared with the previous forecast EBIT of \$656.2M. The increase in EBIT in 2011/12 is driven primarily by lower than forecast depreciation and amortisation, and the recognition of ACS revenue through customer contributions as described in **Section 2.1.1**. OPAT is forecast at \$223.2M compared to the previous forecast OPAT of \$199.5M, which is in line with the forecast increase in EBIT.

Key points to note include:

- EBIT forecast includes a loss from retailer capped services of \$13.5M. The maximum fees that ENERGEX can charge for these services, as prescribed in Schedule 8 of the Electricity Regulation 2006 (Qld) are lower than the fees allowed under the QCA. A volume increase in these activities results in a negatively impacted margin. ENERGEX has raised this issue and the impacts on profitability through correspondence with shareholders with a view to seeking improved pricing signals for use of these services.
- No equity injections have been forecast for 2011/12. As discussed in **Section 2.3.4**, the SCI and accompanying CP have been prepared on a forecast capital structure that will support a minimum credit rating of "BBB+".
- The Office of Clean Energy (OCE) has provided funding for Energy Conservation and Demand Management (NDM) activities. Expenditure incurred in 2011/12 for EC&DM will be offset against this funding and remaining funds at end 2011/12 will be carried forward for use in subsequent years.

2.1.3 Efficiency Deliverables

In order to improve operational efficiency and meet the target of generating EBIT improvements of \$16.0M from 2011/12 ongoing, as detailed in the letter from the shareholding Ministers to the ENERGEX chairman dated 7 January 2011, the 2011/12 budget has included efficiencies being derived from ongoing initiatives such as:

- Enhanced works management processes to improve the utilisation of internal and contract labour
- Improving productivity of internal and contract delivery staff through effective usage of tools such as Field Force Automation and through improved planning and design processes;
- Undertaking of Joint Workings between ENERGEX and Ergon Energy (refer **Section 1.3.4**);
- Reducing overhead costs;
- Streamlined program of work processes;
- Enhanced contractor management financial processes and tools; and
- Investment in Performance Management capabilities to enable management to drive and deliver efficiencies being sought.

The continuation of these initiatives along with the development of a five year roadmap of future initiatives will ensure ENERGEX can deliver the ongoing requirements of improved EBIT.

2.1.4 Gamma Decision Treatment

On 6 May 2010, the AER published its Final Determination which sets out the revenue ENERGEX is allowed to recover from electricity customers over the 2010-15 regulatory control period. In determining the revenue recovered through network prices, the AER is required to make a decision on the value of franking credits to shareholders (gamma) used to calculate the company tax allowance component – a higher gamma value giving a lower tax allowance. ENERGEX, Ergon Energy and ETSA Utilities (South Australia) did not accept the AER's decision on a gamma of 0.65 and lodged applications to the Australian Competition Tribunal (Tribunal) appealing the decision. At the hearing on 29 April 2011, the Tribunal decided that the gamma will be 0.25. The impact of this decision would result in an increase in ENERGEX's allowed smoothed revenue in 2011/12 of \$39.3M. The unsmoothed revenue impact in 2011/12 totalled \$54.8M.

Pursuant to a direction from the shareholding Ministers under section 108(4) in relation to statements to be made in the SCI, ENERGEX will not seek to recover \$52.3M in increased revenues from its Standard Control services and \$2.5M in increased revenues from its Alternate Control Services (street lighting) in 2011/12 (foregone revenue) arising from the Australian Competition Tribunal Determination of 19 May 2011 in Australian Competition Tribunal File No 2 of 2010.

ENERGEX will submit, pursuant to National Electricity Rule 6.18, to the AER a pricing proposal for the regulatory year 1 July 2011 to 30 June 2012 that excludes the foregone revenue that ENERGEX would otherwise anticipate recovering in that regulatory year. Following approval by the AER of that pricing proposal, ENERGEX will publish the approved information (including network tariff classes and tariffs, and charging parameters) in accordance with National Electricity Rule 6.18.9.

ENERGEX will not seek to recover the foregone revenue in any future period beyond 30 June 2012. The financial information presented in the SCI does not include any increase in revenue resulting from the Australian Competition Tribunal's decision.

Therefore, the revenue foregone from implementing the direction from the shareholding Ministers is \$54.8M.

2.1.5 Flood Pass Through

Given the extraordinary Flood event and taking into account the balanced commercial interests of ENERGEX including financial outcomes and broader community and social consideration, the Board resolved to withhold from making any application to the AER for a pass-through of costs in respect of the January 2011 floods.

The Shareholding Ministers have noted the Board's intention not to make a cost pass-through application, but in any case have issued a direction under section 115 that ENERGEX not make a cost pass-through application to the AER in respect of January 2011 flood impacts incurred in the 2010-11 financial year.

2.2 Non-Financial Key Performance Indicators (KPIs) and Targets

In accordance with its objectives and strategies, ENERGEX is committed to achieving the following non-financial performance targets in 2011/12.

Table 23 – Non-Financial Performance Measures and Targets

| Key Result Area (KRA) | Performance Measures | 2011/12 Target | 2010/11 Est Act | 2010/11 Budget | 2009/10 Actual |
|-----------------------|---------------------------|----------------|-----------------|----------------|----------------|
| Safety | LTIFR – Employees | 1.0 – 1.5 | >1.8 | 1.0 - 1.5 | 1.00 |
| | CCFRS | 3.1 | 3.2 | 3.7 | 2.99 |
| | All Injury Frequency Rate | 9.5 | 19 | 11.2 | 9.39 |
| | LTIFR – Contractors | 10 | 7 | 15 | 7.31 |

| Key Result Area (KRA) | Performance Measures | 2011/12 Target | 2010/11 Est Act | 2010/11 Budget | 2009/10 Actual | |
|--|---|-------------------------------|--------------------------------|--------------------------------|--------------------------------|-------------------------------------|
| People | Lost Time Duration Rate – Employees | <50 | 32 | 50 | 9.81 | |
| | ENERGEX EMPI Tally Score (%) | SSI (66.11) | 65.8 | 67.0 | 65.9 | |
| | Staff Turnover (Annualised) (%) | 10.0% | 6.3% | 10.0% | 4.7% | |
| | Net FTE Staff Numbers ⁽¹⁾ | =<100% | 92.6% | =<100% | 91% | |
| Network Performance | Minimum Service Standards Favourable Performance | Favourable to Targets | Favourable to Target | Favourable to Target | Favourable to Target | |
| | SAIDI – CBD (rolling 12 months) | 15 | 6.7 | 15 | 1.19 | |
| | SAIDI – Urban (rolling 12 months) | 102 | 78.5 | 106 | 88.48 | |
| | SAIDI – Rural (rolling 12 months) | 216 | 200 | 218 | 215.73 | |
| | SAIFI – CBD (rolling 12 months) | 0.15 | 0.02 | 0.15 | 0.08 | |
| | SAIFI – Urban (rolling 12 months) | 1.22 | 1.01 | 1.26 | 1.20 | |
| | SAIFI – Rural (rolling 12 months) | 2.42 | 2.15 | 2.46 | 2.41 | |
| | STPIS Reliability Total Cumulative Monthly Revenue / Reward Penalty | \$0M | \$27.8M | \$0M | N/A | |
| | Operational Excellence | CAPEX Plan (NMP) | Key Physicals Delivered to NMP | Key Physicals Delivered to NMP | Key Physicals Delivered to NMP | Key Physicals Delivered to NMP Plan |
| | | OPEX Plan (NMP) | Key Physicals Delivered to NMP | Key Physicals Delivered to NMP | Key Physicals Delivered to NMP | Key Physicals Delivered to NMP Plan |
| Key Projects | | Delivered as per NMP | Delivered as per NMP | Delivered as per NMP | Delivered to Milestones | |
| Compliance Improvement | | Tracking to Plan | Tracking to Plan | Tracking to Plan | Tracking to Plan | |
| Net Operating Expenditure per Route Kilometre (\$) | | 5,335 | 5,490 | 5,101 | 5,403 | |
| Cost Performance Index – Projects >\$75M | | Tracking to Project Plan | Tracking to Project Plan | Tracking to Project Plan | Tracking to Project Plan | |
| Schedule Performance Index – Projects >\$75M | | Tracking to Project Plan | Tracking to project Plan | Tracking to project Plan | Tracking to project Plan | |
| Customers | | Service Performance Index (%) | >80.0 | 84% | >80.0 | 85% |
| | GSL Incidents – Reliability ⁽²⁾ | <3, 400 | 740 | <3, 400 | 2 | |
| | GSL Incidents – Other ⁽²⁾ | <33,200 | 11000 | <33,200 | 634 | |
| | Complaints Registered to Ombudsman or Customer | 150 | 150 | 150 | 155 | |
| | Service Delivery Compliance ⁽³⁾ | 99% | -N/A | -N/A | -N/A | |
| Community Environment | Community Regard Index (%) | >63.0 | 64 | >63.0 | 64 | |
| | Environmental – EPA Breaches | None | None | None | None | |
| | Carbon Reduction per Carbon Management Plan | Tracking to Plan | Tracking to Plan | Tracking to Plan | Tracking to Plan | |

Notes:

1. Actual Staff FTE/Budgeted and Temporary Funded FTE
2. For 2009/10 Actual Results, the GSL incidents report only those which customers claimed. From 2010/11 all GSL incidents are reported and paid.
3. This is an aggregate KPI, consisting of the following component measures: New Connections within 5 days 99%, De-energisations within 5 days 99%, Re-energisations by the obligation date, 99%. Service Delivery Compliance is taken as the average of the above three measures and expressed as a %. A new measure in 2011/12.

2.3 Assumptions

The financial forecasts are based upon a set of economic and operational assumptions. The forecasts are not a prediction of what will occur, but rather a reasonable estimate at a point in time encapsulating a view of what could occur in the future if all economic assumptions are realised. ENERGEX's undertaking to achieve its performance outcomes is predicated upon the following assumptions:

Table 24 – Annual Escalations Assumptions

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2.3.1 Key Business Assumptions

Key business assumptions have been detailed in **Section 2.1.2** above.

2.3.2 Inflation Provisions

In the 2010/11 SCI, ENERGEX adopted escalation rates which were used in the development of the ENERGEX Regulatory Proposal. In its final decision, the AER applied a different set of escalation rates which ENERGEX has referred to in setting escalation rates for 2011/12.

Labour costs are forecast to increase by 5.0%. The current ENERGEX Union Collective Agreement (EUCA) is due to expire in October 2011. The Office of Government Owned Corporations (OGOC) has released a "Government Owned Corporations – Wages Policy (2010)" which outlines the planning, reporting and approval processes for the making of Enterprise Agreements in Government Owned Corporations (GOCs), and ENERGEX has adopted forecast labour increases consistent with this Policy. The Wages Policy provides for a maximum increase of 4.0%, made up of a 2.5% base wage increase, productivity increase of 1% and a further "off-wages" productivity increase of 0.5%. Increases have also been factored in for movement in salary scales amongst employees, resulting in an overall increase of 5.0%.

Contractor escalation rates have been determined by considering the following:

- A number of contractors working for ENERGEX align their wages to the ENERGEX EUCA,
- Specific contract negotiations already in place have resulted in escalations below the forecast labour escalation rate.

The resulting escalation rate for contractors is 4.5%.

Materials price escalation is forecast to be in line with the average escalation rates over the regulatory period as provided for in the AER Final Determination.

Escalation rates for other items are based on forecast increases in general prices, using the CPI movement as detailed in the AER Final Determination as the basis.

Where escalation rates are above those allowed in the AER Final Decision, ENERGEX will continue to offset these cost escalations via improvements in the efficiency and effectiveness of its workforce.

2.3.3 Interest Rates

The average 2011/12 forecast interest rate for interest revenue is 4.96%.

The forecast interest expense rate is 6.93% for drawn debt. In addition, an average working capital interest expense rate of 5.11% has been factored into the 2011/12 forecast.

The forecast interest expense of 6.93% includes a Queensland Treasury Corporation (QTC) administration fee and Capital Markets Fee (CMF), as well as the Competitive Neutrality Fee (CNF) component payable to Queensland Treasury. CNF is levied on public sector businesses

to remove any perception that such businesses may obtain a cost of funds advantage by reason of their government ownership.

ENERGEX's interest rate risk management strategy has been developed assuming a capital structure determined as per **Section 2.3.4** below, resulting in no equity injections over the planning period as discussed in **Section 2.1.2**.

2.3.4 Capital Structure

The shareholders have provided assurances to maintain a capital structure that will support a minimum credit rating of "BBB+" to reflect the assumptions made by the AER in the revenue determination. As a result, this SCI and the accompanying CP have been prepared on a forecast capital structure that will support a minimum credit rating of "BBB+".

Any decline in credit rating will not immediately impact the CNF component of debt servicing costs. The CNF rate has been fixed for the duration of the current determination period and has been based on the existing credit rating.

2.3.5 Dividends

ENERGEX's dividend policy takes into account the return its shareholders expect on their investment. When considering the dividend recommendation for each financial year, the Board of ENERGEX will take into account these shareholder expectations. The Board will consider the adoption of such a recommendation after consideration of its ability to fund operations and maintain an appropriate capital structure to support the ongoing viability of ENERGEX.

All dividends are subject to Board consideration and approval each year in accordance with the relevant provisions of the *Government Owned Corporations Act 1993* (Qld) (*GOC Act*). Dividends payable for the 2011/12 financial year have been provided for at the rate of 80% of the adjusted consolidated profit for 2011/12.

2.3.6 Taxation

The current corporate tax rate of 30% is applied to forecasts of profit before tax to determine tax expense.

2.4 Community Service Obligations (CSOs)

The shareholding Ministers issued ENERGEX with a direction to forego \$54.8M in increased revenues in 2011/12 arising from the Australian Competition Tribunal decision regarding gamma (as discussed in Section 2.1.4).

ENERGEX formed a view that the shareholding Ministers direction sets out obligations to perform activities involving the non-recovery of revenue, which:

- (a) are not in the commercial interest of ENERGEX to perform; and
- (b) arise because of a direction issued under section 108 of the GOC Act; and
- (c) do not arise because of the application of the following key principles of corporatisation: Principle 3 (strict accountability for performance) or Principle 4 (competitive neutrality),

Therefore, in accordance with the GOC Act, ENERGEX proposed the direction gave rise to a community service obligation (CSO). ENERGEX sought agreement with the shareholding Ministers to amend the SCI to include a CSO under section 112(2)(c) of the GOC Act.

The shareholding Ministers have subsequently written to ENERGEX and indicated their view that no CSO arises as ENERGEX will be required to provide the same services albeit not being able to recover the full amount otherwise allowed by the ACT's decision. They have also indicated that they accept a lower rate of return as a result of the \$54.8M revenue foregone in 2011-12.

2.5 Employment and Industrial Relations Plan

An E&IR Plan meeting the requirements of Section 149 of the GOC Act and the Guidelines for the Development of Employment and Industrial Relations Plans in Government Owned Corporations (E&IR Plan Guidelines) is provided to shareholding Ministers as **Attachment 2** to this SCI.

The remuneration arrangements for the Directors, Chief Executive Officer and all senior executives of ENERGEX, in line with the E&IR Plan Guidelines, are also detailed in the E&IR Plan provided as **Attachment 2** to the SCI.

3 ADDITIONAL MATTERS

In accordance with Section 106(1) of the GOC Act, the following additional matters are detailed in this section. Please note that totals in the following financial statements may not add up due to rounding.

3.1 Financials

3.1.1 Group

3.1.1.1 Group Income Statement

| Quarter 2011/12 | | | | | 2011/12 | 2010/11 | 2010/11 | 2009/10 | |
|-----------------|--------------|--------------|--------------|---|----------------|----------------|----------------|----------------|--------|
| Sept | Dec | Mar | Jun | (\$M) | Budget | Est | Act | Budget | Actual |
| | | | | Operating Revenue | | | | | |
| 404.6 | 424.6 | 445.2 | 406.5 | Sales | 1,680.9 | 1,538.9 | 1,513.8 | 1,273.8 | |
| 14.7 | 14.9 | 15.1 | 14.9 | Services rendered | 59.6 | 62.8 | 62.1 | 57.2 | |
| 35.9 | 35.6 | 35.7 | 35.8 | Other | 142.9 | 143.1 | 150.6 | 165.0 | |
| 455.2 | 475.1 | 495.9 | 457.2 | Total Operating Revenue⁽¹⁾ | 1,883.4 | 1,744.8 | 1,726.5 | 1,496.0 | |
| | | | | Operating Expenses | | | | | |
| 96.7 | 100.1 | 103.7 | 95.0 | Cost of Sales | 395.6 | 343.5 | 345.5 | 286.0 | |
| 95.5 | 93.6 | 94.0 | 89.1 | Employee Benefits | 372.2 | 335.5 | 343.1 | 309.3 | |
| 63.1 | 62.5 | 62.4 | 62.1 | Consultants & Contractors | 250.1 | 240.0 | 256.0 | 210.8 | |
| 74.6 | 76.9 | 78.5 | 80.6 | Depreciation & Amortisation | 310.6 | 280.0 | 305.4 | 267.0 | |
| 54.0 | 59.5 | 55.4 | 54.3 | Other Operating Costs | 223.3 | 187.3 | 220.5 | 190.6 | |
| (86.5) | (85.1) | (85.5) | (81.7) | Allocated Costs to Capital | (338.9) | (287.4) | (315.1) | (253.0) | |
| 297.4 | 307.5 | 308.5 | 299.4 | Total Operating Expenses | 1,212.9 | 1,098.9 | 1,155.2 | 1,010.8 | |
| 157.7 | 167.6 | 187.5 | 157.7 | Earnings Before Interest & Tax | 670.5 | 645.9 | 571.3 | 485.2 | |
| 81.7 | 85.3 | 90.3 | 93.6 | Borrowing Costs | 350.9 | 297.8 | 303.1 | 224.7 | |
| 22.9 | 24.8 | 29.2 | 19.4 | Income Tax Expense | 96.3 | 101.7 | 82.6 | 75.3 | |
| 53.1 | 57.5 | 67.9 | 44.8 | Operating Profit After Income Tax Equivalent | 223.2 | 246.4 | 185.6 | 185.2 | |

Notes:

1. Revenue does not translate to cash inflows.

3.1.1.2 Group Balance Sheet

| Quarter 2011/12 | | | | | 2011/12 | 2010/11 | 2010/11 | 2009/10 |
|-----------------|-----------------|-----------------|-----------------|--------------------------------------|-----------------|----------------|----------------|----------------|
| Sept | Dec | Mar | Jun | (\$M) | Budget | Est Act | Budget | Actual |
| | | | | Current Assets | | | | |
| 55.8 | 0.9 | 0.9 | 0.9 | Cash Assets ⁽¹⁾ | 0.9 | 91.1 | 0.0 | 162.0 |
| 337.7 | 344.0 | 382.0 | 382.1 | Receivables | 382.1 | 304.6 | 375.4 | 309.2 |
| 0.1 | 0.1 | 0.1 | 0.1 | Derivative Financial Instruments | 0.1 | 0.1 | 0.3 | 2.0 |
| 110.0 | 111.2 | 112.4 | 113.5 | Inventories | 113.5 | 108.9 | 91.4 | 114.4 |
| 0.0 | 0.0 | 0.0 | 0.0 | Other | 0.0 | 0.0 | 29.0 | 0.0 |
| 503.7 | 456.2 | 495.3 | 496.7 | Total Current Assets | 496.7 | 504.6 | 496.0 | 587.6 |
| | | | | Non-Current Assets | | | | |
| 182.9 | 176.3 | 169.6 | 135.2 | Receivables | 135.2 | 189.6 | 108.2 | 63.9 |
| 2.2 | 2.2 | 2.1 | 2.1 | Other Financial Assets | 2.1 | 2.2 | (0.0) | 2.3 |
| 9,205.8 | 9,445.8 | 9,685.0 | 10,139.6 | Property, Plant & Equipment | 10,139.6 | 8,962.6 | 9,036.2 | 8,025.8 |
| 8.7 | 10.2 | 11.7 | 11.7 | Intangibles | 11.7 | 5.8 | 5.5 | 5.4 |
| 104.1 | 102.9 | 97.6 | 100.9 | Deferred Tax Assets | 100.9 | 102.8 | 117.9 | 126.6 |
| 9,503.7 | 9,737.4 | 9,966.1 | 10,389.5 | Total Non-Current Assets | 10,389.5 | 9,262.9 | 9,267.7 | 8,224.0 |
| 10,007.3 | 10,193.5 | 10,461.4 | 10,886.1 | Total Assets | 10,886.1 | 9,767.5 | 9,763.8 | 8,811.7 |
| | | | | Current Liabilities | | | | |
| 184.4 | 187.9 | 193.4 | 190.6 | Payables | 190.6 | 173.8 | 196.7 | 174.7 |
| 3.3 | 3.3 | 3.3 | 3.3 | Interest Bearing Liabilities | 3.3 | 3.3 | 8.3 | 7.0 |
| 0.0 | 0.0 | 0.0 | 0.0 | Tax Liabilities | 0.0 | 0.0 | (0.0) | 0.0 |
| 294.2 | 87.3 | 62.0 | 215.3 | Provisions | 215.3 | 319.5 | 180.9 | 186.8 |
| 54.3 | 50.0 | 47.9 | 48.9 | Other | 48.9 | 56.4 | 41.9 | 114.3 |
| 536.1 | 328.4 | 306.5 | 458.0 | Total Current Liabilities | 458.0 | 553.0 | 427.8 | 482.7 |
| | | | | Non-Current Liabilities | | | | |
| 4,950.3 | 5,267.9 | 5,470.8 | 5,645.1 | Interest Bearing Liabilities | 5,645.1 | 4,769.7 | 4,937.6 | 4,094.2 |
| 1,557.5 | 1,581.2 | 1,605.1 | 1,692.9 | Deferred Tax Liabilities | 1,692.9 | 1,533.4 | 1,511.2 | 1,394.6 |
| 130.5 | 125.6 | 120.7 | 116.7 | Provisions | 116.7 | 135.5 | 156.8 | 243.6 |
| 4.8 | 4.8 | 4.8 | 1.7 | Other | 1.7 | 1.0 | 16.6 | 21.6 |
| 6,643.2 | 6,979.6 | 7,201.4 | 7,456.4 | Total Non-Current Liabilities | 7,456.4 | 6,439.6 | 6,622.2 | 5,754.0 |
| 7,179.3 | 7,308.0 | 7,508.0 | 7,914.5 | Total Liabilities | 7,914.5 | 6,992.5 | 7,050.0 | 6,236.7 |
| 2,828.1 | 2,885.6 | 2,953.4 | 2,971.6 | Net Assets | 2,971.6 | 2,775.0 | 2,713.8 | 2,574.9 |
| 746.4 | 746.4 | 746.4 | 746.4 | Share Capital | 746.4 | 746.4 | 746.4 | 746.4 |
| 606.5 | 664.0 | 731.9 | 598.1 | Retained Earnings | 598.1 | 553.5 | 528.4 | 488.6 |
| 1,475.1 | 1,475.1 | 1,475.1 | 1,627.1 | Reserves | 1,627.1 | 1,475.1 | 1,439.0 | 1,339.9 |
| 2,828.1 | 2,885.6 | 2,953.4 | 2,971.6 | Total Shareholders' Equity | 2,971.6 | 2,775.0 | 2,713.8 | 2,574.9 |

Notes:

1. Cash at 2011/12 year end is assumed to be minimal, reflecting the use of a working capital facility to manage short term cash fluctuations. It is likely that a certain amount of cash will remain on hand throughout the year as a result of timing differences between cash inflows and cash outflows.

3.1.1.3 Group Cash Flow Statement

| Quarter 2011/12 | | | | (\$M) | 2011/12 Budget | 2010/11 Est Act | 2010/11 Budget | 2009/10 Actual |
|--|----------------|----------------|----------------|--|-------------------|--------------------|-------------------|-------------------|
| Sept | Dec | Mar | Jun | | | | | |
| Cashflow from Operating Activities | | | | | | | | |
| 467.7 | 511.1 | 504.8 | 527.5 | Receipts from Customers | 2,011.2 | 1,761.2 | 1,814.8 | 1,437.5 |
| (283.8) | (299.5) | (297.3) | (292.7) | Payments to Suppliers and Employees | (1,173.3) | (1,048.4) | (1,043.8) | (678.2) |
| 6.0 | 5.5 | 5.6 | 5.9 | Interest Received | 23.1 | 37.2 | 14.9 | 17.9 |
| (81.4) | (84.9) | (89.7) | (93.2) | Borrowing Costs | (349.1) | (291.0) | (301.1) | (214.1) |
| (0.0) | (0.0) | 0.0 | (0.0) | Tax Equivalent Payments | (0.0) | 0.0 | 0.0 | 3.6 |
| (4.9) | (6.1) | (8.3) | (5.2) | GST paid to ATO | (24.5) | (19.6) | (26.0) | 0.0 |
| 103.7 | 126 | .1 | 115.2 | 142.4 | 487.4 | 439.5 | 458.8 | 56 |
| Net Cash provided by / (used in) operating activities | | | | | | | | |
| Cashflow from Investing Activities | | | | | | | | |
| (320.7) | (318.5) | (319.2) | (318.0) | Payments for Property, Plant & Equipment | (1,276.4) | (1,024.7) | (1,208.4) | (961.3) |
| 2.0 | 2.0 | 2.0 | 2.0 | Proceeds from Sale of Non-current Assets | 8.0 | 9.0 | 7.2 | 28.1 |
| (0.8) | (0.8) | (0.8) | (0.8) | Loans to Related Parties | (3.0) | (21.5) | (7.6) | (6.3) |
| (319.5) | (317.2) | (318.0) | (316.7) | Net Cash provided by / (used in) investing activities | (1,271.4) | (1,037.2) | (1,208.8) | (931.6) |
| Cashflow from Financing Activities | | | | | | | | |
| 180.5 | 317.7 | 202.8 | 174.4 | Proceeds from Borrowings | 875.4 | 675.5 | 775.9 | 251.1 |
| 0.0 | 0.0 | 0.0 | 0.0 | Net Repayable Deposits | 0.0 | (0.6) | 0.0 | 0.9 |
| 0.0 | (181.6) | 0.0 | 0.0 | Dividends Paid | (181.6) | (148.2) | (145.0) | (102.8) |
| 0.0 | 0.0 | 0.0 | 0.0 | Issued Capital | 0.0 | (0.0) | 0.0 | 102.8 |
| 180.5 | 136 | .1 | 202.8 | 174.4 | 693.8 | 526.8 | 630.8 | 25 |
| Net Cash provided by / (used in) financing activities | | | | | | | | |
| Net Increase/(Decrease) in Cash Held | | | | | | | | |
| (35.3) | (54.9) | 0.0 | 0.0 | | (90.2) | (70.9) | (119.2) | (112.9) |
| 91.1 | 55.8 | 0.9 | 0.9 | Cash at the beginning of the financial year | 91.1 | 162.0 | 119.2 | 274.9 |
| 55.8 | 0 | .9 | 0.9 | 0.9 | 0.9 | 91.1 | (0.0) | 162.0 |
| Cash at the End of Financial Year | | | | | | | | |

3.1.1.4 Transactions with Owners

| (\$M) | 2011/12 Budget | 2010/11 Est Act | 2010/11 Budget | 2009/10 Actual |
|---|-------------------|--------------------|-------------------|-------------------|
| Dividends provided for | 178.6 | 181.6 | 148.5 | 148.2 |
| Dividends paid (per statement of Cash Flows) | 181.6 | 148.2 | 145.0 | 102.8 |
| Equity Injections / Dividend Reinvestments | 0.0 | 0.0 | 0.0 | 102.8 |
| Dividend payout ratio ⁽¹⁾ | 80% | 80% | 80% | 80% |
| Income Tax Expense (per Income Statement) | 96.3 | 101.7 | 82.6 | 75.3 |
| Income Tax (received) / paid (per Statement of Cash Flows) | 0.0 | 0.0 | (0.0) | (3.6) |

Notes:

1. Dividend payout ratio is 80% of adjusted consolidated profit. The non-cash STPIS revenue has been excluded from adjusted consolidated profit in 2010/11.

3.1.2 Financials: Selected Subsidiaries or Major Business Divisions

Refer to **Section 3.1.4** for major business units financial contributions to the ENERGEX Group.

3.1.3 Financial Contributions: Selected Subsidiaries

Not applicable.

3.1.4 Financial Contributions: Major Business Divisions

| Contributions by Line of Business (\$M) | 2011/12 Budget | 2010/11 Est Act | 2010/11 Budget | 2009/10 Actual |
|--|-------------------|--------------------|-------------------|-------------------|
| Standard Control Services ⁽¹⁾ | 930.8 | 870.0 | 849.7 | 727.7 |
| Alternative Control Services | 15.3 | 12.2 | 3.2 | 0.0 |
| Non-Regulated | 35.0 | 43.8 | 37.2 | 0.0 |
| Group EBITDA | 981.2 | 925.9 | 890 | .1 727.7 |
| Depreciation and Amortisation | 310.6 | 280.0 | 318.8 | 242.5 |
| Group EBIT | 670.5 | 645.9 | 571 | .3 485.2 |
| Borrowing Costs | 350.9 | 297.8 | 303.1 | 224.7 |
| Income Tax Expense | 96.3 | 101.7 | 82.6 | 75.3 |
| Group OPAT | 223.2 | 246.4 | 185 | .6 185.2 |

Notes:

1. AER Final Determination requires regulated business to be classified as Standard Control and Alternate Control Services. This classification did not apply in 2009/10, therefore all business has been classified Standard Control Services.

3.2 Main Undertakings and Businesses

The following main undertakings may be acquired by ENERGEX in 2011/12 subject to approval where required:

- Not Applicable

The following main undertakings may be disposed of by ENERGEX in 2011/12 subject to approval where required:

- Not Applicable

3.2.1 Assets

ENERGEX wholly owns and manages the electricity distribution network in SEQ. In addition, it has ownership interests in the following controlled entities.

Table 25 – ENERGEX Ownership Interests in Controlled Entities

| Name of Entity | Country of Incorporation | Class of Shares | Equity Holding |
|--|--------------------------|-----------------|----------------|
| Metering Dynamics Business Support Pty Ltd | Australia | Ordinary | 100% |
| Queensland Energy Services Team Pty Ltd | Australia | Ordinary | 100% |
| Energy Impact Pty Ltd | Australia | Ordinary | 100% |
| Varnsdorf Pty Ltd | Australia | Ordinary | 100% |
| VH Energy Holdings Pty Ltd | Australia | Ordinary | 100% |
| VH Operations Pty Ltd | Australia | Ordinary | 100% |
| VH Finance Pty Ltd | Australia | Ordinary | 100% |
| Service Essentials Pty Ltd ⁽¹⁾ | Australia | Ordinary | 90% |

Notes:

1. Subject to voluntary winding up or deregistration during 2010/11

ENERGEX also has ownership interests in the following associated companies.

Table 26 – ENERGEX Ownership Interests in Associated Companies

| Name of Entity | Country of Incorporation | Class of Shares | Ownership Interest 2010/11 |
|-------------------------|--------------------------|-----------------|----------------------------|
| SPARQ Solutions Pty Ltd | Australia | Ordinary | 50% |

3.3 Capital Expenditure Program

The forecast capital expenditure for 2011/12 is detailed in **Section 3.3.4** below.

3.3.1 Assets Under Construction

ENERGEX's proposed capital program in 2011/12 is \$1,302.3 M (**refer Section 3.3.4**).

3.3.2 Proposed Capital Expenditure (Projects expected to be approved)

ENERGEX's proposed capital program in 2011/12 is \$1,302.3 M (**refer Section 3.3.4**).

3.3.3 Business Development

No business development capital expenditure has been included in the financial forecasts. Business development capital expenditure will not be committed without supporting business cases, subject to existing ENERGETIC ENERGY GROUP corporate approval and delegation authorities including shareholding Ministers, where appropriate, as part of ENERGETIC ENERGY GROUP's normal governance process and business management systems, and in compliance with the Investment Guidelines for Government Owned Corporations (2003).

3.3.4 Forecast Total Capital Expenditure

Table 27 – Forecast Capital Expenditure

| Description (\$M) | 2011/12 Budget | 2010/11 Est Act | 2010/11 Budget |
|-------------------------------------|---------------------------|----------------------------|---------------------------|
| Standard Control Services | | | |
| Transmission Capital | 718.3 | 577.4 | 631.1 |
| Distribution Capital | 365.0 | 317.9 | 374.5 |
| Alternative Control Services | | | |
| Distribution Capital | 27.3 | 14.3 | 13.0 |
| Non-system Capital | 187.1 | 109.1 | 153.4 |
| Non-Regulated Capital | 4.5 | 6.4 | 6.7 |
| Total Capex | 1,302.3 | 1,025.1 | 1,178.6 |

Notes:

1. The AER provides for regulated business to be classified as either Standard Control or Alternative Control Services. This classification did not apply in previous years under the QCA.
2. Forecast Capital Expenditure does not include expenditure incurred by Sparq for ICT assets.

In regulatory terms, forecast capital expenditure is projected to be aligned with the AER's Final Determination over the regulatory period.

3.3.5 Network Operating Expenditure

Table 28 – Network Operating Expenditure

| Expenditure Description (\$M) | Funding | 2011/12 Budget | 2010/11 Est Act | 2010/11 Budget |
|--|------------------------|---------------------------|----------------------------|---------------------------|
| Standard Control Services Expenditure | Customer | 275.1 | 255.6 | 264.6 |
| Alternative Control Services Expenditure | Customer | 47.8 | 45.7 | 68.3 |
| Network Demand Management | Office of Clean Energy | 8.1 | 7.2 | 8.6 |
| TOTAL | | 331.1 | 308.5 | 341.5 |

Notes:

1. The AER provides for regulated business to be classified as either Standard Control or Alternative Control Services. This classification did not apply in previous years under the QCA.

In regulatory terms, forecast capital expenditure is projected to be aligned with the AER's Final Determination over the regulatory period.

3.3.5.1 Proposed Capital Expenditure – (Projects for 2011/12 greater than \$10M and Associated Community Engagement)

Proposed Capital Program

In the delivery of its Program of Work for 2011/12 ENERGEX will include, in part, the list of candidate network projects described in **Table 29**. Projects within this list are estimated to have greater than \$10M capital expenditure in 2011/12, and are sourced from the corporation's Network Management Plan (NMP). The NMP which is published annually, contains a list of ENERGEX's major projects (>\$2M) for the financial year 2011/12. It should be noted that the candidate projects listed below may change subject to customer requirements, forecasting changes and further planning analysis. The NMP is published by ENERGEX and is a requirement of the State Government's Electricity Industry Code (the Code).

Appropriate community engagement strategies outlined above are adopted where appropriate to ensure the project is delivered on time, to budget and with acceptance from the majority of the community.

Table 29 – 2011/12 PoW Projects with Spend in Excess of \$10 Million*

| Project Description | Longer Project Description | 2011/12 ¹ | Total Project |
|--|--|----------------------|---------------|
| H22-JBB 110kV SCCT OH | Establish a mixed overhead and underground transmission line between Loganlea and Jimboomba to secure network capacity | \$22.2M | \$ 28.5M |
| PPD - 30MVA 132/11kV Substation | Pacific Paradise. Establish a new substation and feeder works at Pacific Paradise to support community growth | \$14.5M | \$ 91.5 M |
| B'bane CBD Longterm Provision | Brisbane CBD. Provide for future underground cables in the Brisbane CBD | \$14.1M | \$ 31.6 M |
| CPR - Establish a NEW 110/33kV SUB | Coorparoo. Establish a new bulk supply substation at Coorparoo with two 110kV feeders from Woolloongabba | \$23.2M | \$ 62.7 M |
| CPR-HPK Est 2x33kV UG Fdrs | Coorparoo. Establish underground cables from Coorparoo to Holland Park West to increase network capacity | | |
| CPS - 1x25MVA 33/11kV Modular Sub | Capalaba South. Establish a new zone substation at Capalaba South to increase network capacity and improve reliability | \$13.4M | \$ 16.0 M |
| 719 Gympie Nth Est 33/11kV Zone S/S | Gympie. Establish a new zone substation at Gympie North to increase network capacity and improve reliability | \$11.9M | \$ 17.9 M |
| LWD Lowood - Construct 33kV OH SCCT | Lowood. Construct new sub-transmission feeder to Lockrose to support community growth | \$10.6M | \$ 13.3 M |
| 323 Parkwood - Est 110/11kV substation | Parkwood. Establish a new zone substation at Parkwood to increase network capacity and improve reliability | \$10.5M | \$ 15.3 M |
| COR Cooran - Establish 132/11kV Zone Sub | Cooran. Establish a new zone substation at Cooran | \$10.5M | \$12.3 M |

Community Engagement

ENERGEX's overarching Stakeholder Management strategy engages shareholding Ministers, key members of the business community, customers and the media. ENERGEX's Community Consultation Manual has integrated a number of ENERGEX policies and State legislation or standards to ensure effective communication around community infrastructure projects. Whilst recognizing its formal requirements for community consultation at prescribed stages for projects, ENERGEX aims to exceed minimum statutory requirements, led by the willing engagement of communities and stakeholder groups during projects. In some cases, even though there is no regulatory requirement for consultation, ENERGEX will initiate formal consultation with stakeholders to fulfil its obligations as a good corporate citizen.

ENERGEX understands all too well the benefits of effective community consultation to the successful delivery of a project. Even at the planning and design phases of a project, social and community factors are considered to minimize local impact and achieve regulatory obligations to provide adequate electricity supply. Consultation with stakeholders is initiated at the earliest possible time to ensure all parties are properly informed on the need for the project and the likely impact on individuals and the community as a whole.

To achieve this interaction ENERGEX's engagement model recognises three distinct levels of engagement – information, consultation and active participation. As part of its assessment and engagement processes ENERGEX recognizes that the required level of engagement and tools will vary according to criteria including: environmental sensitivity of the project, project scale, perceived social, environmental or health impacts, project stage, political climate, prior experience with ENERGEX activity and engagement strategies.

3.3.6 Mudgeeraba to Tugun Power line Project – Status Update

The Mudgeeraba to Tugun network upgrade involves the installation of an 110kV double-circuit power line from Powerlink's Mudgeeraba Bulk Supply Substation to a proposed new ENERGEX substation at Tugun. Stakeholder consultation on the Project commenced in March 2008 and has included the establishment and participation of the Southern Gold Coast Community Reference Group (CRG).

During the March 2009 Queensland Government election campaign, in response to significant community feedback, both major political parties made commitments to the local community to put two sections of the Project underground. These sections were:

- Elanora to Palm Beach, identified by the State Government, and
- Reedy Creek, for 800 metres behind Asperia Street, identified by the local elected representative and candidate.

Following these commitments, ENERGEX undertook significant redesign and modified the Project proposal to include 4.4 km of underground construction between Elanora and Currumbin. During redesign of the Reedy Creek section, ENERGEX identified an alternative alignment option which was overhead, but on the eastern side of the Pacific Motorway – the other side of the motorway to the original proposal and further away from the urbanised area. In April 2010, further consultation was undertaken with the community regarding the Reedy Creek alignment and overwhelming support was received for the ENERGEX proposed overhead alternative. This now forms the current proposed alignment for the Project.

Following the modifications to the proposed alignment for the Project, the Community Infrastructure Designation (CID) process (the State Government approval process for the Project, in accordance with the Sustainable Planning Act 2009) was restarted. In August 2010, a draft Initial Assessment Report (IAR) was developed and released for initial stakeholder consultation. During this consultation period, 586 submissions were received about the Project. In response to these submissions, the draft IAR was updated and in February 2011 the Final IAR was released for final consultation with stakeholders. During this final consultation period, 580 submissions were received by ENERGEX.

In response to the feedback received from the community and stakeholders, ENERGEX is currently undertaking further project investigations and preparing the Final Assessment Report (FAR) for the Project.

Next actions as part of the project include:

- Preparing the FAR – underway
- Lodging the FAR and Request for CID with the Minister – mid/late 2011
- Finalising easement acquisitions for the proposed corridor – mid 2012

Based on forecast information, the Mudgeeraba Substation to Currumbin Substation section of the Project is required no earlier than 2014. The Currumbin Substation to Tugun Substation section is not required until beyond 2020.

Since public consultation commenced on the Project, it has received significant media and community attention by nature of its proposed overhead construction adjacent to urbanised areas. To minimise the cost of infrastructure to the community and overall social and environmental impacts, where possible, ENERGEX has co-located the proposed infrastructure in the existing Pacific Motorway corridor, consistent with the principles outlined in the South East Queensland Regional Plan.

3.4 Other Significant Expenses

Other than direct costs expended in the Program of Work, and associated indirect costs, no other major expenses are anticipated.

3.5 Major Initiatives being Undertaken

The following major initiatives are being undertaken in 2011/12.

3.5.1 Program of Work Improvement Project (PoW IP)

The Operational Excellence Strategy focuses on the development of best practice processes, procedures and systems capability to support the efficient delivery of core business outcomes.

Refer to details in **Section 1.3.4** on page 21.

3.5.2 ENERGEX Performance Management Program (EPM)

Another key priority for 2011/12 is to progress the ENERGEX Performance Management Program (EPM) to Delivery phase.

Refer to details in **Section 1.3.3** on page 18.

3.5.3 Joint Workings

In response to the shareholding Ministers request that ENERGEX and Ergon Energy (the QEDB) further explore joint workings initiatives, our respective executive management teams have been tasked with reviewing the Stage 2 initiatives and developing a more detailed program. This includes the ICT Blueprint initiative. Refer to details in **Section 1.3.4** on page 23.

3.5.4 Enterprise Bargaining Agreement

ENERGEX has commenced initial scoping and preparation for a replacement Enterprise Bargaining Agreement to be negotiated in 2011. The nominal expiry date of the current enterprise agreement is 13 October 2011.

Refer to details in **Section 1.3.2** on page 15.

3.5.5 Smart Network

The broader plan for Smart Network initiatives which will be addressed over future horizons are in direct response to key challenges which have been identified for ENERGEX as an electricity distributor. The program will oversee the introduction of computing and communications infrastructure into the broader electrical distribution network.

Refer to details in **Section 1.3.5**.

3.5.6 Distribution Management System

Refer to details in **Section 1.3.5**.

3.5.7 National Broadband Network

Refer to details in **Section 1.3.5**.

3.5.8 Energy Conservation and Demand Management (EC&DM)

Critical to ENERGETX's future success will be our ability to deliver value for customers and retailers through future network charge stability. Refer to details in **Section 1.3.6**.

The following key projects in 2011/12 are provided in **Table 30 – ENERGETX EC&DM Initiatives for 2011/12** summarising forecast expenditure and MW reductions for 1 July 2011 to 30 June 2012. These figures have been based on the Demand Management Plan 2011/12 which will be submitted to the technical regulator on 30 April 2011.

Table 30 – ENERGETX EC&DM Initiatives for 2011/12

| Program | Timeframes | Expenditure from Queensland Government Grant 2011 to 2013 (including overheads) \$M | Expenditure from Regulatory Determination 2011 to 2016 (including overheads) \$M | Total Expenditure (including overheads) \$M | Total MW Reduction to 2016 |
|---|---|---|--|---|----------------------------|
| Broad-Based Programs | | | | | |
| 1. kV A based tariffs | From 1 July 2010. Will be extended to small customers on demand tariffs from 1 July 2012. | 0.0 | 0.0 | 0.0 | N/A |
| ENERGETX will introduce kV.A pricing to its tariff structure for large customers to better encourage these customers to manage their energy utilisation (power factor), reducing the need for ENERGETX to build additional network capacity. | | | | | |
| 2. Residential targeted initiatives | Continuing | 0.0 | 38.9 | 38.9 | N/A ¹ |
| ENERGETX will develop integrated solutions to engage residential customers and achieve increasing amounts of household electrical load under management for the long term. Building upon ENERGETX's experience with hot water load control and successful air conditioning and pool pump trials, this Initiative will establish the customer value propositions, enabling technologies and the channels to market necessary to deliver cost-competitive new solutions to the peak demand challenge. | | | | | |
| 3. Demand management for C&I customers | Continuing | 6.5 | 44.9 | 51.4 | 85 |
| ENERGETX will work with commercial and industrial customers offering them demand management and energy efficient based solutions aimed at decreasing operational power usage and demand on the network infrastructure. | | | | | |
| 4. Reward based tariff trials and policy development | 2010/11 | 0.6 | 4.4 | 5.0 | 28 ² |
| A joint project by ENERGETX and Ergon Energy to investigate how tariffs may be used to encourage customers to reduce power use during peak periods. | | | | | |
| 5. Energy conservation communities | 4 communities established in SEQ by June 2012 | 4.3 | 16.8 | 21.1 | 83 |
| A large scale community engagement project that will provide selected South East Queensland communities with education and technology to help address the issue of peak demand. | | | | | |
| 6. Energy Information Centre | Continuing | 0.0 | 5.4 | 5.4 | 3 |
| ENERGETX and Ergon Energy will create a bi-partisan, independent and authoritative Energy Information Centre in the fields of demand management and energy conservation (energy efficiency) for use by Queensland energy users. | | | | | |

| Program | Timeframes | Expenditure from Queensland Government Grant 2010 to 2013 (including overheads) \$M | Expenditure from Regulatory Determination 2010 to 2015 (including overheads) \$M | Total Expenditure (including overheads) \$M | Total MW Reduction to 2015 |
|--|--------------|---|--|---|----------------------------|
| Peak Demand Management Programs | | | | | |
| 7. EC&DM Summer preparedness | Annual cycle | 0.0 | 17.1 | 17.1 | 10 |
| ENERGEX strategically locating mobile generators within the network and also enter into network support agreements with customers who are located in areas where ENERGEX has identified network constraints during the high peak summer season. | | | | | |
| 8. Regulatory Test outcomes | Continuing | 0.0 | 0.0 | 0.0 ³ | N/A ⁴ |
| Through compliance with NER and the application of the regulatory test, ENERGEX identifies new network investments or non-network alternative options that maximise the net economic benefit to electricity market participants or minimise the present value of the costs in meeting mandated technical requirements. | | | | | |
| Totals | | | | | |
| Total broad-based programs | | 11.4 | 110.4 | 121.8 | 199 |
| Total peak demand management programs | | 0.0 | 17.1 | 17.1 | 10 |
| Total programs | | 11.4 | 127.5 | 138.9 | 209 |

Footnotes

¹ MW reductions are included in Energy Conservation Communities initiatives

² MW reductions will be realised after 2015

³ Funding will be through the Regulatory Test process

⁴ The outputs of this program will depend on the Regulatory Test process under the NER

3.5.9 National Energy Customer Framework (NECF)

The National Energy Customer Framework (NECF) is the product of a 2006 commitment by the Council of Australian Governments to the creation of a single national legislative and regulatory framework governing energy sale, supply and consumer protection. ENERGEX needs to implement new regulatory obligations arising from the NECF legislative passed by the South Australian Parliament (as lead legislature for national energy laws) on 9 March 2011 and to be introduced in Queensland 1 July 2012.

Following the release of the Queensland Government NECF Implementation Decision Paper in April 2011, ENERGEX is now focusing its attention to fully understand the new regulatory requirements and make the necessary system and process changes as well as educate relevant stakeholders (eg electrical contractors and consumer groups) to ensure compliance by 1 July 2012.

NECF represents the most significant change for ENERGEX in its interactions with customers, retailers, regulators and market institutions since the introduction of Full Retail Competition (FRC) in 2007. The key challenge to the implementation of NECF will include scoping compliant business solutions to meet the new connections framework (small and large customers) as well as the increased scope of planned interruptions and changes to network billing and standing data. To ensure that the implementation of NECF is successful a dedicated project is being established.

Successful implementation of this project will impact to varying degrees all information systems, as well as a variety of processes and people across a number of divisions.

3.6 Sponsorship, Advertising, Corporate Entertainment, Donations and Other Arrangements

Consistent with the Corporate Entertainment and Hospitality Guidelines and ENERGEX's Corporate Entertainment and Hospitality Policy, ENERGEX has budgeted the following amounts for Sponsorship, Advertising, Corporate Entertainment, Donations and Other Arrangements for 2011/12 (see below). Full details of the budgeted expenditure are provided in **Attachment 3** to the SCI.

Table 31 – Sponsorship, Advertising, Corporate Entertainment, Donations & Other

| Total for All Expenditure Items (over and under \$5,000) ⁽¹⁾ (\$) | 2011/12 Budget | 2010/11 Est Act | 2010/11 Budget |
|---|---------------------------|----------------------------|---------------------------|
| Sponsorship | 1,614,685 | 1,508,348 | 1,634,051 |
| Advertising | 2,964,000 | 2,687,871 | 3,307,400 |
| Corporate Entertainment | 364,428 | 396,696 | 335,675 |
| Donations | 9,100 | 78,438 | 9,100 |
| Other Related Activities | 251,644 | 242,192 | 238,922 |
| Total | 5,203,857 | 4,913,545 | 5,525,148 |

Notes:

1. All expenditure is GST exclusive

As an electricity distributor and as required under the Electrical Safety Act 2002, ENERGEX has a responsibility to promote electrical safety. Included in the advertising budget is approximately \$1.8M to educate the community in matters such as the dangers of fallen powerlines and ensuring awareness of ENERGEX's emergency telephone contact numbers. ENERGEX also provides sponsorship programs that reinforce the safety message and positively contribute to local communities. The AER final decision has allowed for expenditure in relation to safety related advertising, however has not allowed for sponsorship expenditure.

ENERGEX will provide details of any significant changes to the listed commitments in quarterly reports to shareholding Ministers and will notify shareholding Ministers of any significant proposed sponsorship arrangements prior to the signing of a binding contract.

3.7 Other Undertakings

As part of its performance agreement with shareholding Ministers, the Board of ENERGEX provides the following additional undertakings:

3.7.1 Prudential Financial Information

The Board will ensure ENERGEX takes full responsibility to ensure that prudent financial practices will be applied both within the corporation and within its subsidiaries (whether fully controlled or otherwise). Without limiting the obligations imposed on the Board and the CEO by the GOC Act and, where applicable, the Corporation's Act 2001, this includes a commitment to:

- Abide with the Code of Practice for Government Owned Corporations' Financial Arrangements (Code of Practice), as issued by the Queensland Government; and
- Establish, maintain and implement appropriate financial risk management practices and policies required and as specified in the Code of Practice.

3.7.2 Capital Structure

The Board will prudently manage the financing of ENERGEX's existing business and new business developments. As an integral part of the financing of the Corporation, the overall debt will be managed to ensure that ENERGEX maintains the appropriate credit rating or other rating as directed by shareholding Ministers. ENERGEX's Board will ensure ENERGEX complies with these requirements.

3.7.3 Weighted Average Cost of Capital (WACC)

The Board will ensure that ENERGEX reviews its WACC on an annual basis. As part of the SCI negotiation process, ENERGEX's beta and optimal capital structure have been determined in consultation with shareholder representatives. Separate WACCs have been calculated for those parts of ENERGEX's operations that face differing business risk profiles.

Other than the annual review process, in the event ENERGEX encounters a significant change to the risk profile of its business, its WACC will be recalculated in consultation with shareholder representatives.

Details of ENERGEX's WACC calculations are provided in **Attachment 4** to the SCI.

3.7.4 Dividend Policy and Payment

While the dividend process is governed by the Government Owned Corporations Act 1993 and the Corporations Act 2001 (Cth), the board will also ensure that ENERGEX's dividend policy takes into account the return its shareholders expect on their investments. ENERGEX's policy is to recommend and pay a dividend amount equivalent to 80% (or the percentage approved by shareholding Ministers, if different) of ENERGEX's adjusted consolidated profit for 2011/12. The board adopts such a policy on the basis of its shareholders agreeing to provide the necessary funding for projects which have received board and shareholding Ministers' approval or for the maintenance of ENERGEX's approved capital structure or for ensuring the operational viability of ENERGEX. ENERGEX's board undertakes to adhere to the dividend policy.

The dividend letter to be provided by the board to shareholding Ministers in May 2012 will contain an estimate of the dividend for the financial year ending 30 June 2012 noting the potential for adjustment and recommend a dividend as a percentage of adjusted consolidated profit for the financial year. 'Adjusted profit' is defined as:

- (a) the total of income less expenses (including income tax equivalent expense), excluding the components of other comprehensive income ⁽¹⁾; and
- (b) adjusted for material non-cash items including any associated tax credit or expense.

ENERGEX commits to providing information in its dividend letter to shareholding Ministers for 2011/12 that includes, but is not limited to, the following:

- a statement that:
 - the legal and accounting requirements for payment of the dividend under the Corporations Act 2001 have been taken into account at the time of providing the board's recommendation in the dividend letter;
 - compliance by the board with the requirements of section 254T (and any other applicable requirements) of the Corporations Act 2001 at the time of dividend payment will be necessary before the dividend is paid;
- the current estimated amount of consolidated profit for the financial year (excluding components of other comprehensive income);
- the current estimated amount of 'adjusted consolidated profit' for the financial year;
- details of adjustments made to determine the 'adjusted consolidated profit' from the estimated consolidated profit and a statement providing a breakdown of the value and reason for each adjustment;

- a statement that adjustment items or further adjustment items may be identified during the audited financial statement preparation;
- ENERGEX's recommended dividend as a percentage of the estimated 'adjusted consolidated profit';
- the current estimated dollar amount of the proposed dividend for the financial year ending 30 June;
- a statement that the dividend is to be declared out of profits;
- a statement that the dividend payment will be the dividend approved or directed as a percentage of adjusted audited consolidated profit;
- a statement that any material differences between the estimated dollar amount of the dividend and the actual dividend to be paid for 2011/12 will be advised by ENERGEX as soon as identified.

When determining the actual dividend to be paid based on the audited financial results, the board will ensure shareholding Ministers are consulted through their Departments and that written agreement is received for any material changes to the adjustment items previously identified in May and for any subsequent new adjustment items identified. This written agreement is to be obtained by ENERGEX prior to payment of the final dividend by the board.

Notes:

1. Other comprehensive income comprises items of income and expense that are not recognised in profit or loss as required or permitted by Australian Accounting Standards.

3.7.5 Corporate Governance Guidelines for Government Owned Corporations

The Board of ENERGEX undertakes to continually monitor and review its corporate governance arrangements to reflect good practice, having regard to the *Corporate Governance Guidelines for Government Owned Corporations* (Corporate Governance Guidelines). ENERGEX has adopted all the recommendations in the Corporate Governance Guidelines.

3.7.6 Risk Management

The Board of ENERGEX has ultimate responsibility for the management of all potential internal and external risks for the Corporation. The Corporation's risk identification and management process is monitored by the Audit & Compliance Committee, which is a subcommittee of the Board and which reports to the Board on a regular basis.

The risk management framework is designed to ensure that all potential financial, operational and other risks are regularly identified, assessed, monitored and report to the Audit Committee and the ENERGEX Board, as appropriate, along with appropriate risk mitigation and management plans. In particular, potential security risks have been considered and identified and a framework to respond to security threats has been developed. The Board will continually monitor security risks and update ENERGEX's response framework as necessary.

Risk management plans have been incorporated in ENERGEX's budgetary and strategic planning processes.

3.7.7 Compliance with Government Policies

The Board of ENERGEX and its subsidiaries will comply with all relevant Government policies and guidelines as set out in **Attachment 6**. In particular, ENERGEX and its subsidiaries will comply with the approval, notification, reporting and other requirements of those policies and guidelines.



4 PERFORMANCE AGREEMENT

This SCI and all attachments, for the financial year 2011/12, are presented in accordance with Chapter 3, Part 8 of the GOC Act.

In accordance with Chapter 1, Part 3, Section 7 of the GOC Act, the SCI represents a formal performance agreement between the Board of ENERGEX and its shareholding Ministers, (i) the Minister for Finance and Arts and (ii) the Minister for Energy and Water Utilities with respect to the financial and non-financial performance targets specified for the financial year. The SCI also represents an acknowledgment of and agreement to major activities, objectives, undertakings, policies, investments and borrowings of ENERGEX for the 2011/12 financial year.

This SCI is consistent with ENERGEX’s 2011/12 to 2015/16 Corporate Plan submitted to, and agreed to by, shareholding Ministers in accordance with Chapter 3, Part 7 of the GOC Act.

In signing the document the Board of ENERGEX undertakes to ensure that the document, and all reports to shareholding Ministers, are prepared with accuracy and timeliness.

In signing this document ENERGEX’s Board undertakes to achieve the targets proposed in the SCI for the 2011/12 financial year.

Major changes to key assumptions and outcomes detailed in this SCI, and which come to the Board’s attention during the year, will be brought to the attention of shareholding Ministers. Any modifications to this SCI will be dealt with in accordance with the GOC Act.

This SCI is signed by the Chairman on behalf of all the Directors in accordance with a unanimous decision of the Board of ENERGEX Limited.

.....
John Dempsey
Chairman

Date:

SHAREHOLDING MINISTERS

.....
Rachel Nolan MP
Minister for Finance and The Arts

Date:

.....
Stephen Robertson MP
Minister for Energy and Water Utilities

Date:

5 ATTACHMENTS

- Attachment 1: List of Financial and Non Financial Target Definitions
- Attachment 2: Employment and Industrial Relations Plan
- Attachment 3: Sponsorship, Advertising, Corporate Entertainment, Donations, and other Arrangements
- Attachment 4: WACC Calculations
- Attachment 5: Corporate Governance Guidelines for Government Owned Corporations
- Attachment 6: Compliance with Government Policies
- Attachment 7: Glossary

Attachment 1 List of Financial and Non Financial Target Definitions

Table 32 – Financial and Non Financial Target Definitions

| Key Result Area | Measure Description | Definition |
|------------------------------|---|---|
| Safety | LTIFR - Employees (Lost Time Injury Frequency Rate) | The number of lost time occurrences or disease for every million hours worked. Calculated as number of lost time injury occurrences X 1,000,000/employee hours. |
| | CCFRS – Compensable Claims Frequency Rate Severity | Number of significant Work Cover claims (of more than 14 calendar days duration) including LTI's of any duration, in the past 12 months and expressed as a percentage of full time equivalent staff. |
| | All Injury Frequency rate | The number of occurrences of injury or disease for every million hours worked. Calculated as number of injury occurrences X 1,000,000/ employee hours. Calculated as a total across employees and contractors. Includes lost time and non lost time injuries. |
| | Lost Time Duration rate - Employees | Total days of lost time for injury and disease for every million hours worked. Calculated as number of working days lost to injuries in the past 12 months X 1,000,000/exposure hours. |
| | LTIFR contractors | The number of lost time occurrences or disease for every million hours worked. Calculated as number of lost time injury occurrences X 1,000,000/employee hours. |
| People | EMPI Tally Score (%) (EGX) | A measure of employee motivation including engagement |
| | Staff Turnover Annualised (aka Total Separation Rate) | Total separations by headcount over the preceding 12 months / average headcount for the same time period |
| | Net FTE Staff Numbers | Actual Staff FTE/Budgeted and Temporary Funded FTE |
| Financial Performance | OPAT (\$M) | ENERGEX Group Operating Profit after Tax. Also representative of NPAT. |
| | ROA - Statutory (%) | ENERGEX Group EBIT (but after any abnormal or extraordinary items)/ ENERGEX Group Average Total Assets |
| | EBITDA (\$M) | Group Earnings before Interest, Tax, Depreciation and Amortisation. Measures the group earnings in terms of cash-related items only. |
| | EBIT (\$M) | Group Earnings before Interest and Tax. |
| | Economic Profit (\$M) | Financial performance of the company based on residual wealth calculated by deducting the cost of capital from its operating profit. |
| | ROE (%) | Group Operating Profit after Tax (but before any abnormal or extraordinary items), divided by the average contributed equity plus asset revaluation reserve. |

| Key Result Area | Measure Description | Definition |
|----------------------------|--|---|
| | Debt / Debt & Equity (%) | Debt divided by the total of debt and equity (using balances current as at the end of the reporting period). |
| | Interest Cover (EBITDA) | Earnings before Interest, Tax, Depreciation and Amortisation (but after any abnormal or extraordinary items) divided by Interest cost (for clarity - includes capitalised Interest, but excludes finance charges). |
| | Debt / Regulated Asset Base | Debt divided by the value of network assets at the end of the reporting period. |
| | Capital Expenditure (\$M) | Amount incurred by the GOC on capital projects to the end of the reporting period. |
| | Regulatory Funding Matches Actual Capex (%) | Forecast capital expenditure, divided by AER allowed capital expenditure (SCS and non-system assets only). |
| | Network Maintenance Costs / Regulated Asset Base (RAB) | Measures maintenance costs as a percentage of average network assets. |
| | Regulatory Funding Matches Actual Opex (%) | Forecast operating expenditure, divided by AER allowed operating expenditure. |
| Network Performance | MSS Favourable Performance | <i>Minimum Service Standard</i> Subject to exclusions prescribed in the Electricity Industry Code, a distribution entity must use its best endeavours to ensure that it does not exceed in a financial year the: (a) SAIDI Limits; and (b) SAIFI Limits. |
| | SAIDI - CBD (rolling 12 months) | <i>System Average Interruption Duration Index - CBD</i> Total minutes (planned outages + unplanned outages), on average, that a customer could expect to be without electricity over the financial year or the reporting period (each quarter) due to interruptions. The sum of customer minutes lost (duration of each interruption multiplied by number of customers affected) divided by total number of customers. |
| | SAIDI - Urban (rolling 12 months) | <i>System Average Interruption Duration Index - Urban</i> Total minutes (planned outages + unplanned outages), on average, that a customer could expect to be without electricity over the financial year or the reporting period (each quarter) due to interruptions. The sum of customer minutes lost (duration of each interruption multiplied by number of customers affected) divided by total number of customers. |
| | SAIDI - Rural (rolling 12 months) | <i>System Average Interruption Duration Index - Rural</i> Total minutes (planned outages + unplanned outages), on average, that a customer could expect to be without electricity over the financial year or the reporting period (each quarter) due to interruptions. The sum of customer minutes lost (duration of each interruption multiplied by number of customers affected) divided by total number of customers. |
| | SAIFI - CBD (rolling 12 months) | <i>System Average Interruption Frequency Index - CBD</i> Number of occasions when a customer could expect, on average, to experience an interruption in a year or in the reporting period (each quarter) Total number of interruptions (planned outages + unplanned outages) divided by Total number of customers. "The total number of customers" is averaged over the financial year or the reporting period. |

| Key Result Area | Measure Description | Definition |
|-------------------------------|---|--|
| | SAIFI - Urban (rolling 12 months) | <i>System Average Interruption Frequency Index - Urban</i> Number of occasions when a customer could expect, on average, to experience an interruption in a year or in the reporting period (each quarter) Total number of interruptions (planned outages + unplanned outages) divided by Total number of customers. "The total number of customers" is averaged over the financial year or the reporting period. |
| | SAIFI - Rural (rolling 12 months) | <i>System Average Interruption Frequency Index - Rural</i> Number of occasions when a customer could expect, on average, to experience an interruption in a year or in the reporting period (each quarter) Total number of interruptions (planned outages + unplanned outages) divided by Total number of customers. "The total number of customers" is averaged over the financial year or the reporting period. |
| | STPIS Reliability Total Cumulative Monthly Revenue Reward/Penalty | The revenue impact of ENERGEX's reliability performance under the scheme for unplanned SAIDI and SAIFI. |
| Operational Excellence | CAPEX Plan (NMP) - physical delivered favourable to plan | Key capital expenditure physicals, per the NMP, delivered favourable to Plan. |
| | OPEX Plan (NMP) - physical delivered favourable to plan | Key operating expenditure physicals, per the NMP, delivered favourable to plan. |
| | Key Projects - delivered to milestones | As determined in NMP. |
| | Compliance Improvement - Tracking to Plan | Compliance Improvement - Tracking to Plan: Measures ENERGEX's compliance management capability through a comprehensive plan with targets and coordinated compliance focussed initiatives, against which progress can be measured and verified. |
| | Net Operating Expenditure per Route Kilometre (\$) | Measures efficiency of the operating activities. The actual operating costs to operate the network divided by the total route kilometres. |
| | Cost Performance Index – Projects >\$75M | A measure of the variance against budget (in terms of both cost and schedule) for ENERGEX's approved capital projects (by CBRC). Indicates the level of cost over or under expenditure relating to the actual work performed. Calculated as budgeted cost of work to be performed in the period divided by the actual cost of work performed in the period (approved capital projects only). |
| | Schedule Performance Index – Projects >\$75M | A measure of the variance against budget (in terms of both cost and schedule) for ENERGEX's approved capital projects (by CBRC) The budgeted cost of work performed in the period divided by the budgeted cost of work scheduled for the period. It provides information on whether the project is ahead of schedule or if there is slippage (for approved capital projects only). |
| Customers | Service Performance Index (%) (aka Satisfaction Index - value to customers) | This is a measure of customers' perceptions of the services they receive from ENERGEX and focuses on items, including how customers rate their contact with ENERGEX overall, how customer rate the work and service received and how customers rate ENERGEX against other large service providers. |

| Key Result Area | Measure Description | Definition |
|--------------------|--|---|
| | GSL Incidents – Reliability | As defined under the ESDS, Minimum Service Standards, Guaranteed Service Levels and Service Quality Reporting Guidelines for Distribution Networks Connected to the Main Grid. Measures breaches of the Electricity Industry Code section 2.5.9 relating to: <ul style="list-style-type: none"> - interruptions lasting longer than the prescribed time - the number of interruptions occurring in a financial year |
| | GSL Incidents – Other (distribution) | As defined under the ESDS, Minimum Service Standards, Guaranteed Service Levels and Service Quality Reporting Guidelines for Distribution Networks Connected to the Main Grid. Measures breaches of the Electricity Industry Code relating to: Wrongful Disconnections, Connections, Hot Water Supply, Appointments, Planned Interruptions. |
| | Complaints Registered to Ombudsman or Customer | Number of complaints registered with the Electricity ombudsman. Measures the total number of complaints registered with the: EWOQ, QME, Ministers Office, Ministerial, Shire Council, Other Government and MP |
| | Service Delivery Compliance | This is an aggregate KPI, consisting of the following component measures: New Connections within 5 days 99%, De-energisations within 5 days 99%, Re-energisations by the obligation date, 99%. Service Delivery Compliance is taken as the average of the above three measures and expressed as a %. |
| | Contact Centre Grade of Service | Measures the percentage of customer calls answered within 20 seconds. |
| Community | Community Regard Index (%) | This measures how customers' perceptions on whether ENERGEX plays a sustainable part in the community. It focuses particularly on whether ENERGEX re-invests in the community, has ethical business dealings, has the public confidence, educates the community, is environmentally responsible, actively helps the community to save energy, promotes sustainable energy practices and manages trees around powerlines in an environmentally responsible manner. |
| Environment | Carbon Reduction per Carbon Reduction Plan | Measures ENERGEX's carbon management capability through a comprehensive plan with targeted carbon reduction initiatives, against which progress can be measured and verified. |
| | Environmental EPA Breaches | Number of reportable breaches of the Environmental Protection Act. |

Attachment 2 Employment and Industrial Relations Plan

SHAREHOLDER INFORMATION

1. EMPLOYMENT AND INDUSTRIAL RELATIONS PHILOSOPHY/ DIRECTION

ENERGEX is committed to building an organisation that people want to be part of and to create an environment that supports the successful implementation of business strategy. To do this, a core set of Values to guide ENERGEX's behaviour was developed. These Values are:

- Put safety first;
- Respect and support each other;
- Impress our customers;
- Set a great example;
- Be a team player; and
- Deliver balanced results.

ENERGEX has a People Target to ensure that we have:

- The capability, capacity and culture to deliver business outcomes;
- A clear employment offer to meet business needs with commensurate attraction, retention and development strategies and aligned performance / recognition systems;
- Sustainable resourcing outcomes; and
- A balanced set of measures for tracking the performance of our people management strategies.

ENERGEX is well positioned to achieve these.

In 2008, the ENERGEX Employee Relations Strategy was implemented and provided the basis for maintaining an ongoing dialogue between ENERGEX and its staff and their union representatives. The Employee Relations Strategy has assisted ENERGEX to maintain open lines of communication with staff and unions and resolve industrial disputes.

On a day to day basis the Employee Relations Strategy provides managers and employees with the necessary framework for creating and maintaining a positive employee relations climate. The strategy informs managers and employees of the requirements, responsibilities and processes required for a positive employee relations environment and the achievement of sustainable business outcomes. Consistent with a key principle embodied in the strategy, consultation with employees and unions occurred in the development of the strategy.

The ENERGEX approach to engaging employees and their Industrial Representatives as outlined in the Employee Relations Strategy is closely aligned to Queensland Government industrial relations policy.

Over recent years, ENERGEX has invested heavily in recruitment of skilled tradespersons and other technical staff essential for the delivery of a significant program of work (POW). While over 751 new tradespersons have been recruited since the commencement of the accelerated tradesperson recruitment program in mid 2004 to 31 December 2010, the provision of sufficiently skilled internal and external resources to match the requirements of a significant Network POW will remain a key challenge in 2011/12.

To ensure ENERGEX has the capacity to deliver its POW in 2011/12 and future years, ENERGEX has set a sustainable internal resourcing target that will complement existing external contracting arrangements in some key technical skill areas (eg engineering, substation design). Ongoing workforce development programs such as the apprentice program, para-professional

traineeship program and graduate programs will continue to be enhanced and strategies to ensure the retention of key employees will be further developed.

Supporting this is ENERGEX's employment value proposition initiative which commenced in early 2008. Leadership development programs have recently been reviewed and will also be strengthened in 2011/12 to enhance the pool of appropriately skilled and experienced employees to fill leadership roles required for the business in the future.

In addition, strategies to optimise workforce productivity while ensuring the safety and wellbeing of our staff is well managed will be a focus in the coming year. ENERGEX has strong policies and practices in place to manage employee safety and wellbeing, including the management of fatigue and fitness for work. During 2010, the Employee Wellness Program pilot delivered a comprehensive health risk assessment and targeted intervention programs designed to address the key risks and to encourage employees to make healthy lifestyle choices. In 2011, a review will be undertaken of the completed pilot program to consider the programs outcomes and continuity within the business.

An ageing population is expected to increasingly impact upon the energy sector in future years. ENERGEX faces the challenge of managing this impact. In 2011/12, ENERGEX will strengthen its management of ageing workforce issues through the implementation of Maturing Workforce Strategies to ensure the effective participation and management of maturing employees in the organisation. An initiative of the ENERGEX Union Collective Agreement 2008 (EUCA 2008) is the development of a comprehensive Maturing Workforce Strategy that will cover a range of people and work management practices and provide a tailored and integrated approach to maximising the contribution, job satisfaction and wellbeing of maturing employees, while also seeking to proactively ensure the transfer of key organisational knowledge from retiring workers. ENERGEX implemented Phase 1 of this strategy which involved consolidation of existing flexible work arrangements and provides guidance to staff on how to approach conversations with managers about these matters. In 2010, Phase 2 of the pilot program of Transition to Retirement was designed and piloted within ENERGEX. Initial outcomes of the pilot are expected in 2011, when a review will be undertaken to consider further initiatives within this Strategy.

2. Significant and Emerging Issues

The Key industrial issues for the coming year will be:

- Impact of the Fair Work Act 2009 and National Employment Standards
- Managing and monitoring the implementation/impact and any possible amendments to the Electricity Power Industry Award 2010 (Modern Award);
- Implementation of changes in Program of Work Improvement Project
- Implementation of the remaining range of initiatives of the EUCA 2008; and
- Negotiation of a replacement Collective Agreement.

2.1. Impact of The Fair Work Act 2009 and National Employment Standards (NES)

There is already an impact with ENERGEX employees accessing the new rights afforded to them under the NES e.g. right to request flexible working arrangements. ENERGEX has undertaken policy responses to comply with the standards and is actively supporting managers in their implementation.

ENERGEX is monitoring any developments in legislation and case law and will continue to work co-operatively with unions to resolve any issues as per its current consultative arrangements.

2.2. Managing and monitoring the implementation/impact and any possible amendments to the Electricity Power Industry Award 2010 (Modern Award);

The Electricity Power Industry Award 2010 became operative 1 January 2010. The Award is a national award which applies to the whole of the electrical power industry and becomes the safety net award for ENERGEX in any future Union Collective Agreement negotiations.

The Award has no immediate impact upon the conditions of employment in ENERGEX as the EUCA 2008 provides in an overall sense superior conditions.

Amendments to the new Award have already been sought by the CFMEU and the Electricity Power Industry Employers have reserved their position with respect to the prospect of seeking amendments. ENERGEX will continue to take an active interest in the management of the Award going forward and will keep the Department of Justice and Attorney General informed of any developments.

2.3. Program of Work Improvement Project

ENERGEX has initiated a Program of Work Improvement Program which builds on current PoW delivery performance to better support the efficient delivery of the Program of Work through the period 2010 to 2015. The program is implementing efficiencies in all aspects of the PoW delivery chain to support operating within AER funding.

The program is focussed on meeting these requirements through the efficient use of the existing resource base, by examining current work processes and systems and ensuring best practices are in place.

The continuing IR risks associated with this project are employee disputes relating to changed conditions and applications for Voluntary Redundancies. In order to mitigate these risks and clarify employment conditions, ENERGEX and the Unions signed a Memorandum of Understanding in September 2010. ENERGEX have been working collaboratively with the Unions to successfully resolve individual cases as they arise.

2.4. Implementation of EUCA 2008 productivity agreements and negotiation and agreement on EBA 2011

These issues are covered in section 5.

3. Directors/Senior Executive Remuneration

| Non-Executive Directors in Office in 2010/2011 | | | | | |
|--|-----------------|-------------------------------|-------------------------------|-------|--------|
| ENERGEX Limited | | | | | |
| Non-Executive Directors ⁽¹⁾ | Directors' Fees | Committee Fees ⁽³⁾ | Superannuation ⁽²⁾ | Other | Total |
| | \$ | \$ | \$ | \$ | \$ |
| John Dempsey (Chair) | 74,999 | 8,332 | 7500 | N/A | 90,831 |
| Peter Arnison (Director) | 29,166 | 9,722 | 3500 | N/A | 42,388 |
| Mary Boydell (Director) | 29,166 | 9,722 | 3500 | N/A | 42,388 |
| Mat Darveniza (Director) | 31,791 | 9,082 | 0 | N/A | 40,873 |
| John Geldard (Director) | 29,166 | 9,722 | 3500 | N/A | 42,388 |
| Kerryn Newton (Director) | 29,166 | 8,332 | 3375 | N/A | 40,873 |
| Ron Monaghan (Director) | 29,166 | 9,722 | 3500 | N/A | 42,388 |

Notes:

- In accordance with OGOC's disclosure requirements for GOCs' E&IR Plans in the SCI, this table discloses details of Non-Executive Directors in office in 2010/2011 and the amount of fees those directors are entitled to receive annually if all meetings are attended and as if the director were in office for a full year.
- As Mat Darveniza is over 75 years of age, he is no longer eligible for superannuation guarantee contributions. Mat Darveniza is paid fees in lieu of superannuation contributions.
- Committee fees will vary depending on the number and position held within these.

GEO and Senior Executives in Office in 2010/2011

ENERGEX

| Senior Executives | Base Salary ⁽¹⁾ | Employer Superannuation Contributions | Motor Vehicle | Car Park | Other Personal Benefits | Total Fixed Remuneration | Other Non-Personal Benefits | Performance Payment 2009/2010 ⁽²⁾ |
|--|----------------------------|---------------------------------------|---------------|----------|-------------------------|--------------------------|-----------------------------|--|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Chief Executive Officer: Terry Effenev | 551,069 | 55,107 | N/A | N/A | N/A | 606,170 | N/A | 74,885 |
| Executive General Manager Network Performance: Chris Arnold | 340,559 | 34,056 | N/A | N/A | N/A | 374,611 | N/A | 47,644 |
| Executive General Manager Energy Delivery: Bill Lyon | 359,411 | 15,200 | N/A | N/A | N/A | 374,611 | N/A | 46,917 |
| Executive General Manager Network Programming and Procurement: Peter Price | 340,555 | 34,056 | N/A | N/A | N/A | 374,611 | N/A | 47,462 |
| Director Corporate Governance and Company Secretary: Michael Russell | 251,882 | 15,200 | N/A | N/A | N/A | 267,082 | N/A | 31,353 |
| Chief Financial Officer: Darren Busine | 374,727 | 15,200 | N/A | N/A | N/A | 389,927 | N/A | 49,971 |
| Executive General Manager Human Resources: Susan Kehoe | 281,546 | 15,200 | N/A | N/A | N/A | 296,746 | N/A | 35,838 |
| Executive General Manager Customer Services: Peter Weaver | 346,179 | 34,618 | N/A | N/A | N/A | 380,797 | N/A | 48,878 |
| Executive General Manager Strategy and Regulation: Kevin Kehl | 304,907 | 30,492 | N/A | N/A | N/A | 335,399 | N/A | 43,797 |

Notes:

- Includes salary sacrifice items plus cash salary.
- Performance Payments will be determined after 30 June 2011 based on achievement of corporate targets, divisional results and individual behaviour, with a maximum payment of 15% of Total Fixed Remuneration.

4. Employment Conditions

Generally, ENERGEX employees are employed under the EUCA 2008. The Agreement is a comprehensive document which replaced the terms of a Preserved State Agreement (PSA) and incorporates provisions from the former State-based industrial instruments.

The EUCA 2008 was negotiated in accordance with Government policy guidelines on 'Agreement Making in Government Owned Corporations' and was lodged with the Workplace Authority on 13 October 2008, with a nominal expiry date of 13 October 2011. This agreement covered the enterprise bargaining arrangements of 3619 ENERGEX employees and provided wage increases of 4.5% for each year of this three year agreement.

383 employees are covered by "Alternative Employment Arrangements" provided for in the EUCA 2008. These "Alternative Employment Arrangements" are voluntary.

Consistent with the provisions of the former Certified Agreements, ENERGEX employees are expected to work not more than 36.25 hours per week (Monday to Friday) over a nine day fortnight.

Certain categories of ENERGEX employees have the option of working a flexible ten day fortnight (80 hours per fortnight) in accordance with the provisions of the EUCA 2008. An employee who elects this option is entitled to receive a 13% or 15.5% all purpose salary loading depending on the employee's designated salary level.

A variation to the ten day (80 hour) fortnight is also available to certain senior/supervisory staff who accept the offer of a "Senior Staff Agreement". The Senior Staff Agreement is an Alternative Employment Agreement enabled through the provisions of the EUCA 2008. 262 employees are currently accessing the Senior Staff Agreement. The Senior Staff Agreement is intended to provide an appropriate level of flexibility in the hours of work of this level of employee (who are predominantly senior field-based employees) in return for an increase in superannuable salary. The Senior Staff Agreement also provides other employee benefits, such as unlimited sick leave and subsidised private use of company vehicles.

ENERGEX has achieved flexibility in the hours of work for certain Agreement-based employees through the provision of a 'Non Executive Employment Agreement'. The Non Executive Employment Agreement is also provided for in the EUCA 2008. 104 employees are currently accessing the Non Executive Contract provisions. The Non Executive Employment Agreement provides a range of salary and non salary related employee benefits. The Non Executive Employment Agreement provides ENERGEX with a mechanism to attract and retain high quality employees in a specialised job market, whilst delivering flexibility in hours of work and work patterns and the ability for employees to salary sacrifice for additional employee benefits.

ENERGEX supports a preference for the regulation of employment conditions via collective agreements with unions.

ENERGEX offers above-Agreement common law contracts for 137 executive staff and 27 senior professional and specialist staff.

ENERGEX is fully compliant with the Queensland Government's *Minimum Employment, Industrial Relations and Job Security Principles for Government Owned Corporation (GOC) Employees* (September 2010) (Appendix 1).

Where there are differences between the conditions contained in the *Minimum Employment, Industrial Relations and Job Security Principles for Government Owned Corporation (GOC) Employees* (September 2010) and those contained in ENERGEX's industrial instruments or policies the provisions from ENERGEX's industrial instruments or policies prevail which provides at least equivalent or more beneficial conditions.

4.1. Remuneration Arrangements

ENERGEX's remuneration strategy is designed to support the attraction and retention of talent, and to help drive an engaged and high performance workforce. It achieves this through market competitive fixed and variable remuneration practices which operate within the governance framework of Government Owned Corporations.

4.1.1 Fixed Remuneration

Agreement

The fixed remuneration framework for employees covered by the EUCA 2008 is outlined within the Agreement. Within this framework, employees are allocated to a job family stream, grade and employee classification, which determines the remuneration range. Under the provisions of the EUCA, 2008 many employees have an option of a ten day fortnight (40 hours per week) or a nine day fortnight (72.5 hours over nine days).

Executives

Executive level positions are assigned to a remuneration range through a combination of job matching to grade descriptions and the use of the Hay job evaluation methodology. Specific guidelines are applied when determining an executive's remuneration at the time of appointment. Positioning of the executive's remuneration within the range reflects demonstrated skills and performance as well as market factors specific to the position and incumbent, including scarcity and criticality of skills.

Consistent with the government direction to cap executive remuneration at the 50th percentile of a benchmarked market index, ENERGEX has aligned its executive remuneration ranges to broadly match the market median using the Hay Industrial and Services Index. At the discretion of the CEO, there exists a provision to extend payment by up to 10% over that range for certain appointments in exceptional circumstances.

Remuneration ranges are reviewed annually and, subject to the approval by the CEO in consultation with the Board, adjusted to take into account the relevant market benchmark movement.

Senior Executives

Consistent with the government direction to pay fixed remuneration up to the 50th percentile of a benchmarked market index, ENERGEX pays fixed remuneration for senior executives between the 25th and 50th percentiles of the Hay Group Industrial and Services market index. Positioning of an individual's remuneration within the range reflects demonstrated skills and performance as well as market factors specific to the position and incumbent, including scarcity and criticality of skills.

These principles are also applied in considering any annual salary review increase.

4.1.2 Variable Remuneration

ENERGEX's performance pay plans are aimed at aligning individual performance and behaviour to the achievement of core business objectives. These plans comply with the recommendations from the Review of Performance Payments by the Government (the Review) and have been approved by shareholding Ministers.

Agreement

Employees who are covered by the EUCA 2008 may, at the absolute discretion of ENERGEX, participate in an annual performance pay plan which is currently linked to the achievement of four corporate objectives: Safety, Financial Performance; Operational Excellence (Program of Work); and Customers. The size of the total pool available for distribution each year is determined by the CEO, however will not exceed the maximum pool of 6% of participating employee salaries. While the size of the pool is primarily driven by the achievement of communicated targets, it remains

subject to an analysis of the overall quality of the result and an assessment of market and economic factors.

Once the size of the total performance pay pool has been determined, the CEO distributes the pool amongst the Divisions based on a relative assessment of Divisional performance, as well as other qualitative factors.

The extent to which individuals share in the pool is then based on the relative performance of the Division, as well as individual performance outcomes assessed against agreed performance objectives and the demonstration of corporate values and behaviours.

The maximum payment to any individual employee is capped at 20% of eligible salary.

Executives / Senior Executives

ENERGEX operates an Executive performance pay plan that rewards executives for their contribution to the previous year's Corporate and Division outcomes. Performance is assessed relative to pre-determined objectives using a balanced scorecard system, with measures that are directly linked to the Statement of Corporate Intent (SCI). This system was chosen to focus ENERGEX's most senior employees on achieving a balance of financial and non-financial business objectives.

In addition to the measures outlined within the balanced scorecard, the demonstration of ENERGEX Leadership Capabilities is a component of performance measurement, particularly at the most senior levels. The focus is not only on the achievement of balanced scorecard objectives, but also how they are achieved and the behaviours that are exhibited in achieving those goals.

The maximum payment to any individual employee under the Executive performance pay plan is capped at 15% of eligible Total Fixed Remuneration.

5. Enterprise Bargaining and Productivity Initiatives

5.1. ENERGETX Union Collective Agreement 2008;

The EUCA 2008 was lodged with the Workplace Authority on 13 October 2008, with a nominal expiry date of 13 October 2011. This Agreement covered the enterprise bargaining arrangements of 3732 Agreement-based ENERGETX employees and provided wage increases of 4.5% for each year of this three year agreement.

5.2. Implementation of the range of initiatives of the EUCA 2008;

The realisation of agreed productivity measures is essential to assist ENERGETX meet increased labour costs within the constraints of the previous funding decision of the Queensland Competition Authority and in consideration of the current framework of the Australian Energy Regulator.

To ensure such productivity measures are achieved, ENERGETX has dedicated numbers of personnel and resources to ensure that the productivity initiatives negotiated in the Agreement are realised.

In 2011/12, as part of ensuring that ENERGETX employment and industrial relations policies and practices continue to achieve greater employee engagement and to provide an environment that supports people to accomplish Corporate Objectives, continued review of human resource polices, practices and procedures will take place.

5.3. Productivity Initiatives

| Productivity program | Source of productivity initiative | Target | Achievement to date | Action required if target/s not met | Other Comments / explanation |
|--|-----------------------------------|--------------------------|---|---|--|
| Impairment testing for alcohol or other drugs | EUCA 2008 | \$3M over 3 years | Union agreement achieved on Policy and testing regime. Roll out of policy and corresponding training set to commence in early 2011. | Continue to roll out and enforce policy | As policy is only in roll out phase savings have not been realised as of this date. |
| Simple cable identification and spiking to be undertaken by contractors in the CBD | EUCA 2008 | \$0.24M over three years | Projected program or work requiring performance of this activity has not be realised and as an outcome targeted savings have not be achieved. | No action | Target savings are unable to be reached. Savings allocated to this productivity initiative may be financed by additional savings achieved through implementation of FFA. |
| Commitment of parties to supporting the continued implementation of Field Force Automation (FFA) | EUCA 2008 | \$9M over three years | FFA has continued to be deployed with the Field Services Group. ENERGETX Energy Delivery Transformation Group and the Program of Work Improvement Project are implementing new functionality through a range of initiatives. Target savings have been achieved. | No action | Target savings achieved |

5.4. Preparation for next Enterprise Bargaining Agreement.

ENERGEX has commenced preparation for a replacement Enterprise Bargaining Agreement to be negotiated in 2011. The nominal expiry date of the current enterprise agreement is 13 October 2011.

The Negotiation Framework and Cabinet Budget Review Committee (CBRC) submission has been approved. The CBRC submission was developed in line with the Government Owned Corporations Wages Policy 2010.

Negotiations for the replacement Agreement are set down to commence 18 May 2011.

Historically the unions have not hesitated to escalate issues over which they feel strongly, such as external contractor issues, however, there has recently been an increase in the number of challenges to management decision making. Key ENERGEX Projects including, Program of Work Improvement Project (POWIP) and the Property Strategy have been subject to a high degree of union interest and involvement notwithstanding extensive consultation with affected employees and unions.

There are a number of current issues in the prevailing industrial relations climate which might influence outcomes, including:

Fair Work Legislation

This replacement Agreement will be the first ENERGEX Agreement to be negotiated under the *Fair Work Act 2009 (Cth) (FWA)*. The introduction of the federal Fair Work legislation has seen the removal of the majority of 'prohibited content' contained under the Work Choices legislation.

ENERGEX maintained pre-WorkChoices conditions of employment, which became prohibited content within the EUCA2008 via an exchange of letters. Despite this, Unions are likely to seek further enhancements to clauses relating to consultation, use of contractors, entitlements for union delegates and unions.

Introduction of the FWA has seen a number of changes to enterprise bargaining provisions, including:

- Who may be nominated as a Bargaining Representative (now encompassing individual employees and unions who have not traditionally been part of ENERGEX negotiations) ;
- Legislation of Good Faith Bargaining provisions; and
- Agreement application and approval requirements.

State of Queensland Economy

The Queensland Economy is continuing to grow, despite the effects of the global economic crisis. Population continues to grow with an estimated increase of 2.4% from December 2008 to December 2009. The demand for energy services to service the growth will act as a catalyst for higher wage expectations from unions.

As a result of forecast increases in network expenditure to ensure the safety and reliable supply of electricity to Queensland households and businesses, the cost of Queensland's regulated retail electricity prices are expected to continue to rise. Such cost increases are expected to effect public opinion during the bargaining period and will have a direct impact on the effectiveness of Industry Union campaigns.

Use of Contractors

Due to the introduction of Work Choices and the issues around the *Australian Building Construction Industry Improvement Act*, provisions about the use of contractors were prohibited from inclusion in the EUCA 2008. Despite this ENERGEX continued to apply use of contractor arrangements consistent with Government Policy and shareholder expectations. Further, previous practice with respect to engagement of contractors in ENERGEX was maintained.

The use of external contractors in the electricity industry has been contentious over a number of years and with the introduction of the FWA the ETU have indicated that they will be seeking the reintroduction of a Use of Contractors Agreement. It is anticipated that the unions will be campaigning to impose greater restrictions on the engagement of contractors through this Agreement.

In discussing a Use of Contractors clause with the Unions, consideration will need to be given to potential contraventions of the *Competition and Consumer Act 2010* (formerly known as the *Trade Practices Act 1974*)

Union position / Attitude

ENERGEX has consistently provided 4.5% annual increases to wages and further increases to allowances over the last number of enterprise bargaining agreements. These wage outcomes to date will strongly influence the expectations of ENERGEX staff and industry unions.

ENERGEX is currently operating in a buoyant labour market, characterised by high levels of employment with strong competition for skilled employees. Approval of the National Broadband Network initiative, together with the new Coal Seem Gas/Liquid Natural Gas developments in Queensland, is expected to further increase the competition for skilled workers in the up coming years.

Due to an extended bargaining period during the EUCA 2008 negotiations application of a wage increase was delayed 3 months. The 2005 CA nominally expired 16 March 2008 and the EUCA 2008 wage increase was back paid to June 2008 with further wage increase dates in October each year. It is expected that employees will want to ensure that negotiations are not drawn out, or that retrospective payment can be secured in the 2011 agreement.

To minimise the above risks, negotiations will be conducted in accordance with *the Fair Work Act 2009* and as follows:

- Nominated bargaining representatives, union officials and ENERGEX General Managers and Industrial Relations staff will be involved in negotiations;
- Should the number of Bargaining Representatives hinder the negotiation process, ENERGEX may choose to utilise Fair Work Australia to assist in reducing numbers in a fair and equitable manner;
- ENERGEX will seek to undertake Interest Based Bargaining where-ever possible in seeking to reach agreement;
- Negotiations will be facilitated by an external consultant;
- The Queensland Government guidelines "Agreement Making in Government Owned Corporations" will be adhered to throughout the negotiation process;
- Should negotiations reach an impasse, ENERGEX may utilise the services of Fair Work Australia (FWA) or an independent mediator to assist the parties;
- ENERGEX will also formally apply to FWA for assistance should industrial action be threatened or if the union position is irreconcilable within the parameters of this framework; and
- ENERGEX will undertake proactive communication and engagement of staff throughout the bargaining process to increase trust and ensure staff are kept informed.

6. Employee Flexibility

Summary of current or proposed policies and / or practices that support employees with family responsibilities.

| Policy / Practice | Y/N | Brief Detail of Key Provisions |
|--|-----|--|
| Part time arrangements | Y | Part time employment is available for employees at the discretion of ENERGEX and in response to a right for flexibility request under the NES, or as part of return to work after a period of maternity leave. |
| Flexible Working hours | Y | The EUCA 2008 provides for a span of hours to be worked from 6:00 am to 6:30 pm Monday to Friday. Alternate arrangements are available under this Agreement. |
| Reduced working year | Y | The EUCA 2008 provides that employees can apply for purchased leave to allow for an additional 4 weeks annual leave. |
| Paid Maternity / Paternity / Adoption Leave | Y | The EUCA 2008 provides that employees with 12 months continuous service are eligible for 14 weeks paid parental leave. Parental leave is available for the purposes of Adoption and Maternity Leave. One weeks paid leave is available for paternity leave and 7 weeks unpaid paternity leave is available for employees. ENERGEX administers the Federal Paid Parental Leave payments to employees as determined by the Family Assistance Office guidelines, which currently provides for a possible additional 18 weeks at the Federal Minimum Wage. |
| Unpaid Parental Leave | Y | For the primary care giver periods of unpaid leave can be extended up two years (including any paid parental leave period). These arrangements also apply to ENERGEX employees who adopt children under the age of 5 who are not a child or step child of the employee, or of the spouse of the employee. |
| Telecommuting (Work from home) | Y | ENERGEX has a Home Based Work Policy which deals with ad hoc or occasional requests to ongoing arrangements. |
| The ability to negotiate and introduce further "Alternative Employment Arrangements" | Y | Negotiation by agreement with industry unions and affected staff. |
| "Alternative Employment Arrangements" | Y | Non-Executive Employment Agreements for professional and specialist Award- based staff; A Senior Staff Agreement for field-based supervisors and paraprofessionals; and A ten day fortnight agreement, in lieu of the standard nine day fortnight, for non-field based employees. |

ENERGEX is committed to providing employment conditions that are both competitive and meet the needs of its workforce. In addition to the range of flexible work practices (part time work, family friendly policies and working from home) provided in ENERGEX industrial instruments and

policies, the National Employment Standards provide a right for employees who have children under school age to request flexible working arrangements.

ENERGEX has a complement of development programs and educational support programs aimed at providing a strong and attractive employment offer for our staff.

7. Type of Employment and Workforce Planning

As at 31 December 2010 ENERGEX had 3,824.2 full-time equivalent (FTE) employees. This number consists of:

- ◆ 9 positions that have “senior executive” status;
- ◆ 136 .5 FTE employees on executive contracts;
- ◆ 26 Employees on Individual Employment Agreements; and
- ◆ 3,653.7 FTE employees covered by the ENERGEX Union Collective Agreement 2008.

7.1. Use of Apprentices and Trainees

ENERGEX notes Government's 2009 election commitment to maintain 5,000 public sector apprenticeships and trainee positions over four years to April 2013 across the Queensland public sector agencies, Government Owned Corporations, government departments and statutory authorities.

ENERGEX's workforce planning and employment policies are underpinned by a clear recognition of the need for a skilled and viable workforce which takes into account the need for on-going renewal and appropriate training to ensure there is sufficient capacity within the organisation to replace retiring or departing employees. Apprentices and trainees are an important part of this forward planning and ENERGEX therefore supports the Government's commitment. ENERGEX will continue to make available apprenticeship and trainee opportunities consistent with its workforce planning, training programs and business needs."

At the end of December 2010, ENERGEX had a total of 343 apprentices employed in a range of trades including electrical fitter/mechanics, overhead linespersons and cable jointers. A further 43 apprentices commenced in January 2011. The apprenticeship program continues to be reviewed by ENERGEX's Resource Development Department and Executive to ensure it meets the developmental needs of the employees and is consistent with business requirements.

ENERGEX currently has 11 full time cadet para-professional trainees undergoing structured training to provide additional support in the design, protection testing and metering fields. There are an additional 45 employees participating in one of four part time Cadet programs. Two of these programs are due to finish in June 2011, with 26 employees expected to graduate.

ENERGEX's technical training unit, EsiTrain, provides statutory and electricity supply industry training for apprentices, trainees and external customers as a Registered Training Organisation based at its dedicated site at Rocklea. A broad range of training covering line work, cable jointing, metering, high voltage and substation training is available as nationally accredited content, with all weather facilities established. Increasing emphasis on e-learning supported through a new on-site computer laboratory enhances EsiTrain's efficiency in delivery and accessibility to its products for a broadening range of customers. Additionally, industry and community engagement is fostered through the implementation and furthering of the national skills passport initiative to provide pathways of support in times of national emergencies and mutual aid. EsiTrain continues to align its services and facilities with the skill development requirements of the field workforce.

7.2. Workforce Planning

In 2011/12, ENERGEX will update its strategic workforce plan to ensure it maintains the people numbers and skills to achieve its strategic objectives and meet customer, community and shareholder expectations. Continuing to build on the existing workforce plan, targeted initiatives to position ENERGEX to attract and retain key occupational groups will be implemented. To support this, priority outcomes of the strategic workforce plan will continue to be rolled out to underpin ongoing attraction and retention strategies for occupational groups essential for successful delivery of organisational priorities.

An annual review of the workforce planning numbers to refine labour demand estimates is undertaken each year in alignment with the business planning and the budget setting process. This annual integration of workforce planning with the budget setting process ensures a coordinated approach to resource management.

Forecast employee numbers identified through workforce planning are detailed in the table below.

| Employment Category ⁽¹⁾ | 30 June 2010 (Actual) | 30 June 2011 (Plan) | 30 June 2012 ^(4,5) | 30 June 2013 ⁽⁵⁾ | 30 June 2014 ⁽⁵⁾ |
|--|--------------------------|------------------------|-------------------------------|-----------------------------|-----------------------------|
| • Permanent Full Time | 3305.6 | 3578 | 3578 | 3578 | 3578 |
| • Permanent Part-time (FTE) ^{(2), (3)} | N/A | N/A | N/A | N/A | N/A |
| • Other Contract (Executive) | 136.5 | 135 | 135 | 135 | 135 |
| • Senior Executive Contract | 9 | 9 | 9 | 9 | 9 |
| • Apprentices (In House) | 338 | 354 | 354 | 354 | 354 |
| • Trainees (In House) | 15 | 14 | 14 | 14 | 14 |
| • Casual Employees (FTE) ⁽³⁾ | N/A | N/A | N/A | N/A | N/A |
| Total Directly Employed Workforce ⁽¹⁾ | 3804.1 409 | 0 | 4090 | 4090 | 4090 |
| • Apprentices (Group) | N/A | N/A | N/A | N/A | N/A |
| • Trainees (Group) | N/A | N/A | N/A | N/A | N/A |
| • Contractor Employees (Trade/Technical) | | | | | |
| • Contractor Employees (Professional/Administrative /Clerical) | | | | | |
| • Labour Hire (Trade/Technical - FTE) | | | | | |
| • Labour Hire (Professional/Administrative /Clerical - FTE) | | | | | |
| s457 Temporary Visa ⁽⁶⁾ | 15 15 | 0 | 15 | 15 | 15 |
| Total Workforce ⁽¹⁾ | 3804.1 409 | 0 | 4090 | 4090 | 4090 |

ENERGEX does not currently maintain records of contractors and labour hire staff in reportable FTE format. Projections for the use of contractors/labour hire staff in trade and technical areas are made as dollar value estimates. ENERGEX had 15 sponsored employees on s457 temporary visas as at the end of December 2010.

Notes:

1. FTE = Full Time Equivalent employee number.
2. Part-time and casual requirements not forecast separately through workforce planning, but are included in the total FTEs.
3. FTE numbers for these categories are not applicable for ENERGEX.
4. Draft Corporate Plan and SCI, including budgeted FTEs for this period, will be submitted to shareholding Ministers by 31 March 2011, in accordance with Sections 97 and 107 of the GOC Act.
5. Figures are based on 2011 Budget and are indicative only.
6. Included within Total Directly Employed Workforce total.

7.3. Key Workforce Planning Challenges

Some of the major workforce planning challenges that face ENERGEX include:

- ◆ The requirement to sustainably maintain workforce number and skills to resource the PoW;
- ◆ Attracting and retaining critical staff in a niche labour market;
- ◆ A maturing workforce profile in some key occupational categories (eg. electrical system designers/advisers, engineers and power workers) and the associated need to achieve effective transfer of these workers' knowledge and skills to priority areas of ENERGEX;
- ◆ Balancing the use of contract labour to manage peak workload demand whilst ensuring the effective utilisation of ENERGEX's existing workforce is maintained;
- ◆ Assessing the impact of future trends in technology and the appropriate skill mix required to sustain implementation of any related initiatives;
- ◆ Maintaining an adequate forward looking view of labour demand to guide AER funding requirements; and
- ◆ Monitoring productivity and throughput improvements that result from the Program of Work Improvement Project functional and process realignments and the subsequent impacts on demand for labour.

These challenges will be addressed through a number of strategies associated with workforce planning, recruitment, raising awareness of both financial and non-financial employment conditions, training and development, talent management, knowledge transfer initiatives, effective utilisation of apprentices, leadership development programs, use of contract resources and workplace practice change to leverage existing skills and resources. An integrated approach to the management of workforce capability and capacity issues will mitigate the business risk associated with people capability, with resources appropriately directed towards achieving the greatest benefit for customers, shareholders and the community.

7.4. Workforce Capacity and Capability Building

ENERGEX has achieved positive recruitment outcomes in key occupational groups such as field staff, apprentices, para-professional cadets, graduate engineers and experienced engineers. Since the commencement of an intensive field workforce recruitment campaign in mid 2004, ENERGEX has increased the size of its field workforce (includes technical servicepersons and power workers) by 437.2 FTE. This campaign has successfully built the ENERGEX workforce to an effective capacity with an appropriate skill level enabling proficient development and maintenance of the network to meet customer and community expectations. In order to maintain the required workforce capacity and capability, in 2010, 10 technical servicepersons and 91 apprentices were recruited and 56 apprentices completed their apprenticeship and were subsequently employed.

Being a niche industry, people with the appropriate technical skills continue to be difficult to find in the labour market, thus ENERGEX are training our own via apprenticeships, making ENERGEX Queensland's largest employer of electrical apprentices. ENERGEX also continue to focus recruitment efforts with the current priority recruitment needs being:

- ◆ Experienced tradespersons (ie. electrical fitter mechanics and linespersons);
- ◆ Related technical roles (ie. designers, technical officers, field test technicians, SCADA technicians);
- ◆ Project Managers;

- ◆ Regulatory Professionals; and
- ◆ Experienced electrical engineers.

ENERGEX will continue its successful strategy to achieve sustainable growth as well as maintain workforce capability and capacity in the current changing labour market through:

- ◆ Continued local, interstate and international recruitment campaigns to access new candidate pools for niche job roles;
- ◆ Ongoing enhancements to training and placement strategies to enable the integration of an increased number of apprentices and tradespeople without electricity utility experience;
- ◆ Use of power worker roles to support tradespersons where this will facilitate better use of critical skill sets;
- ◆ Continued apprentice intakes to provide future tradesperson resources;
- ◆ Expansion of the graduate engineer program and the para-professional cadetship programmes, as well as a targeted professional development initiative for the non-graduate engineer population;
- ◆ Succession planning and maturing workforce initiatives to facilitate knowledge transfer and mitigate the impacts of an ageing workforce;
- ◆ Ongoing monitoring of the sourcing strategy and internal recruitment process that addresses recruitment process effectiveness, candidate experience, and employment branding and candidate attraction factors in an integrated manner; and
- ◆ Continuing to work with educational bodies to ensure the curriculum of certified courses cater to emerging skill requirements.

Transfer and promotion from internal sources remains a primary strategy for those critical roles where a combination of industry and ENERGEX specific knowledge is required. Skill training, leadership development and talent management strategies will be employed to develop and build internal capability.

ENERGEX's investment in organisational learning and development is intended to ensure that the workforce has the capabilities required to deliver on strategic objectives and enable employees to access appropriate career development programs. Our investment incorporates a suite of core professional and business skills training programs for all staff. In 2011/12, leadership development will continue to be based on an ENERGEX leadership capability model, and an aligned suite of leadership programs targeted at various leadership levels. This includes programs such as the Frontline Leadership Development Program, Employee In Charge Program and the Workplace Learning Program.

ENERGEX continues to provide leadership within the energy industry training agenda through development of new and existing relationships with relevant industry training partners and strong representation on industry bodies such as Energy Skills Queensland. ENERGEX is continuing to work jointly with Ergon Energy and across industry on the development of best practice and consistent technical training approaches, and also has strong linkages with the TAFE and university systems.

8. Workplace Health and Safety

ENERGEX utilises management systems in compliance with Australian Standard 4801 'Occupational Health and Safety Management Systems'. This standard provides the elements of a safety management system and enables ENERGEX to identify and manage risk activities that have the potential to impact on the safety and wellbeing of staff and the community. ENERGEX is regularly audited by the external agency NATA Certification Services International. ENERGEX again successfully passed the Safety Management Systems audit in October 2010.

The findings of the 2010 NATA Certification Service International (NCSI) audit of ENERGEX against the Australian Standard AS 4801 Occupational Health and Safety Systems resulted in no Non-Conformances being identified. Both the audit findings and the ENERGEX action plans are available for viewing if required. NCSI conduct audits on an annual basis as part of a surveillance program to reconfirm ENERGEX's certification to AS 4801. Several audits will be conducted in 2011 across the various parts of the business covered by the scope of this certification (i.e. primarily Energy Delivery, Network Performance and Network Programming and Procurement Divisions) at dates yet to be confirmed. The 2011 audit program will be available for viewing once confirmed with NCSI.

Lost Time Injury Frequency Rate (LTIFR), Lost Time Injury Severity Rate (LTISR) and Compensable Claims Frequency Rate – Severity (CCFRS), which reflects all accepted WorkCover claims with a severity resulting in a claim length greater than 14 calendar days (plus all LTI's, regardless of length) are the main measures of ENERGEX's safety performance. The lost time injury frequency rate has remained at industry near best performance levels over the last 12 months. ENERGEX also measures Compensable Claims Frequency Rate (CCFR), which captures all accepted WorkCover claims, as well as the All Injuries Frequency Rate (AIFR), which captures both LTIs and medical treatment injury cases. The CCFR and AIFR have both shown a steady decline over the past 12 months. To reinforce the importance of reducing injuries / incidents and to maintain management and staff commitment, these indicators and targets are built into performance agreements at all levels of the organisation.

Safety Performance Measures

| | 2007/ 2008 | 2008 / 2009 | 2009 / 2010 |
|--|------------|-------------|-------------|
| Lost Time Injury Frequency Rate | 3.62 | 2.34 | 1.00 |
| Lost Time Injury Severity Rate | 139.12 | 58.17 | 9.81 |
| Compensable Claims Frequency Rate | 4.69 | 5.15 | 4.91 |
| Compensable Claims Frequency Rate – Severity * | N/A* | N/A* | 2.99 |
| All Injuries Frequency Rate | 18.24 | 10.96 | 9.39 |

*CCFRS was introduced as a measure in 2009

The Health & Safety Strategy 2011/12 involves:

- Revising key areas of risk previously identified as pertaining to the business and assessing the effectiveness of strategies employed to address these risks;
- Identifying additional areas of risk that have been raised during the past 12 months through incidents, investigations and feedback;
- Continuing cultural change programs to enhance safe behaviour;
- Enhancing data capture systems and reporting to better measure safety-related incidents and trends, and producing lead and lag measures targeting safety improvements; and
- Benchmarking against best safety practice organisations to identify programs, processes and initiatives to take ENERGEX to the next level of safety performance.

New and continuing strategies to improve the organisation's safety performance include:

- Continued deployment of key projects formed under the H&S Strategic Plan, including:
 - Working live LV;
 - Switching review;
 - Operating plant, tools and equipment;
 - Manual tasks;
 - Driving vehicles; and
 - Drug and Alcohol Program;
- Development of projects for other recognised risks that require addressing, including fatigue, health & wellbeing and an ageing workforce.
- Continued deployment of the Zero Incident Process (ZIP) throughout ENERGEX and further enhancement of the ZIP embedding process.

ENERGEX continues to focus on the provision of rehabilitation and disability management strategies to ensure individual cases are managed to enable injured employees to return to productive work as quickly as possible. Programs of suitable duties are made available to assist in the early return to work where appropriate.

The increase in the PoW has also seen an increase in the use of contractor services. In response to this, ENERGEX has increased its focus on and resources allocated to ensuring contractor safety programs and performance meet ENERGEX's standards.

ENERGEX has reinforced a focus on safety by nominating safety as its first priority, and progress towards a zero injuries workplace is a key performance goal across the entire ENERGEX Group.

ENERGEX will continue to appoint a qualified person as workplace health and safety officer in its workplace(s) where 30 or more workers are normally employed at the workplace.

9. Equal Employment Opportunity and Anti-discrimination (EEO)

ENERGEX ensures the principles of merit and equity are upheld in all processes associated with recruitment, selection and promotion of its employees. ENERGEX is firmly committed to a policy of equal opportunity in employment. Consequently, ENERGEX seeks to take action to ensure that people with comparable skills and qualifications have an equal chance of obtaining employment and advancing within the organisation.

ENERGEX's values, policies, industrial instruments and practices support gender diversity to the extent that is practical in the energy industry. ENERGEX aims to ensure that the demographics of its workforce moves over time to be better reflective of the customer base for which it serves. It is noted that women, in particular, are under-represented in power engineering and electrical trades. Workforce statistics indicate that ENERGEX's practices are supporting a workforce that is consistent with industry benchmarks on workforce diversity.

ENERGEX implements a number of methods to ensure the deployment of EEO strategies. These include staff inductions, circulation of EEO and harassment brochures to employees, inclusion of policy statements on the Intranet and EEO/harassment briefings for managers and staff. In 2010, ENERGEX continued organisation-wide awareness sessions to update all employees on equity and diversity issues and related policies. New employees continue to attend these sessions via Corporate, Esi-Train and Apprentice Inductions and specialised courses. Additionally, ENERGEX has developed a network of trained Employee Contact Officers to provide information and support to employees pertaining to the informal resolution of Equity and Diversity related complaints (for example, workplace harassment or discrimination).

In addition to formal consultation processes used to develop the EEO Management Plan and deploy policies throughout the organisation, ENERGEX continues to work with various specialist agencies and organisations to develop and progress EEO initiatives.

An example of a current ENERGEX EEO initiative is the ENERGEX Positive Power Program, which will commence in February 2011. This initiative is aimed at seeking people within the ATSI target group to undertake a Certificate II in Skills for Work and Training as part of an 18 week course. The program will provide individuals with the foundation numeracy and literacy skills that

will assist them throughout an apprenticeship. All applicants will have the opportunity to apply for an ENERGEX apprenticeship on completion of the program.

ENERGEX work and family policies reflect the provisions of the EUCA 2008 and the FWA. A range of related policies and practices have been implemented such as Purchased Leave, Home Based Work, Job Share, Part-time, Transition to Retirement Program, Special Responsibility Leave and Parental Leave.

ENERGEX utilises a job evaluation system that allows for the objective assessment of work value. The system is based on the Hay methodology that ensures all ENERGEX staff receive equal pay for work of equal or comparable value.

ENERGEX measures the effectiveness of EEO strategies by way of an annual review of statistical data. The annual ENERGEX Staff Survey process also includes measures of equity and work/family balance issues.

ENERGEX will give the Public Service Commissioner a report about the outcome of its actions required under section 30 of the *Public Service Act 2008* during the financial year. This will be provided no later than three months after financial year end.

10. Interstate and Overseas Operations

A small number of employees are based in New South Wales, South Australia and Victoria in the Metering Dynamics function of the business. These employees are non-award employees subject to common law contracts. Any terms and conditions of these contracts are no less favourable than the EUCA 2008 and the applicable employment provisions in Queensland.

11. Joint Ventures

ENERGEX has one joint venture, SPARQ, which is 50% owned by ENERGEX and 50% by Ergon Energy. SPARQ provides information technology (IT) services and holds the IT assets of ENERGEX and Ergon Energy. A Union Collective Agreement was negotiated for these Employees and is being administered through Ergon Energy. An additional Employment and IR Plan has been prepared for this entity and will be submitted by SPARQ.

12. Management of the Relationship between GOCs and Unions

ENERGEX strives to maintain a consultative approach with unions and employees. To support this approach, ENERGEX has an Employee Relations Strategy as a means to support:

- workforce safety;
- workforce capability;
- staff engagement; and
- a high performance customer service culture.

Meaningful consultation with unions, delegates, employees and other stakeholders is a fundamental principle of the Employee Relations Strategy. The Employee Relations Strategy delivers a clear statement of ENERGEX's preferred approach to industrial relations and provides managers and employees with the necessary consultative framework for creating a positive industrial relations environment. ENERGEX considers that the responsibility for achieving a positive industrial relations climate is a shared responsibility. In this regard a number of joint consultative committees have been established to allow for open communication and problem solving at the local level. These committees typically consist of an equal number of management and union representatives and operate in accordance with the arrangements determined between the relevant union officers and ENERGEX management.

ENERGEX will continue to review the Employee Relations Strategy to ensure the consultative framework meets the needs of employees and their unions and helps the business deliver on shareholder and customer expectations.

13. Redundancy Provisions

The EUCA 2008 contains provisions that cover redundancy arrangements.

The following redundancy payments are contained in the Agreement:

- ◆ An ex-gratia payment of three weeks pay per year of service (pro-rata part years) to a maximum of 75 weeks;
- ◆ An early separation incentive payment of 13 weeks ordinary pay where applicable; and
- ◆ An entitlement to and pro-rata payout of annual and long service leave.

ENERGEX strives to ensure employees are maintained in meaningful employment and the ENERGEX Employee Transition Program assists in the redeployment of employees whose positions have been made redundant.

14. Job Security

ENERGEX has recommitted to 'Security of Employment' through provisions in the EUCA 2008. These provisions provide a guarantee of 'no forced redundancies'. This commitment is given subject to an employee accepting suitable alternative employment within a 50 kilometre radius of their current work location, and no forced relocation beyond the 50 kilometre radius.

15. Contracting Out

ENERGEX is committed to orderly and sustainable best practices in relation to the use of contractors, the use of labour hire agreements and the employment of skilled overseas staff to cover labour shortages through employer sponsored Temporary Long Stay Subclass 457 Visas. In relation to the latter, measures are being taken to ensure that the relevant skills will be developed and available locally in the longer term as ENERGEX continues to employ significant numbers of apprentices in this regard. ENERGEX currently sponsors 15 people under the Department of Immigration and Citizenship's employer sponsored Temporary Business Long Stay Subclass 457, as at December 2010. As a minimum, employees engaged under Temporary Business Long Stay Subclass 457 visas are employed on the same terms and conditions as EUCA agreement staff and in accordance with both migration legislation and the Fair Work Act. The employee positions include engineering professionals and electrical tradespersons.

ENERGEX continues to utilise external resources to support its permanent labour force in the completion of core work. ENERGEX undertakes an audit process to ensure contractors engaged have the correct occupational licenses and that their qualifications comply with Government requirements and that the contract tendering and award process complies with the *Competition and Consumer Act 2010* (formerly known as the *Trade Practices Act 1974*) and the *Building and Construction Industry Improvement Act 2005*.

16. Superannuation

EUCA 2008 requires ENERGEX to pay superannuation contributions on behalf of employees covered by the Certified Agreement to their nominated superannuation fund in accordance with the *Superannuation Legislation Amendment (Choice of Superannuation Funds) Act 2004*.

ENERGEX has nominated Energy Super as the fund to receive contributions in the event an employee does not nominate a fund.

As at the end of December 2010, ENERGEX was making superannuation contributions to the following superannuation funds.

- Energy Super – Defined Contribution (for approx 2,700 employees);
- Energy Super – Defined Benefit employees (approx 1000 employees);
- Defined Benefit QSuper (3 employees); and
- Other superannuation funds (approx 150 employees).

(the numbers above exclude Varnsdorf employees).

ENERGEX currently contributes 9% of the employee's salary for those who are members of the Defined Contribution section of Energy Super and all other funds of choice. Additionally, ENERGEX offers an increase of employer contribution to 10% if an employee elects to make a minimum voluntary contribution of 5% from their salary.

Membership of the Defined Benefit section of Energy Super was closed in May 1999. The most recent actuarial review at 30 June 2008 identified a shortfall of \$7.9M. As a result of this review, the ENERGEX Board approved a lump sum payment of \$7.9m to offset the immediate deficit and also approved an increase to the employer contribution from 10% to 32% to overcome future shortfalls. A formal actuarial review was undertaken as at 30 June 2010 which recommended a reduction to the contribution rate to 20% from 01 July 2011 through to 30 June 2013. After that a 10% contribution rate was recommended. ENERGEX is still reviewing this recommendation. The next formal actuarial review for the period to 30 June 2013 is expected to be available February / March 2014.

17. Consultation

ENERGEX's Employment and Industrial Relations Plan was developed with regard to the consultation provisions of the EUCA 2008.

Consultation on this E&IR Plan has occurred with unions in terms of section 149 of the *Government Owned Corporations Act 1993*. Consultation has also been carried out with the:

- Office of Government Owned Corporations (OGOC);
- Department of Justice and Attorney General;
- Department of the Premier and Cabinet; and
- Department of Employment, Economic Development and Innovation.

Consultation will continue to occur in line with organisational developments, with a focus on the impact of change on individuals and work teams. OGOC will also forward a copy of the Employment and IR Plan to the Office of the Public Service Commissioner.

ENERGEX will submit a report on performance against its 2011-12 Employment and Industrial Relations Plan to the Office of Government Owned Corporations at the same time as the E&IR Plan for the forthcoming year that is submitted in January 2012, highlighting any significant divergences from the Plan and the background / context for these variances.



**Queensland
Government**
Department of
Justice and
Attorney-General

E&IR Plan APPENDIX A

**Minimum Employment, Industrial Relations and
Job Security Principles
for
Government Owned Corporation (GOC) Employees**

September 2010

Minimum Employment, Industrial Relations and Job Security Principles for Government Owned Corporation (GOC) Employees

Context

The Queensland Government through shareholding Ministers holds the principal financial interest in Government Owned Corporations (GOCs). Consequently Government is an important stakeholder in GOCs, which operate in the national marketplace. Government also has a leadership role setting minimum employment standards and providing an example of a model employer.

Rationale

The Government is committed to ensuring employment conditions are maintained, and that standards within GOCs reflect community and Government sector standards (i.e. GOC employment and industrial relations policies). These principles were introduced in order to ensure that there is some certainty regarding minimum employment standards, industrial relations practices and job security, especially with GOCs operating in the federal industrial relations jurisdiction.

Objective

The principles set out below, which have been endorsed by Government, confirm the Government's position on minimum employment conditions and industrial relations practices in GOCs. These principles should be read in conjunction with all relevant legislation, policies and procedures that apply to GOCs.

As a general principle, GOCs, including any GOC subsidiaries within Queensland, should maintain employment arrangements and policies without reduction in entitlements or protections, unless otherwise agreed with unions. GOCs should also work cooperatively with unions to resolve issues using services available at the State level where possible.

Application

GOC shareholding Ministers request that GOCs put in place available safeguards to maintain standard employment conditions, industrial relations practices and job security through the provisions of GOC Employment and Industrial Relations Plans (E&IR Plans). E&IR Plans form part of the annual Statements of Corporate Intent which are considered and approved by the shareholding Ministers by 30 June each year in accordance with the *Government Owned Corporations Act 1993*. Departure from this approach should only be undertaken where there is a legal requirement to do so.

Principles

1. Consultative Arrangements

GOCs shall endeavour to deal with industrial relations matters cooperatively through consultative arrangements with employees and union delegates at the workplace level and through employees and/or delegates and union representatives or officials at the organisation level. Paid involvement of delegates and relevant employees shall be considered in relation to such consultative arrangements. This should be the case where their involvement facilitates the resolution of industrial relations issues or assists the employer in developing and implementing new initiatives, provided they are not involved in industrial action. Where paid union meetings have been available as a result of an award/enterprise agreement or alternatively existing custom and practice, such arrangements shall be continued.

2. No Disadvantage

It is the position of the Government that GOCs must ensure the rates of pay and conditions of employment in an industrial instrument will meet the federal legislation approval requirements. Additionally, conditions of employment in existing GOC industrial instruments are not to be reduced, except as required by relevant federal legislation or as agreed between the relevant industrial parties.

3. Enterprise Agreements

GOCs must comply with the relevant legislation and Government policies and principles for bargaining, such as the Government Wages Policy.

The following conditions of employment and practices shall continue.

a) Enterprise agreements, with unions as parties to the agreement, shall be the preferred means of industrial regulation of rates of pay and conditions of employment. Enterprise agreements can include a broad range of matters such as:

- rates of pay;
- employment conditions e.g. hours of work, meal breaks and overtime;
- consultative mechanisms;
- dispute resolution procedures; and
- deductions from wages for any purpose authorised by an employee.

Enterprise Agreements should not include unlawful content (such as discriminatory or objectionable terms).

GOCs may use flexibility terms, including existing alternative employment arrangements, as a mechanism for providing additional or different terms and conditions to individual employees. These will not result in terms and conditions which undercut legislated minima or minimum conditions as set by the Government. For example, GOCs must not provide less than the minimum entitlement to annual leave in exchange for additional remuneration. Parties should be better off overall under the resulting arrangement. GOCs are required to provide the Government

Department responsible for Industrial Relations with details on the number and terms of individual flexibility or alternative employment arrangements entered into, as requested from time to time.

b) New individual common law contracts may only be made for enterprise agreement covered employees where the total fixed remuneration equates to or exceeds:

- (i) the respective GOC enterprise agreement remuneration envelope (top rate from the agreement plus applicable superannuation and annual leave components); and/or
- (ii) the equivalent of the Queensland Public Service AO8 level per annum plus 12.75% plus the equivalent of annual leave loading plus any overtime component;

unless otherwise negotiated within an enterprise agreement.

4. Union Encouragement

GOCs will facilitate access for their employees to union representatives in a fair and reasonable way. Arrangements should take into account the specific circumstances of the GOC to support the efficient operation of, or service provision by the GOC.

At the point of engagement, employees are to be provided with a document indicating that the corporation encourages employees to join and maintain financial membership of an organisation of employees that has the right to represent their industrial interests.

Union delegates and job representatives have a role to play within a workplace, including during the agreement making process.

The existence of accredited union delegates and/or job representatives is to be encouraged. Accredited union delegates and/or job representatives shall not be unnecessarily hindered in the reasonable and responsible performance of their duties.

5. Right of Entry of Union Officers to the Workplace

The rights and obligations that may be exercised by officials and employers in relation to right of entry are provided for under the relevant legislation.

Written notice may be required to be given by the official before entering a workplace and should be provided in accordance with the requirements outlined under the relevant legislation. Further, the legislation provides the conditions upon which the permit holders must abide, including complying with reasonable occupational health and safety requests, acting in a proper manner and not interrupting the normal continuity of work.

An employer will not unreasonably refuse, delay or obstruct a permit holder from exercising their rights. However, it should be noted that by law, entry to certain operations subject to national/state security initiatives can only occur under escort unless the necessary authorities are held. It is recommended that union officials make contact with GOCs beforehand to ensure necessary compliance before entering workplaces where this might be the case e.g. ports, airports and other essential infrastructure installations.

6. Industrial Relations Education Leave

Unless an award/enterprise agreement and/or custom and practice provides otherwise, paid time off not exceeding five days per union in any one year non-cumulative, is to be made available to a

duly elected or appointed union representative or delegate. A written application shall be made by the union at least 6 weeks in advance (or such lesser period as provided for in an award/enterprise agreement or custom or practice or as is mutually agreed by the union and the GOC), to attend courses or seminars conducted by the union or specific training courses approved and accredited by the union.

The GOC shall give consideration to the special requirements of any regionally based workplaces in applying the limits on paid time off referred to above. The granting of such leave is subject to it not unreasonably interfering with the GOC's operations. The scope, content and level of such courses or seminars shall be such as to contribute to a better understanding of industrial relations within the GOC's operations.

7. Payroll Deductions of Union Fees

Requests from employees for payroll deduction of union fees are to be accommodated where the service has previously been provided. It is noted that Government agencies provide this facility without charge to relevant unions.

8. Job Security

In any situation of redundancy, options for redeployment and retraining of staff shall be exhausted before the offer of voluntary redundancy arrangements is considered. The Government Department responsible for Industrial Relations should be consulted prior to the offer of voluntary redundancy arrangements. There shall be no forced redundancies of award or agreement staff, or contract employees who would ordinarily be subject to awards or agreements, at GOCs without the explicit and written sanction of relevant shareholding Ministers.

Enterprise agreements and/or workplace arrangements should contain provisions relating to redeployment, retraining and last resort redundancy for excess employees. In general, existing redundancy entitlements should not be enhanced unless it is necessary to do so in order to comply with the minimum redundancy entitlements contained within the relevant legislation.

9. Use of Contractors

The following general principles should be followed when using contractors.

(a) Contractors and/or labour on-hire arrangements are to be utilised in an orderly and responsible manner, such that there is not a detrimental effect on the State's or public interest (e.g. causing disruption to services to the public or causing damage to the economy or standing of the State).

(b) It is recognised that circumstances arise where the use of contractors is either desirable or essential. These circumstances are seen to be within the following guidelines:

- (i) the work volume, type of work or specialisation required is beyond the capacity of resources or staff;
- (ii) it is in the public interest to undertake such work. Public interest includes issues of cost effectiveness; or
- (iii) the security and tenure of employment of additional staff required to meet work peaks cannot be guaranteed.

(c) The use of contractors is not to be exercised to avoid training for existing staff or employing new staff to cater for emerging areas of work. “Emerging areas of work” does not include one-off works or temporary work peaks.

(d) In addition, contractors and/or their employees are not to be appointed to any position as permanent employees unless normal advertising and selection processes have been followed.

10. Termination of Employment

Responsible and defensible policies and procedures regarding the management of performance, conduct and capacity of staff should be in place and adhered to, except where situations arise warranting summary dismissal under common law.

a) If an employee’s conduct, capacity or performance is deficient:

- (i) ensure the employee is given an opportunity to respond formally to any allegation about their conduct, capacity or performance; and
- (ii) ensure the employee is formally warned about the conduct, capacity or performance and is given reasonable opportunity to rectify any deficiency; and
- (iii) ensure the employee has a right to be represented through all parts of the process.

b) If dismissal is subsequently determined:

- (i) provide the employee with a clear reason for dismissal, detailing the process followed to seek improvement as referred to above; and
- (ii) ensure clarity as to whether the dismissal is related to the employee’s conduct, capacity or performance.

c) If an employee is in their probationary period the legislative provisions and GOC policy relevant to probation are to apply.

11. Resolution of Disputes

Dispute resolution is the process by which disputes within the workplace are finalised between, or for the parties, and is **separate to the processes that deal with industrial action during bargaining**.

Enterprise agreements are required to contain a dispute resolution clause which details the procedure for dealing with disputes. Disputes should be resolved following the same principles as the good faith bargaining requirements.

The Dispute Resolution Procedure should:

- provide a consistent and clear approach for the parties to deal with and resolve disputes early on;
- list the nominated parties to assist in resolving disputes; and
- detail the range of functions and conditions agreed between the parties to determine, on a case by case basis, the best way to deal with particular disputes (eg. through a negotiated, mediated, arbitrated or adjudicated outcome).

Under the *Fair Work Act 2009* (Cth) the dispute resolution provision of an enterprise agreement must include a procedure that requires or allows Fair Work Australia (FWA), or another person who is independent of the employer, employees or employee organisations covered by the agreement to settle disputes.

The parties to the enterprise agreement are to reach agreement about the dispute resolution provider. If agreement can not be reached about the dispute resolution provider the default provider should be FWA.

The *Industrial Relations Act 1999* (IR Act) was amended in 2007 to provide for parties in the federal industrial relations jurisdiction to have access to the Queensland Industrial Relations Commission (QIRC), by mutual agreement, to conciliate and/or arbitrate matters in dispute. The QIRC is still available as an option for parties to agree to be the dispute resolution provider under an enterprise agreement.

A party to a dispute can then refer the matter to the FWA tribunal, QIRC or the relevant agreed dispute resolution provider if discussions at the workplace level do not achieve a resolution.

The procedure must provide for dealing with disputes about any matters arising under the agreement or in relation to National Employment Standards. The procedure must also allow for the representation of employees covered by the agreement for the purposes of dispute resolution. Where the legislation provides a model dispute resolution procedure the GOC must ensure their procedure as a minimum covers all matters provided for in the model procedure.

GOCs are reminded of the requirement to liaise with and inform the Government Department responsible for Industrial Relations matters in accordance with the policy, 'Guidance for Chief Executive Officers - Agreement Making and Industrial Relations in Government Owned Corporations'. Due to the sensitive nature of industrial disputes and the potential impact of industrial action threatened or taken, GOCs are expected to advise and inform the Government Department responsible for Industrial Relations as a priority.

ATTACHMENT

GUIDELINES: Establishing a Dispute Resolution Procedure

The GOC and Union/s shall have regard to the following principles in establishing a disputes resolution procedure.

Step 1 Resolution at the Workplace Level

Involves genuine attempt to resolve the issue using consultative arrangements with employees and union delegates and if necessary, with union officers.

If there is no resolution at the work place level, proceed to next level (Step 2).

Step 2 Dispute Resolution Process [including QIRC assistance if relevant]

Who

The disputes procedure shall list the nominated tribunal or person(s) agreed between the parties to assist in resolving disputes. Tribunals or person/s may include Fair Work Australia, the Queensland Industrial Relations Commission (QIRC) or, alternatively a person who is independent of the employers, employees and industrial organisation(s) covered by the agreement.

How

*The parties may determine the appropriate approach to disputes generally and must agree in their enterprise agreement how the dispute is to be resolved. If the parties agree to utilise the QIRC, the parties must submit a **referral agreement** to the QIRC as to how disputes are to be resolved by the QIRC [refer to section 273A (1)(b) under the Industrial Relations Act 1999].*

What

General Provisions

Provisions covered in the disputes resolution procedure must be agreed between the parties. Such provisions can include:

- (i) commitment from parties to follow agreed process;
- (ii) determine appropriate timeframes to deal the dispute;
- (iii) the allocation of any costs associated with a dispute process will be as agreed between the parties on a case-by-case basis, or if no agreement can be reached each party shall meet its own costs;
- (iv) work as directed unless the employee has a reasonable concern about an imminent risk to their health or safety; and
- (v) at any time industrial action is threatened or taken during the process, either party may directly proceed to Fair Work Australia for assistance.

Any time industrial action is threatened or taken, the GOC must inform the Government Department Responsible for Industrial Relations as a priority.

Functions of QIRC

The following provisions are consistent with the functions available under section 273A (4) of the Industrial Relations Act 1999:

- (a) conciliating;
- (b) arbitrating;
- (c) granting a remedy or other relief; and/or
- (d) deciding any other issue or question.

Furthermore, a decision by the QIRC in performing the dispute resolution functions does not bind the parties unless the ***referral agreement*** provides for the decision to bind the parties.

Attachment 3 Sponsorship, Advertising, Corporate Entertainment, Donations, and Other Activities

**Table 1: Sponsorship, Advertising, Corporate Entertainment, Donations and Other Activities
Details of Individual Expenditure Items**

| Activity | Description / Benefit | 2010/11 | 2010/11 | 2011/12 | | | | | 2011/12 |
|-----------------------------------|---|-------------------|------------------|------------------|------------------|------------------|------------------|------------------|---------|
| | | Est. Actuals (\$) | Budget (\$) | Budget (\$) | Sept | Dec (\$) | Mar | Jun | |
| SPONSORSHIP ⁽¹⁾ | | | | | | | | | |
| Individual entity over \$5,000 | Royal National & Agricultural Assoc of QLD - Support for QLD's largest community exhibition | 94,000 | 80,000 | 95,000 | | - | | 95,000 | |
| | Sunshine Coast Rescue Helicopter Service - Helicopter Support | 110,000 | 200,000 | 60,000 | 60,000 | - | | | |
| | Qld Museum - Promoting energy efficiency and support through the QLD museum's school education policy | 255,700 | 225,000 | 127,850 | 87,000 | - | | 40,850 | |
| | Community/ Business Sponsorships including safety program, community support for PoW, and school/education support ⁽²⁾ | 889,639 | 1,129,051 | 1,331,835 | 208,050 | 276,650 | 309,859 | 537,276 | |
| Total over \$5,000 | | 1,349,339 | 1,634,051 | 1,614,685 | 355,050 | 276,650 | 309,859 | 673,126 | |
| Other (total) below \$5,000 | | 159,009 | | | | | | | |
| TOTAL (1) | | 1,508,348 | 1,634,051 | 1,614,685 | 355,050 | 276,650 | 309,859 | 673,126 | |
| ADVERTISING | | | | | | | | | |
| | Campaigns (Costs details below include production of advertising, advertising placement (TV, radio, Press, billboards) direct mail, photography, promotions, brochures and associated collateral, and other related promotional activities) | | | | | | | | |
| Campaign over \$5,000 | Safety Campaigns | 1,533,972 | 2,022,000 | 1,780,000 | 757,500 | 356,250 | 356,250 | 310,000 | |
| | · Look up and Live | 282,344 | | 490,000 | 200,000 | | | 290,000 | |
| | · SafeTree | 9,180 | | - | - | - | - | - | |
| | · Weather Safety | 614,137 | | 300,000 | 75,000 | 112,500 | 112,500 | | |
| | · Beware of fallen Powerlines | 624,591 | | 950,000 | 462,500 | 243,750 | 243,750 | | |
| | · Winter Safety / Home Safety | 3,720 | | 40,000 | 20,000 | | | 20,000 | |
| | Capital Works | 438,709 | 277,000 | 478,000 | 113,250 | 113,250 | 113,250 | 138,250 | |
| | · ENERGETX in Your Community | 438,709 | | 478,000 | 113,250 | 113,250 | 113,250 | 138,250 | |
| | Energy Efficiency/Environment | 186,723 | 222,000 | 200,000 | - | 80,000 | 120,000 | - | |
| | · Demand Management / Energy Efficiency Advertising | 162,000 | | 200,000 | - | 80,000 | 120,000 | | |
| | · Environment Sponsorship Program | 24,723 | | - | - | - | - | - | |
| | Other | 528,467 | 786,400 | 506,000 | 137,000 | 132,500 | 89,500 | 147,000 | |
| | · Business Media Support | 156,969 | | 135,000 | 35,000 | 30,000 | 25,000 | 45,000 | |
| | · Brand Development and Management | 126,954 | | 118,000 | 29,500 | 29,500 | 29,500 | 29,500 | |
| | · Web Development | 142,446 | | 140,000 | 35,000 | 35,000 | 35,000 | 35,000 | |
| | · Talent Maintenance | 21,696 | | 18,000 | | 18,000 | | | |
| | · Corporate Reporting | 80,402 | | 95,000 | 37,500 | 20,000 | | 37,500 | |
| Total over \$5,000 | | 2,687,871 | 3,307,400 | 2,964,000 | 1,007,750 | 682,000 | 679,000 | 595,250 | |
| Other (total) below \$5,000 | | | | | | | | | |
| TOTAL (2) | | 2,687,871 | 3,307,400 | 2,964,000 | 1,007,750 | 682,000 | 679,000 | 595,250 | |
| CORPORATE ENTERTAINMENT | | | | | | | | | |
| Event over \$5,000 | Annual Staff and Family Event prior to the Storm Season | | - | - | - | - | - | - | |
| | Customer Care Awards | 143,000 | 130,000 | 150,000 | | | | 150,000 | 268 |
| | Apprenticeship Awards | 44,200 | 44,200 | 40,000 | | | | 40,000 | 154 |
| | Supplier Awards | 10,500 | 10,500 | 10,000 | | | | 10,000 | 91 |
| | Staff recognition function for completion of 25 years service | 20,000 | 20,000 | 20,000 | | | | 20,000 | 167 |
| Total over \$5,000 | | 217,700 | 204,700 | 220,000 | - | - | - | 220,000 | |
| Other (total) below \$5,000 | Other Corporate Entertainment and Hospitality | 178,996 | 130,975 | 144,428 | 30,844 | 32,709 | 32,612 | 48,263 | |
| TOTAL (3) | | 396,696 | 335,675 | 364,428 | 30,844 | 32,709 | 32,612 | 268,263 | |
| DONATIONS | | | | | | | | | |
| Individual entity over \$5,000 | Premier's Disaster Relief | 75,838 | - | - | - | - | - | - | |
| Total over \$5,000 | | 75,838 | | | | | | | |
| Other (total) below \$5,000 | | 2,600 | 9,100 | 9,100 | 2,275 | 2,275 | 2,275 | 2,275 | |
| TOTAL (4) | | 78,438 | 9,100 | 9,100 | 2,275 | 2,275 | 2,275 | 2,275 | |
| OTHER RELATED ACTIVITIES | | | | | | | | | |
| Commitment/entity over \$5,000 | Energy Networks Association Membership | 138,469 | 126,922 | 143,873 | 35,968 | 35,968 | 35,968 | 35,968 | |
| | Energy Supply Association Aust | 95,000 | 104,550 | 98,708 | 24,677 | 24,677 | 24,677 | 24,677 | |
| | Energy Users Assoc | 8,723 | 7,450 | 9,063 | 2,266 | 2,266 | 2,266 | 2,266 | |
| Total over \$5,000 | | 242,192 | 238,922 | 251,644 | 62,911 | 62,911 | 62,911 | 62,911 | |
| Other (total) below \$5,000 | | | | | | | | | |
| TOTAL (5) | | 242,192 | 238,922 | 251,644 | 62,911 | 62,911 | 62,911 | 62,911 | |
| TOTAL (1)+(2)+(3)+(4)+(5) | | 4,913,545 | 5,525,148 | 5,203,857 | 1,458,830 | 1,056,545 | 1,086,657 | 1,601,825 | |

**Table 2: Corporate Entertainment
Details of Total Budgeted Expenditure under \$5,000**

| Activity | Description / Benefit | 2010/11 | 2010/11 | 2011/12 | | | | | 2011/12 |
|--------------------------------------|--|-------------------|----------------|----------------|---------------|---------------|---------------|---------------|---------|
| | | Est. Actuals (\$) | Budget (\$) | Budget (\$) | Sept | Dec (\$) | Mar | Jun | |
| Corporate Entertainment Total | | | | | | | | | |
| | • Staff Functions | 178,996 | 130,975 | 144,428 | 30,844 | 32,709 | 32,612 | 48,263 | 301 |
| | • Business Development | | - | | | | | | |
| | • Stakeholder and Community Engagement | | - | | | | | | |
| TOTAL UNDER \$5,000 | | 178,996 | 130,975 | 144,428 | 30,844 | 32,709 | 32,612 | 48,263 | |

Attachment 4 WACC Calculations

Overview

ENERGEX's Weighted Average Cost of Capital (WACC) calculations are based on the *Government Owned Corporations - Cost of Capital Principles (2006)*.

It is recommended that a separate WACC should be calculated for each key business activity with different risk profiles. On this basis, ENERGEX has adopted a WACC for each of its 3 separately identifiable business units: Electricity Network (Regulated); Metering Dynamics; and Small Scale Generation and Energy Services.

The WACC method establishes rates that are to be applied to cash flows on a nominal after tax before interest expense basis and is used for project evaluation purposes.

Calculations

The WACC for the electricity network relates to investments under the AER and reflects the final decision published 6 May 2010.

Table 33 – WACC Calculations

| | Electricity Network | Metering Dynamics | Small Scale Generation and Energy Services |
|---|---------------------|-------------------|--|
| Hurdle rate (nominal post tax) | 7.16% | 10.55% | 9.37% |
| Vanilla WACC (used for Regulated Return) | 9.72% | 11.66% | 10.47% |
| Cost of debt (pre tax) | | | |
| - risk free rate | 5.64% | 5.80% | 5.80% |
| - debt premium | 3.33% | 3.42% | 3.42% |
| Cost of debt (Kd) | 8.97% | 9.22% | 9.22% |
| Cost of Equity (post tax) | | | |
| - risk free rate (Rf) | 5.64% | 5.80% | 5.80% |
| - market risk premium (MRP) | 6.50% | 6.00% | 6.00% |
| - equity beta | 0.80 | 1.25 | 0.92 |
| - gamma | 0.65 | 0.00 | 0.00 |
| Cost of Equity (Ke) (post tax) | 10.84% | 13.28% | 11.31% |
| Corporate Tax Rate (T) | 30.00% | 30.00% | 30.00% |
| Capital Structure | | | |
| - % debt | 60% | 40% | 40% |
| - % equity | 40% | 60% | 60% |

$$Post_Tax_WACC = Ke \times \frac{E}{V} \times \frac{(1-T)}{(1-T(1-\gamma))} + Kd \times \frac{D}{V} \times (1-T)$$

Where:

- Ke = Required rate of return on equity.
- Kd = Required rate of return on debt.
- D = Debt based on target capital structure.
- E = Equity based on target capital structure.
- V = Total capital employed (V = D+E).
- γ = Gamma (proportion of imputation credits that can be used by shareholders).
- T = Tax collected at the company level.

The Capital Asset Pricing Model (CAPM) is used to calculate the cost of equity as follows.

$$Ke = Rf + \beta_e \times MRP$$

Where:

- Ke = Required rate of return on equity.
- Rf = Required rate of return on a risk free investment.
- MRP = Market risk premium.
- β_e = Equity beta (correlation between the asset's risk and overall market risk).



Attachment 5 Corporate Governance Guidelines for Government Owned Corporations

ENERGEX has adopted the recommendations of the Corporate Governance Guidelines for Government Owned Corporations.

Attachment 6 Compliance with Government Policies

Government Policies and Guidelines

- Biannual Reporting: Guidelines for the Preparation of Interim Reports (2009)
- Code of Practice for Government Owned Corporations' Financial Arrangements (2009)
- Community Service Obligations – A Policy Framework (1999)
- Corporate Entertainment and Hospitality Guidelines (2008)
- Corporate Governance Guidelines for Government Owned Corporations (2009)
- Cost of Capital Principles – Government Owned Corporations (2006)
- Government Owned Corporations Air Travel Policy (2009)
- Government Owned Corporations Bargaining Guidelines (2010)
- Government Owned Corporations Governance Arrangements for Chief and Senior Executives (2009)
- Government Owned Corporations Guidelines for the Preparation of Statements of Corporate Intent and Corporate Plans (2010)
- Government Owned Corporations Release of Information Arrangements (2010)
- Government Owned Corporation Subsidiaries - Key Shareholder Requirements for Constitutions (2006)
- Government Owned Corporations Wages Policy (2010)
- Guidance for Chief Executive Officers - Agreement Making and Industrial Relations in Government Owned Corporations (2010)
- Guidelines for the Development of Employment and Industrial Relations Plans in Government Owned Corporations (2009)
- Guidelines for Export of Services by Government Owned Corporations (2001)
- Investment Guidelines for Government Owned Corporations (2009)
- Local Industry Policy: A Fair Go for Local Industry (2008)
- Minimum Disclosure Requirements for Directors and Chief and Senior Executives of Government Owned Corporations (2009)
- Minimum Employment, Industrial Relations and Job Security Principles for Government Owned Corporation Employees (2009)
- Purchasing Carbon Offsets for Queensland Government Air Travel (2008)
- QFleet ClimateSmart Policy (2008)
- Queensland Code of Practice for the Building and Construction Industry (2009)
- Sport and Recreation Sponsorship Policy (2009)
- State Procurement Policy (2010)

Attachment 7 Glossary

| Abbreviations | Description |
|---------------|---|
| AEMO | Australian Energy Market Organisation. |
| AER | Australian Energy Regulator. |
| CNF | Competitive Neutrality Fee. |
| CP | Corporate Plan. |
| CSO | Community Service Obligations. |
| DEEDI | Department of Employment and Economic Development and Innovation (Mines and Energy) |
| DNSP | Distribution Network Service Provider. |
| EDSD | Electricity Distribution Service Delivery. |
| EMPI | Employee Motivation and Performance Index. |
| EWOQ | Energy and Water Ombudsman Queensland. |
| EPM | ENERGEX Performance Management. |
| ERM | Enterprise Risk Management. |
| EUCA | ENERGEX-Union Collective Agreement. |
| FRC | Full Retail Competition. |
| GHG | Greenhouse Gas. |
| GOC | Government Owned Corporation. |
| GSL | Guaranteed Service Level. |
| KPI | Key Performance Indicator. |
| MSS | Minimum Service Standards. |
| NMP | Network Management Plan. |
| OGOC | Office of Government Owned Corporation. |
| OPAT | Operating Profit After Tax. |
| PoW | Program of Work. |
| PoWIP | Program of Work Improvement Program. |
| QCA | Queensland Competition Authority. |
| ROA | Return on Assets. |
| SAIDI | System Average Interruption Duration Index. |
| SAIFI | System Average Interruption Frequency Index. |
| SCI | Statement of Corporate Intent. |
| SPP | Summer Preparedness Plan. |
| STPIS | Service Target Performance Incentive Scheme. |