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LOOKING FOR MORE INFORMATION?

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

Additional statistics, industry measures and abbreviations are provided from page 51.
Ergon Energy recognises that the rising price of electricity is a concern for our customers. Addressing this issue remains at the core of our strategic plan, as well as the achievements and challenges highlighted in this report.

We are committed to doing everything in our power to positively affect the price our customers pay for electricity – whether this is by reducing our operating costs through greater efficiency and effectiveness or by improving the management of electricity demand to avoid costly investment in the network.

At the same time, we know that we have to continue to meet our customers’ expectations for a safe and reliable electricity supply.

**It’s about finding the right balance – and working together to find smarter, more sustainable ways to create a bright future for regional Queensland.**
Our Annual Stakeholder Report 2012/13 presents a holistic insight into the organisation’s overall performance for the financial year and demonstrates the contribution that Ergon Energy is making towards the broader sustainability challenges facing regional Queensland. It covers Ergon Energy Corporation Limited and its subsidiary Ergon Energy Queensland Pty Ltd, in addition to providing commentary on our other subsidiaries and joint venture.

**SHARED SUSTAINABILITY CHALLENGES**

Ergon Energy is active in assessing stakeholder needs and expectations and maintaining an understanding of regional Queensland’s broader sustainability challenges and feeding this into our decision-making, both at a strategic and an operational level; these insights have been used to assess the materiality of our reporting. Our stakeholders are our customers, the communities we work in and serve, our government shareholders and industry regulators, our employees (including their representative unions), and our suppliers and industry associates.

Many of the challenges facing regional Queensland are inextricably linked to the future of our business. Our most significant sustainability contribution is around our response to the affordability of electricity. We’re focused on contributing meaningfully to a sustainable energy future and to adopting responsible and sustainable business practices.

This report also addresses the other sustainability concerns listed below. This summary reflects the aspects of the Global Reporting Initiative’s (GRI) G4 Principles of Sustainability Reporting seen as material to our stakeholders.

The full details of GRI indicators covered in this report are indexed online at www.ergon.com.au/annualreport

The content of this report has also been guided by the Australasian Reporting Awards criteria for best-practice reporting, as well as the Energy Supply Association of Australia’s Sustainable Practices Framework. To assist us to continually improve our reporting, we invite your feedback through our online feedback form, or you can contact our Community Engagement and Advocacy team on 13 10 46.

**STAKEHOLDER**

**SUSTAINABILITY CONCERN**

<table>
<thead>
<tr>
<th>STAKEHOLDER</th>
<th>SUSTAINABILITY CONCERN</th>
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<tbody>
<tr>
<td>Customers</td>
<td>Electricity affordability</td>
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<tr>
<td></td>
<td>Reliability and security of supply</td>
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<tr>
<td></td>
<td>Infrastructure costs / timeliness</td>
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<td></td>
<td>Energy conservation / control over energy use</td>
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<tr>
<td>Communities</td>
<td>Infrastructure for economic development</td>
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<td></td>
<td>Capability for a strong disaster response</td>
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<td>Community impact and participation</td>
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<td>Community electrical safety</td>
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<td>Response to climate change</td>
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<td></td>
<td>Environmental protection</td>
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<td></td>
<td>Energy / resource conservation</td>
</tr>
<tr>
<td>Government shareholders and industry regulators</td>
<td>Electricity affordability*</td>
</tr>
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<td></td>
<td>State debt and the budget deficit</td>
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<tr>
<td>Employees and representative unions</td>
<td>Employment opportunities</td>
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<td></td>
<td>Workplace health and safety</td>
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<td></td>
<td>Workplace diversity and social inclusion</td>
</tr>
<tr>
<td>Industry associates and suppliers</td>
<td>Sustainable industry outcomes</td>
</tr>
<tr>
<td></td>
<td>Local procurement opportunities</td>
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</tbody>
</table>

*While addressing electricity affordability is the primary objective of the industry reform agenda, service standards and the broader customer and community concerns listed are also shared by our government shareholders and regulators.
Ergon Energy supplies electricity across a service area of more than one million square kilometres – 97% of the state of Queensland.
Ergon Energy is a Queensland Government-owned corporation. Our principal operating companies are Ergon Energy Corporation Limited, responsible for the distribution business, and the subsidiary Ergon Energy Queensland Pty Ltd, an electricity retailer.

The distribution business - the ‘poles and wires’ - is regulated by the Australian Energy Regulator (AER). The AER sets the revenue Ergon Energy is allowed to collect for the use of the network. These charges are just one of the components that make up the price of electricity.

Ergon Energy’s retailer is only permitted, by legislation, to sell electricity at the Queensland Government’s Notified Prices. The Queensland Competition Authority (QCA) oversees these tariffs. This enables Queenslanders to access the same uniform electricity tariffs, wherever they live, even though the cost to supply may be different. Some customers in regional Queensland have chosen to purchase their electricity from another retailer in the competitive market - at a price set by that retailer - however, they are still supplied from Ergon Energy’s distribution network.

Ergon Energy’s other subsidiary is Ergon Energy Telecommunications Pty Ltd, trading as Nexium Telecommunications. This business services Ergon Energy’s communications needs and, as a licensed telecommunications carrier, offers the Queensland marketplace wholesale high-speed data services.

Ergon Energy is also a shareholder of SPARQ Solutions Pty Ltd, a joint venture with Energex Limited (Energex is our south-east Queensland counterpart), which provides information and communications technology solutions and services to both organisations.

**ELECTRICITY INDUSTRY SUPPLY CHAIN**

**GENERATION**
A range of energy sources (coal-fired, biomass, gas, hydro and wind) is used by private and government-owned operators to generate Queensland’s electricity.

Although not a major generator, Ergon Energy operates a 55MW gas-fired power station at Barcaldine. It supplies power into the electricity grid. We also have 33 stand-alone power stations that supply communities isolated from the main grid in Western Queensland, the Gulf of Carpentaria, Cape York, various Torres Strait Islands and Palm Island.

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

Powerlink Queensland, as a government-owned corporation, operates the high-voltage transmission network that extends along the Queensland coastline. Ergon Energy’s regional capability is used to help operate these assets cost-effectively. Ergon Energy also has its own 220kV network in the Mount Isa region.

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

Electricity is delivered across regional Queensland through Ergon Energy’s network of ‘poles and wires’. Around 70% of our powerlines run through rural Queensland. Much of this part of our network, around 65,000 kilometres of line, uses the electricity distribution technology known as SWER (Single Wire Earth Return).

**RETAIL**
Electricity is purchased through the retailers, who also provide a range of other customer services.

A number of electricity retailers operate in regional Queensland – they buy electricity from the generators and on-sell it to customers. While Ergon Energy only offers the government-set tariffs, other retailers provide contestable market offers. Our retail business has specialist expertise in energy trading, billing and customer service, to name a few key areas.
OUR VISION
To be a high-performance, customer-driven energy business.

OUR PURPOSE
To provide safe, reliable, efficient and sustainable energy solutions to support our customers and the Queensland economy.

OUR VALUES
Success is built on our SPIRIT values of:
• Safety
• Professionalism
• Integrity
• Respect
• Innovation
• Teamwork

4,600 employees
$11.5 billion asset base
$872 million capital investment
1 million power poles
160,000km of powerlines

710,000 customers
2,380MW peak demand
6,811kWh average household energy use
2.8 power outages per customer
1.8 million customer calls

CUSTOMER DENSITY ON THE NETWORK RANKED SECOND LOWEST
The customer density of Ergon Energy’s network ranked second lowest in an independent assessment of nine different distribution companies across Australia and New Zealand. p15

WHAT MAKES UP THE PRICE OF ELECTRICITY?
- ELECTRICITY GENERATION 16.7%
  Wholesale Energy
- SOLAR BONUS 41%
  Feed-in Tariff-Scheme
- CARBON TAX 7.5%
  Price of Carbon
- TRANSMISSION AND DISTRIBUTION 48.2%
  Poles and Wires
- GREEN SCHEMES 3.5%
  Renewable Energy Target
- RETAIL 20.0%
  Metering, Billing and Customer Service

Cost components and percentages are based on the Queensland Competition Authority’s 2013/14 determination for residential tariffs.
PERFORMANCE HIGHLIGHTS

Efficiency efforts achieved in excess of $100 million in benefits, in line with a 20% reduction in the operational and capital expenditure program for the five-year period to 2015.

Overall network reliability continued to improve this year – since 2005/06 the duration of outages has been reduced by 36% and the frequency by 37%.

Demand management success continued as an alternative to network investment – with a substantial 47MVA in reductions.

Delivered an above target $434 million profit – allowing a $326 million dividend, partly offsetting the Queensland Government’s $596 million Community Service Obligation payment.

GOVERNMENT ANNOUNCEMENT

On 16 June 2013, the Queensland Government announced in-principle approval of a recommendation to establish a new holding company for Ergon Energy Corporation Limited and Energex Limited, as the two government-owned distributors. This change, and a range of other proposed reforms, are about addressing the rising electricity costs.

The reforms are part of a suite of recommendations to come from the Interdepartmental Committee on Electricity Reform. This committee was formed in mid-2012 to scrutinise cost pressures on electricity prices, network costs, electricity supply and retail competition. It was supported by an Independent Review Panel, which looked specifically at the impact of Queensland’s electricity network on prices and solutions for a secure, cost-effective network.

Ergon Energy is committed to working with the government as it implements the recommendations from these reviews. For more information go to www.dews.qld.gov.au/policies-initiatives/electricity-sector-reform

FINANCIAL SUMMARY

<table>
<thead>
<tr>
<th></th>
<th>2012/13</th>
<th>2011/12</th>
<th>2010/11</th>
<th>2009/10</th>
<th>2008/09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets ($million)</td>
<td>11,460</td>
<td>10,600</td>
<td>9,975</td>
<td>8,698</td>
<td>8,011</td>
</tr>
<tr>
<td>Total Capital Investment ($million)</td>
<td>872</td>
<td>870</td>
<td>831</td>
<td>806</td>
<td>844</td>
</tr>
<tr>
<td>Net Profit After Tax ($million)</td>
<td>434</td>
<td>320</td>
<td>322</td>
<td>167</td>
<td>130</td>
</tr>
<tr>
<td>Dividends Provided For ($million)</td>
<td>326</td>
<td>256</td>
<td>253</td>
<td>138</td>
<td>117</td>
</tr>
<tr>
<td>Community Service Obligation Payment ($million)</td>
<td>596</td>
<td>415</td>
<td>399</td>
<td>252</td>
<td>446</td>
</tr>
<tr>
<td>Return on Average Assets</td>
<td>8.9%</td>
<td>7.6%</td>
<td>8.0%</td>
<td>5.7%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Return on Average Equity</td>
<td>12.4%</td>
<td>9.7%</td>
<td>10.8%</td>
<td>6.4%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Gearing (including reserves)</td>
<td>57.3%</td>
<td>59.3%</td>
<td>56.6%</td>
<td>59.8%</td>
<td>59.1%</td>
</tr>
<tr>
<td>EBITDA to Interest Cover (times)</td>
<td>3.7x</td>
<td>3.6x</td>
<td>3.6x</td>
<td>3.2x</td>
<td>3.1x</td>
</tr>
</tbody>
</table>

FOR MORE ON OUR FINANCIAL PERFORMANCE SEE PAGES 36.
PERFORMANCE OVERVIEW

Ergon Energy’s performance targets for 2012/13 are detailed in our Statement of Corporate Intent (SCI). As our performance agreement with our shareholding Ministers, the SCI is tabled in Parliament with this corresponding report. Our performance results, shown here against our strategic themes, are discussed in more detail throughout this report.

<table>
<thead>
<tr>
<th>CUSTOMER DRIVEN P12</th>
<th>TARGETS</th>
<th>RESULTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>'Value to Customer' survey</td>
<td>Better than peer average</td>
<td>Ratio score 5 points above parity at 105</td>
</tr>
<tr>
<td>Supply Reliability Indicators:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Duration (SAIDI):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Urban</td>
<td>≤147</td>
<td>135</td>
</tr>
<tr>
<td>- Short Rural</td>
<td>≤412</td>
<td>341</td>
</tr>
<tr>
<td>- Long Rural</td>
<td>≤932</td>
<td>952</td>
</tr>
<tr>
<td>Frequency (SAIFI):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Urban</td>
<td>≤1.9</td>
<td>1.5</td>
</tr>
<tr>
<td>- Short Rural</td>
<td>≤3.9</td>
<td>3.0</td>
</tr>
<tr>
<td>- Long Rural</td>
<td>≤7.2</td>
<td>6.2</td>
</tr>
<tr>
<td>Guaranteed Service Levels – Network Reliability</td>
<td>≤3,000 claims accepted</td>
<td>3,928 claims paid, valued at $408,512</td>
</tr>
<tr>
<td>Guaranteed Service Levels – Other</td>
<td>≤7,200 claims accepted</td>
<td>4,059 claims paid, valued at $164,203</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ASSET MANAGEMENT EXCELLENCE P20</th>
<th>TARGETS</th>
<th>RESULTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual capital expenditure within regulatory allowance</td>
<td>≤44%</td>
<td>44% of five-year allowance</td>
</tr>
<tr>
<td>Network Maintenance Costs/ Regulated Asset Base</td>
<td>≤2.4%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Demand management reductions</td>
<td>≥25MW</td>
<td>40MW</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>HIGH-PERFORMANCE ORGANISATION P24</th>
<th>TARGETS</th>
<th>RESULTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annualised Staff Turnover</td>
<td>n/a</td>
<td>14.3%</td>
</tr>
<tr>
<td>Actual operating expenditure within regulatory allowance</td>
<td>≤59%</td>
<td>60% of five-year allowance</td>
</tr>
<tr>
<td>Operational Expenditure per Route Kilometre</td>
<td>≤$2,216</td>
<td>$2,364</td>
</tr>
<tr>
<td>Scheduled Performance Index and Cost Performance Index (SPI and CPI)</td>
<td>≥1 for delivery of the UbiNet project</td>
<td>UbiNet project – SPI 1.0, CPI 0.8</td>
</tr>
<tr>
<td>Safety Indicators:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>All Injuries Frequency Rate – Employees</td>
<td>≤12.0</td>
<td>7.8</td>
</tr>
<tr>
<td>Compensation Claims Frequency Rate – Employees</td>
<td>≤3.3</td>
<td>2.3</td>
</tr>
<tr>
<td>Lost Time Injuries Frequency Rate – Employees</td>
<td>≤2.3</td>
<td>2.6</td>
</tr>
<tr>
<td>Lost Time Injuries Frequency Rate – Contractors</td>
<td>≤3.0</td>
<td>2.2</td>
</tr>
<tr>
<td>Environmental Protection Agency Breaches – Class 1</td>
<td>Nil breaches</td>
<td>Nil breaches</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ECONOMIC AND FINANCIAL PERFORMANCE P36</th>
<th>TARGETS</th>
<th>RESULTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Profit After Tax</td>
<td>≥$315 million</td>
<td>$434 million</td>
</tr>
<tr>
<td>Dividends Provided For</td>
<td>≥$252 million</td>
<td>$326 million</td>
</tr>
<tr>
<td>Customer Service Obligation Payment</td>
<td>≤$608 million</td>
<td>$596 million</td>
</tr>
<tr>
<td>Return on Average Assets</td>
<td>≥7.5%</td>
<td>8.9%</td>
</tr>
<tr>
<td>Return on Average Equity</td>
<td>≥9.0%</td>
<td>12.4%</td>
</tr>
</tbody>
</table>
EXPERTS IN DISASTER MANAGEMENT
With the extreme weather events over the last few seasons, the Ergon Energy team is recognised by its peers in the energy field as leaders in disaster recovery. I was fortunate enough to see first-hand the dedication of our people working tirelessly after the devastating floods in the Burnett Region. This recognition is well deserved. Congratulations to the men and women in the field, to those in support roles during these times and to the leadership of our management team.

THE CHALLENGE AHEAD WITH UNEXPECTED COMPETITORS
With increasing prices for energy, the industry is inviting the providers of alternative solutions into the market. I was surprised to learn that there may be as many as 700 people working in the alternative energy field in far north Queensland. Initially this innovation started from necessity, then the attractive solar incentive schemes assisted, but more recently it may have been further encouraged by retail electricity price increases.
Will we see a time in the next decade where renewables and battery storage will be cheaper than grid power for the domestic consumer? Queensland’s current uniform tariff may delay some alternatives but innovation is definitely accelerating in the renewable market.

IMPROVING MARKET AND OPERATIONAL EFFICIENCY
Over the last year the government has undertaken a number of reviews of the energy sector in Queensland. These have provided Ergon Energy with an excellent opportunity to showcase the unique position it holds in the energy market in regional Queensland.

The feedback given through the review process has emphasised the need for market reform to improve future asset utilisation through new market-based tariffs.
Over the last year Ergon Energy was able to reduce its capital and operating costs by a total of approximately $1.5 billion over the forward estimates. This was achieved, after careful consideration to maintaining both safety and reliability standards, in line with a strong commitment to cost constraint.
Future cost savings will be dependent on a number of factors, including pricing reform aimed at supporting future demand management and consequent capital expenditure needs.
I see encouraging efficient network utilisation as one of Ergon Energy’s, and the other energy distributors’, biggest challenges. With appropriate customer engagement and innovative pricing it may be possible to review our capital investment decisions further, and ultimately reduce the pressure on prices.
Another critical area of reform in future involves productivity improvements through improved work processes.
During the year Ergon Energy welcomed two new directors, John Love and John Gardner after the resignations of John Bird and Susan Forrester. On behalf of the Board, I would like to thank John and Susan for their services to the Board.

“...I see encouraging efficient network utilisation as one of Ergon Energy’s biggest challenges...”

MALCOLM HALL-BROWN
CHAIRMAN
Like Bob Dylan’s immortal classic ‘The Times They Are a-Changin’ so is the purpose of the electricity distribution network.

TRANSITIONING TO A MARKET ENABLER

With the increasing take up of solar energy by our domestic customers, fuelled initially by government rebates and high feed-in-tariffs, the network’s role is transitioning from a transporter of electricity to a market enabler. Our customers are increasingly becoming producers selling energy into the grid while changing their consumption behaviours to maximise their return on investment – 14% of households in regional Queensland now have solar.

Even with the drop in the solar feed-in tariff from 44 cents to eight, we are still seeing connections associated with the new scheme trending upwards as customers look for certainty and control of their electricity costs in an environment where notified prices have increased significantly (up to 22.6% for 2013/14).

Capital investment and technology is now flowing downstream into the customer installations – from traditional regulated infrastructure funded by Ergon Energy to unregulated solutions funded by customers or third parties. It is therefore incumbent on Ergon Energy as a distributor to build our customer intelligence and mitigate the risk of parallel investment into the supply chain. For this reason, along with the broader fall in electricity consumption and the reduced demand for network connections, we have been reducing our works program and consequently the size of our workforce.

Alternative energy solutions will set a market-based benchmark in pricing as they become increasingly technically and commercially viable. In this environment the network is no longer a monopoly as it delivers a single commodity that can and is already being supplied via other means. This change means our value proposition needs to shift to enable a strong market for energy, storage and demand management solutions, while still providing a safe, secure and reliable supply.

At the same time, to further reduce costs and reduce the pressure on electricity prices, we need to optimise our current assets and investments by developing a more efficient load profile through appropriate tariff and price signals to our customers. To do this we are engaging with our customers, representative bodies, regulators and government on a program of market and tariff reform.

Our focus is finding the smartest, most efficient ways to operate, and to deliver a sustainable and efficient market to drive increased productivity and positive economic outcomes for Queensland.

OUR ROLE IN RISING ELECTRICITY PRICES

As an industry we have experienced many challenges, with an unprecedented mix of factors converging – most notably the impact of global and domestic economic concerns, greater and more stringent regulatory requirements, and the increase in product substitution that I have already mentioned. This has led to increases across all of the major components that make up the price our customers pay for electricity.

While the price increases related to generation, solar, the federal government ‘green’ initiatives and electricity retailing have been largely outside our control, we recognise that our decisions as an electricity distributor have had a significant impact.

Around half the cost of electricity in Queensland is associated with investing in and operating the electricity transmission and distribution network – the ‘poles and wires’.

The pre-Global Financial Crisis (GFC) economic boom, sea change and record immigration resulted in significant growth in peak electricity demand. This, combined with an ageing asset and higher security and reliability standards (as a result of higher customer expectations at the time of the 2004 Somerville Inquiry), led to record growth in our investment in the network. This investment was recognised under our regulatory regime as we moved into the current five-year regulatory control period in 2010 and, along with the higher post GFC funding costs (which we are still experiencing), put significant upward pressure on electricity prices.

“... we’re continuing to focus on finding innovative ways to reduce expenditure and increase efficiency and effectiveness across all of the facets of our business”
Since the summer of 2010/11, however, our customers have been using less electricity for the first time in Ergon Energy’s history. This slowdown is partly a response to the higher prices and the economic conditions, and partly due to a greater awareness of energy efficiency and the availability of technologies, like solar. In addition, peak demand has been well below forecast for the past three years for various reasons and, due to the economic conditions, customer network connections have remained suppressed. This has impacted the unit price of electricity.

So how are we responding?

WE HAVE STRENGTHENED OUR RESOLVE

For a number of years, we have had a strategic goal to limit increases in average network charges to less than CPI over the longer term; this year we brought this forward, and we are now on track to deliver this goal from 2015.

In late 2012, in line with the slowdown, we made a decision to cut our five-year capital and operating expenditure program up to 2015 by $1.5 billion. This is being supported by an ongoing efficiency and effectiveness program that aligns with the government’s industry reform agenda. This year we have been driving a business-wide focus on overhead cost reduction, delivering over $100 million in benefits through workforce optimisation, overtime reduction and strategic sourcing, as well as improvements in contract management, administration and reporting.

We have also undertaken significant organisational restructuring to improve our performance and better manage operational risks, as well as continued to explore ways to use technology investment to deliver information-enabled efficiencies.

Together, commensurate with the revised programs of work, these have allowed a workforce adjustment (employees and contractors) of over 600 positions.

Our focus on demand management has also continued to optimise our infrastructure investment – an above target 47MVA of peak demand reductions have been achieved. We have also enhanced our ability to integrate our demand management and demand response alternatives into our network augmentation plans – to better target these lower cost alternatives. This thinking is not only focused on how we meet critical peak demand, but how we best utilise the asset base across the whole load profile. To support this, we have begun a review of our network tariff strategy and the market reform discussions already mentioned. Managed carefully, I believe effective tariff and market reform will deliver the best outcomes for our customers, our shareholder, and our business.

Through these and other initiatives we’re continuing to focus on finding innovative ways to reduce expenditure and increase efficiency and effectiveness across all of the facets of our business. The benefits from these efforts will flow in to network prices in the next regulatory control period from 2015.

MAINTAINING CUSTOMER SERVICE STANDARDS

While our focus is squarely on electricity affordability, we also remain committed to maintaining customer service levels.

Most importantly, our ability to respond in times of natural disasters. This year we faced the effects of Cyclone Oswald, which started out as a small, category-one cyclone on Cape York, but became a significant weather system that saw tens of thousands of Queenslanders grappling with the aftermath as it moved down the coast.

Yet again, I was proud to see our people rise to the challenge. Despite torrential rain, flattened infrastructure and, initially, the failure of public telecommunications in the northern half of the state, crews and support staff worked quickly and safely to get the lights back on to over 90,000 customers. Our customer service teams, control centres and communications personnel also worked hard to keep the power restoration information flowing to our customers throughout the response.

This capability also supported ongoing day-to-day improvement in network reliability. Since 2005/06 the duration of outages has been reduced by 36% and the frequency by 37%, a reflection of the significant investment and priority we have placed over this period on achieving the regulated Minimum Service Standards in line with regulatory requirements. Our customer research is showing our customers are now generally satisfied with the reliability levels.

Our main service challenge this year was our Contact Centre’s general enquiry ‘grade of service’. While trying to address our cost to serve we experienced unprecedented increases in call volumes, largely as a result of the growth in solar energy connections and payment difficulties brought on by the increasing cost of electricity.

We are continuing to look for opportunities, especially in the technology area, to lower the cost of service, while focusing on service levels.

On the positive, disconnection for debt outcomes improve dramatically this year – dropping a significant 33% – thanks to improvements in the way we support customers in financial hardship, as well as changes to processes and systems at the pre-disconnection stage.

While not related, I am also pleased to report that Ergon Energy’s safety performance has continued to improve and is currently second quartile when compared in the Energy Networks Australia annual benchmarking for both lost time injury frequency rate and compensable claims frequency rate measures. I must, however, sadly acknowledge here the fatality of an Ergon Energy employee during the year. Last November Andrew Vaughan lost his life to a snake bite while in the field in Yeppoon. News of his death shocked us all – it also reaffirmed my resolve in striving for a workplace free from harm.

SUPPORTING FURTHER REFORM

In closing, I would like to point out that we are not alone in our efforts to tackle rising prices and the impact on our customers.

The Queensland Government has released its response to the Interdepartmental Committee on Electricity Sector Reform, announcing a number of reforms relating to the future structure and operation of the electricity sector in Queensland. This is the culmination of a number of external industry reviews, which we have participated in, that aim to ease the cost burden associated with the supply of electricity in Queensland.

We are committed to working with the government on the implementation of these reforms, and to building on the significant progress we have made to improve the efficiency of our organisation.

I would like to thank our customers and other stakeholders for their support during the year. I would also like to praise the people of Ergon Energy for the professionalism and dedication, through what has been a challenging, uncertain year.

IAN McLEOD
CHIEF EXECUTIVE
The Review of Operations covers our three strategic themes.

**OUR STRATEGIC THEMES**

- **CUSTOMER DRIVEN**
- **ASSET MANAGEMENT EXCELLENCE**
- **HIGH-PERFORMANCE ORGANISATION**

**OUR STRATEGIC GOAL**

To limit increases to average network charges to less than the CPI over the medium term.
Ergon Energy understands that rising electricity prices are of significant concern to our customers. We recognise that network capital and operating costs are a contributing factor in the electricity price increases and we are taking action to address this. We believe tariff or market reform is also part of the solution, along with our targeted demand related activities.

We are doing all we can to help our customers save on their bills, especially those in hardship. Ergon Energy’s 710,000 customers are geographically dispersed and diverse. This diversity sees us working hard to get the right balance of service quality, cost and choice.

Above: Ergon Energy power worker Joe Torrisi talking with White Cabinetmaking’s John White about his local electricity supply arrangements and how tariff reform could deliver benefits for our customers.
LISTENING TO OUR CUSTOMERS

Ergon Energy has a significant customer insights program, including direct engagement, customer research and complaints analysis. Through all of these channels our customers are continuing to express their concerns over rising electricity prices. Our commitment to responding to these concerns and being a responsible provider is demonstrated by the strategic initiatives highlighted throughout this report.

Our ‘value to customer’ research program, which commenced in 2001, provides a metric that allows us to monitor how our customers judge value in terms of what they receive versus the price they pay. While this year’s overall value score from our residential customers is reasonably positive, recovering ground to 6.8 out of 10, perceptions around cost and affordability remain the lowest performing area. Ergon Energy’s comparison to the peer suppliers is positive at 105 (where 100 is parity). The overall value to business score is stable and is sitting at 6.1 out of 10 compared to 6.0 in 2011/12.

Our Customer Council continued to develop as an important vehicle to build our stakeholders’ capacity to understand the issues, processes and potential impacts of the decisions that are being made as we progress tariff and industry reform and take positions on our future investment priorities. Established in 2011, the consultative forum brings together representatives from Ergon Energy and nine peak organisations from across regional Queensland. These community service, environmental management and business sector organisations are informing and influencing Ergon Energy’s business decisions and helping to facilitate wider community consultation.

Our insights program has supported the development of a comprehensive distribution customer strategy that outlines the necessary steps to maximise the value delivered to and derived from our different customer segments. For each customer segment, the core value drivers and how products and services are to be delivered more effectively against these have been mapped. The strategy will now enable us to better target business improvement throughout the customer value chain.

RESEARCH CONFIRMS FOCUS ON AFFORDABILITY

While the overall value score from our residential customers is reasonably positive, recovering slightly to 6.8 out of 10, perceptions around cost and affordability remain the lowest performing area.

DRIVING GREATER EFFICIENCY AND EFFECTIVENESS

While Ergon Energy does not set retail electricity prices, we recognise that the cost of distributing electricity is a major contributing factor in increases in the retail price of electricity.

For 2012/13 a typical quarterly bill for Ergon Energy’s residential customers was $406.* To help address electricity affordability concerns, we have progressed a range of initiatives this year aimed at limiting future increases in average network charges to Consumer Price Index (CPI) or less by 2015/16.

Central to this is our ongoing efficiency and effectiveness program. This has seen a business-wide focus on overhead cost reduction in the areas of workforce optimisation, overtime, strategic sourcing, contract management, administration and reporting. In excess of $100 million in benefits have been achieved against an initial target of $50 million; supported by organisational restructuring and an adjustment to the workforce, p26.

The next wave of this program will move from business efficiency to business excellence, expanding efforts into the areas of capital optimisation, non-core asset optimisation, outsourcing and improving data and information in order to meet future reductions in operating budgets.

TARIFF REFORM, PART OF THE SOLUTION

To help address affordability-related issues we have also begun a significant review into ‘how’ we charge for the use of our electricity network. To initiate the network tariff strategy review, a range of proposals was developed, aimed at delivering benefits for our customers and Ergon Energy.

We are seeking to establish a strategy which clearly maps out a pathway for network tariffs that will be sustainable, as well as being transparent and able to guide customers in making informed decisions about their energy use.

We see great opportunity in moving from charging largely based on the amount of electricity used to mechanisms that look at the capacity a customer requires from the network at any given time. The proposals include mechanisms such as time-of-use tariffs, kVA denominated demand charges and critical peak pricing. These pricing options provide greater visibility of the cost of supplying power, and in turn will improve the utilisation of the network. Our aim is to spread the electricity load more evenly, manage growth in peak demand and avoid spending millions of dollars in asset augmentation or reinforcement which would ultimately have been paid for by our customers through their bills.

This review, which is not examining the overall quantum of the revenue that we are allowed to recover (p36), or how network tariffs are used in setting regulated retail tariffs, is nearing the end of the stakeholder consultation phase. There will then be significant analysis to undertake on the economic and implementation barriers associated with the proposals that are to be taken forward, including the cost-benefit of rolling-out more advanced meters.
Increasing the cost reflectivity of electricity tariffs has also been a consideration of the Queensland Government’s retail tariff reform agenda. In May 2013, the QCA, as delegated by the government, announced new regulated retail tariff structures, as well as the prices for 2013/14. Significant system and process preparations were made internally to implement the changes for 1 July.

The wide-ranging reforms included changes to tariff pricing, the introduction of a new residential tariff – Tariff 13 – designed to support PeakSmart air conditioners and the phasing out of some tariffs. The most significant price rise was an overall 22.6% increase to Tariff 11 – the continuous-supply residential tariff.

**Ergon Energy will continue to be actively involved in both retail and network tariff, as well as broader market reform.**

To take advantage of the Tariff 13, the customer must have an appropriately-sized PeakSmart air conditioner fitted with a signal receiver. Ergon Energy is offering up to $100 cash back to assist with the cost of connecting the signal receiver to ensure the take up of this new offer. Tariff 13 is a time-of-use tariff that provides a continuous supply of electricity with different pricing depending on the time of day that electricity is used. During the peak period between 4pm and 8pm on weekdays, Tariff 13 is priced higher than the shoulder and off-peak periods.

The QCA is implementing transitional periods for customers on most of the obsolete tariffs. After the determination was made, the government passed legislation that limits increases to these obsolete tariffs, including the agricultural tariffs, to 10% per annum.

Ergon Energy will continue to be actively involved in both retail and network tariff, as well as broader market reform.

**HELPING OUR CUSTOMERS SAVE**

During the year we continued to help customers manage their electricity bills by educating them on how to save energy and ultimately cut costs. The activity centred on a revamp of the information provided on our website, structured around the seven typical high-energy consuming appliance categories. This new content also includes seven infomercial style videos designed to enhance the customer experience on our website and help us play our role as part of the solution.

The videos will also be the cornerstone of a new Customer Assist initiative aimed at helping those customers who are most at risk of not being able to pay their power bills.

We also continued to promote direct debit as a useful tool to assist in managing high bills, especially for those in lower socio-economic areas or with medium-to-high electricity use.

The website, yourpowerqld.com.au, a joint initiative with Energex, continued to be promoted as a single reference point for accurate, reliable and impartial information on energy conservation for new home builders.

To help customers save on their pool running costs, we continued to incentivise them to use Tariff 33, our economy off-peak tariff for pool equipment and to purchase energy efficient pool pumps. We also introduced a program to encourage customers to change their electric water heater to a cheaper economy tariff. These initiatives are delivering immediate savings to our customers, while helping improve the utilisation of our assets and reduce what we need to invest in the network.

A greater emphasis was also placed on assisting business and corporate customers to manage their consumption and costs. A broad range of new activities provided these customers with information on energy efficiency, electricity tariffs and payment options. As the electricity usage behaviours of a business’s employees are often a significant contributor to high consumption, this year we developed a competition-based program consisting of stickers, posters, a DVD and suggested messaging to assist employers in engaging with their staff to change their energy usage habits.

The isolated communities’ energy saving program, known as powersavvy, also continued to support energy usage behavioural change.

**ASSISTANCE FOR THOSE IN HARDSHIP**

Ergon Energy has a dedicated Customer Assist program to support customers who are in financial hardship and unable to pay their electricity bills. During the year, the program’s approach was increasingly segmented, with the tailoring of products and services to whether the customer is facing short, medium or long-term hardship.

This saw the revamp of our payment plan product to better match payments with the customer’s anticipated future energy use. Front-line staff were also up-skilled to enable them to better manage more in-depth conversations with customers regarding their payment difficulties. This has meant that customers experiencing short-term hardship can now be supported at their first point of contact with us.

Other improvements have included more defined entry and exit criteria for the program; clearer customer messaging on the customers’ responsibilities, including SMS instalment reminders; electricity bill assessments to look at ways to reduce power bills; and more assistance in applying for the government’s Home Energy Emergency Assistance Scheme.

Our aim is to continue to increase the number of customers graduating from the program with the financial capability and energy usage knowledge to meet their energy debts on a sustainable and independent basis. This focus has seen the number of participants in the hardship program return to 2010/11 levels (4,000 from a peak of 5,600 in 2011/12), which equates to approximately 0.6% of our customer base.

These efforts, as well as changes to processes and systems at the pre-disconnection stage, saw disconnection for debt outcomes improve dramatically – dropping a significant 33% compared to 2011/12.

We also continued to engage with community groups to enlist their support in promoting the program to vulnerable customers. Improvement to our reporting on hardship is also allowing us to more proactively identify issues and assist vulnerable and disadvantaged customers.

Future improvements will include the use of real time usage monitoring to help customers know when they are using more electricity than they can afford. We are also trialling monthly billing in Townsville as a means to support a group of customers in hardship. Our focus is on closing the gap between energy usage and financial capacity.
The wind and flooding associated with the system saw more than 90,000 customer power outages recorded – the largest number of customers without supply at one time was 22,800 on 27 January 2013. This included customers who had their power disconnected for safety reasons due to rising flood waters. The system also raised the need for additional inspection and maintenance work in the months that followed. p23

Outage performance in the South West and Wide Bay was also impacted by heavy storms late in 2012; and the Far North and Central supply regions were impacted by a number of bushfire related events.

Favourable performance was also delivered against five out of the six reliability targets set by the AER’s Service Target Performance Incentive Scheme (STPIS). This framework provides an incentive to achieve performance better than the STPIS targets for unplanned outages and customer service performance (capped at 2% of total regulated annual revenue across the STPIS parameters). The strength of the improvement in unplanned outage performance for this financial year led to a significant financial reward. p36

In addition to monitoring the duration and frequency of outages compared to MSS limits and STPIS, we also monitor the worst performing feeders in our distribution network.

Summary performance reporting of these is available in our Distribution Annual Planning Report, to be published on our web page at the end of September 2013. Ergon Energy has very few peer networks to provide comparisons of our network’s reliability performance. The Huegin Consulting Group’s Electricity Distribution Business Benchmarking Study 2012 found that we share similar geographical sparsity and customer consumption patterns with Power and Water Corporation, and similar customer density with Essential Energy, but we are mostly unique when compared to other network service providers. The customer density of Ergon Energy’s network ranked second lowest compared to the nine different distribution companies across Australia and New Zealand in the independent assessment.

The reliability performance data reported here and to our regulators is audited annually by independent auditors.

**Profile of Distribution Network (Feeder Lines)**

Ergon Energy operates the longest distribution network in Australia with only 4.4 customers per kilometre of line. Our reliability challenges are both common to the industry and unique – with fewer than a third of our customers living in urban areas, the majority are supplied through radial lines with limited redundancy in the event of a fault.
### THE STATISTICS

#### NETWORK RELIABILITY PERFORMANCE

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
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<tbody>
<tr>
<td>• Urban Distribution</td>
<td>≤147</td>
<td>135</td>
<td>136</td>
<td>149</td>
<td>222</td>
<td>217</td>
</tr>
<tr>
<td>• Short Rural Distribution</td>
<td>≤412</td>
<td>341</td>
<td>393</td>
<td>426</td>
<td>544</td>
<td>609</td>
</tr>
<tr>
<td>• Long Rural Distribution</td>
<td>≤932</td>
<td>952</td>
<td>1,042</td>
<td>828</td>
<td>999</td>
<td>1,108</td>
</tr>
</tbody>
</table>

#### Frequency Index (SAIFI)

| • Urban Distribution   | ≤1.9        | 1.5            | 1.4            | 1.6            | 2.3            | 2.3            |
| • Short Rural Distribution | ≤3.9       | 3.0            | 3.6            | 3.5            | 4.6            | 4.9            |
| • Long Rural Distribution | ≤7.3       | 6.2            | 7.0            | 5.3            | 7.2            | 7.7            |


### MEETING EXPECTATIONS FOR CONNECTIONS

The establishment of the Major Projects business unit in 2012 has led to increased customer communications and better management of the demand for major customer connections, which has been fuelled in large part by activity in Queensland’s resources sector. Changes to processes and procedures are continuing to be implemented to improve response times and customer service. As a result, overall customer satisfaction in the major connection space has significantly increased – in June 2013, 55% of customers were either satisfied or very satisfied with the service (compared to 25% in the benchmark wave).

The pricing model and service classification introduced in 2010 is now providing large customers with a real choice between Ergon Energy or other approved suppliers to construct customer-specific assets. Some customers have already elected to invoke the ‘approved supplier’ option; generally to enable increased control of their delivery and cost risks. This has supported process improvements and greater responsiveness on our side of this arrangement. Our preference is for customers to own and operate sole connection assets or to alternatively build and transfer connection assets to us. The expectation is that this will drive the creation of an increasingly competitive market for these works.

### DELIVERING ON OUR CUSTOMER CHARTER

Ergon Energy operates under a range of Guaranteed Service Levels (GSLs) as part of the Electricity Industry Code, including the notification of planned interruptions and network reliability standards. They also include new connections and reconnections timeframes, wrongful disconnections, the resolution of hot water supply matters and appointments.

Our performance in these areas saw a 21% drop in the overall number of payments made to customers as compensation for performance failure. Performance improvement around the notification of planned interruptions saw the number of these payments almost halved, thanks to a renewed focus and greater staff awareness. The 3,594 payments made were as a result of data integrity issues, notification calculation errors and works program priorities.

Reliability payments, however, increased due largely to the impact of an unplanned outage in December 2012 where supply was not restored to 1,088 customers within the required timeframe.

We have continued to maintain a consistently low level of Energy and Water Ombudsman Queensland escalated complaints. Ergon Energy accounts for a low 3% of all of Queensland’s energy related complaints despite serving a third of Queensland households. These results reflect well on Ergon Energy’s internal complaint management staff and processes.

Parallel to the organisational changes under way, most notably to a single point accountability for our retail arm, we commenced a review into the way complaints are currently being managed across the business. The aim is to ensure the business has the capability to resolve complaints at the first point of contact or, where this is not possible, to find the best resolution pathways and options. Overall satisfaction with our complaints management process was down slightly to 57%, from 58% in 2011/12.

Our complaints are mainly around solar power issues, electricity account related, field activity, meter reading and quality of supply. This customer feedback remains core to continuous improvement. Meter reading is one area that is continuing to receive management attention after contract resourcing and weather related access issues caused an increase in complaints in this area.

### SOLAR ENERGY SYSTEMS CONNECTED DOUBLES

Managing a surge in solar connections was a major focus of our service delivery during the year – with 32,000 new connections made.
Operational improvements have also supported improved service delivery for our non-complex customer-initiated connection and augmentation projects. Our target for a three-month rolling average delivery time from contract acceptance to construction was surpassed at the end of June, with a strong 155 day result compared to the 170 day target. The most challenging region continues to be the Central region, which is seeing greater demand due to activity in the resources sector. The positive overall result has been achieved through improved planning and collaboration and the active management of resources and work priorities; despite the significant challenges presented by the widespread flooding experienced earlier this year.

During 2012/13, 32,000 new solar energy (photovoltaic) systems were connected to the network (up from the 24,000 solar-connections and the associated meters installed in 2011/12). We saw a rush of applications following the Queensland Government’s announcement that it was going to reduce the feed-in-tariff associated with the Solar Bonus Scheme (from 44 cents to eight) in July 2012 – more than 30,000 applications were received in the two weeks prior to the cut-off date. The management of these applications, the technical assessments required to provide approvals and the metering installations required extensive resources throughout the year. Ongoing engagement with the industry has also been required to support positive outcomes for our customers.

Since the feed-in-tariff was lowered, we have still received an average of 1,200 new applications per month, trending upwards towards the end of 2012/13. This is a clear indication that even without the generous tariff, customers still see solar as a prudent financial, as well as environmentally responsible decision.

**CONTACT CENTRE DELIVERS DURING DISASTER**

Customer satisfaction with our telephone service improved this year to 92% (from an average of 86% in 2011/12).

The Contact Centre consistently delivered a monthly ‘grade of service’ result above target for faults and emergency contacts, despite significant weather-related network events.

This supported positive customer sentiment and our efforts to restore supply as fast and safely as possible during our response to the extended impact of Cyclone Oswald. At the beginning of the response, however, Telstra lost connectivity to central and northern Queensland for 24 hours, preventing customers calling our Contact Centre. This led to a review of our telecommunications arrangements, PABX configuration and related scenario planning. During the height of the event the Contact Centre was supported by online communications – over 80,000 people visited our web page and Facebook page ‘likes’ and ‘posts’ reached 173,000 people.

**THE STATISTICS**

<table>
<thead>
<tr>
<th>CUSTOMER SERVICE DELIVERY</th>
<th>2012/13</th>
<th>2011/12</th>
<th>2010/11</th>
<th>2009/10</th>
<th>2008/09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value to Customer – Residential Research Parity (peer average)</td>
<td>105</td>
<td>105</td>
<td>103</td>
<td>109</td>
<td>100</td>
</tr>
<tr>
<td>Value to Customer – Residential Research Score</td>
<td>6.8</td>
<td>6.5</td>
<td>6.5</td>
<td>6.9</td>
<td>7.1</td>
</tr>
<tr>
<td>Value to Business – Research Score</td>
<td>6.1</td>
<td>6.0</td>
<td>6.1</td>
<td>6.5</td>
<td>na</td>
</tr>
<tr>
<td>Call Volumes to Contact Centre</td>
<td>1.76 million</td>
<td>1.46 million</td>
<td>1.67 million</td>
<td>1.55 million</td>
<td>1.45 million</td>
</tr>
<tr>
<td>Contact Centre – Customer Satisfaction Target ≥85%</td>
<td>92%</td>
<td>86%</td>
<td>88%</td>
<td>91%</td>
<td>90%</td>
</tr>
<tr>
<td>General Enquiries – Calls Answered in 30 Seconds</td>
<td>≥70%</td>
<td>47%</td>
<td>72%</td>
<td>64%</td>
<td>71%</td>
</tr>
<tr>
<td>New Connections – Average Time from Contract to Construction Target ≤170 days</td>
<td>155 days</td>
<td>170 days</td>
<td>218 days</td>
<td>162 days</td>
<td>165 days</td>
</tr>
</tbody>
</table>
We consider our stakeholders (p2) to be the groups or individuals who could potentially be impacted by our activities or could affect our ability to achieve our objectives and serve our customers. The principles of our Stakeholder Engagement Policy are around being inclusive, engaging on material matters and being responsive. By clearly understanding our stakeholders’ needs and expectations, we are better able to ensure the right level of engagement and make appropriately informed decisions; and ultimately deliver on our business priorities and maintain our ‘licence’ to operate.

This is particularly important in managing the impacts of our infrastructure program on the community. For all of our new major infrastructure projects, a community impact assessment is undertaken by community engagement specialists. Then formal engagement guidelines and responsibilities dictate actions throughout the concept development, planning and delivery phases. Appropriate community participation in the decision making in this area builds trust and credibility for the process and enables us to be responsive to community concerns and suggestions. Efforts to further embed the process into business practice this year saw consideration given to how we best measure our performance in this area.

In this and many other areas, we continued to work closely with local government to ensure we best deliver on our respective obligations to the community – from energy conservation to disaster response planning and activities, to street lighting and streetscape beautification.

**SUPPORTING OUR INDIGENOUS COMMUNITIES**

Ergon Energy supplies the majority of regional Queensland’s Indigenous communities. They are part of one of the most disadvantaged consumer groups in Australia with lower incomes, high welfare dependency, higher costs of living and poor health outcomes. Providing services to these communities is both challenging and costly, with the majority being remote and supplied by stand-alone diesel power stations.

During the year, in addition to contributing to the Queensland Government’s Reconciliation Action Plan 2012-2015 (RAP), we continued to work towards establishing our own RAP to ensure we best support these communities and focus our efforts in the areas where we can promote reconciliation.

Our efforts are around increasing our employment of Aboriginal and Torres Strait Islanders as an under-represented group in our workforce (p37) and building these communities’ capacity to reduce their energy consumption and better manage their electricity bills. The latter is being delivered through the energy saving program known as powersavvy. The community and people-centred program, which was created in 2009 to target residential, school and commercial electricity use in Queensland’s isolated communities, continued to maintain and sustain the energy usage behavioural changes across the Torres Strait and Gulf communities. At the same time, the program was extended into other remote communities in western Queensland and on Cape York.

Customers are making real savings through the program, and it is helping us to reduce the fuel costs associated with the diesel-fired generation that is used to supply these communities. p32 Throughout the year 112 home energy consultations, 18 school visits, and 135 commercial audits were conducted. The commercial projects delivered ranged from designing a major upgrade to the refrigeration systems at community stores at Pormpuraaw and Doomadgee to installing 25kW of solar photovoltaic panels and lighting changes at Birdsville Hotel.

In addition, we have continued to look for other ways to cost effectively maintain open communication channels with these communities. This is seeing us participate in the regular Managers of Aboriginal Shire Councils Forum hosted by the Local Government Manager Australia.

We also undertook a major community consultation and qualitative research exercise to learn more about these communities’ electricity payment practices. The card operated meters used in our isolated, largely Indigenous communities enable customers to manage electricity expenses as they are incurred, through prepayment and also allow costs to be shared among household members rather than placing financial pressure on a single individual.

The current prepayment metering system was introduced with the electrification of the Torres Strait islands in the early 1990s. We now have over 4,000 customers across these communities using the Amply magnetic card operated repayment meter for their electricity supply. However, these ‘magnetic’ meters are being phased out by the external provider, necessitating a new solution to be selected and deployed in the near future.

Feedback from the three geographically dispersed communities participating in the research has provided Ergon Energy with valuable insights into the preferred prepayment meter replacement options, as well as preferred community engagement methods to be used in the roll out of a new electricity metering system.

**CONNECTING THROUGH COMMUNITY PARTNERSHIPS**

Ergon Energy’s Community Partnership program continued to deliver significant community value, as well as long-term commercial benefits to Ergon Energy. Our sponsorship investment helps us to meet our corporate responsibilities, as well as support the engagement needed to inform our decision making and support our ability to operate effectively at the local level.

A key focus area this year has been on building community awareness of energy efficient behaviours. We believe addressing energy affordability, and the associated network utilisation challenge, can be supported by educating the community about energy efficiency and helping them in adopting efficient energy choices.

This position is central to our Community Fund. The grant program is providing community organisations funding to bring their energy conservation and electrical projects to life. One of the projects to benefit was an upgrade to the power distribution at a local Men’s Shed. The Gladstone Men’s Shed, which offers vital support to men who often grapple with life’s challenges in silence, was one of the 12 applicants from across Queensland to be awarded a grant.
Ergon Energy’s customers also continued to show outstanding generosity, having now donated a total of $7 million to the Royal Flying Doctor Service through their power bills. The milestone came as the iconic RFDS celebrated its 85-year anniversary in providing vital medical services to remote communities across Australia. As part of the 13-year donation scheme, customers can contribute through their quarterly bill, or make larger one-off donations.

**COMMUNITY ELECTRICAL SAFETY AWARENESS**

Ergon Energy launched its first Community Electrical Safety Awareness Plan in 2007 with the aim of raising electrical safety awareness in the community and changing behaviours and attitudes.

In the past 12 months we have been buoyed by the degree of ownership stakeholders have taken, both of our community safety program and electrical safety in general. Numerous industry body members have made proactive requests for safety advice and material and have shared innovative ways in which they believe their workplaces can be made safer.

Despite this, however, incidents increased. In 2012/13, 323 incidents were recorded, a 13% increase from last year, breaking a run of five years of decreasing incident rates. In addition, there were several serious electrical incidents, although fortunately no fatalities. The major increase came as a result of motor vehicle accidents, being up 27% to 104 incidents. Increases were also seen in earthmoving, up by nine incidents to 47 in total, and building construction, an increase of 11 incidents to 16 in total, mainly related to cranes contacting our assets.

While protecting community wellbeing is the overwhelming priority of our efforts, contact with overhead powerlines can also cause power outages, inconvenience customers and add costs to operating the network through repairing the damage and increases to customer minutes without electricity supply. In 2012/13, over 11 million customer minutes were lost and 92,000 customers affected by these types on incidents.

**Targeting major ‘at risk’ industries**

We know that changing safety attitudes is facilitated through sharing information. Our community safety team, and employees based at our offices and depots across the state, work tirelessly to deliver electrical safety messages and highlight the very real consequences of the wrong attitude to electrical safety.

We again collaborated with a range of external organisations, such as Cotton Australia, Energex, Dial Before You Dig and the Building Services Authority, to share strategies for reducing electrical safety incidents. During the year we also participated in major industry events, distributing more than 100,000 individual items of ‘Look Up and Live’ campaign material. Safety presentations were also delivered in 65 different locations to approximately 11,000 people.

These efforts were supported by a new advertising campaign targeting the cotton, road transport and sugar industries, as well as a new community engagement program: ‘Working together to make this summer the best it can be’. The mass market campaign was developed to address the challenges of summer, including preparing for and the safety risks associated with storms, cyclones and floods. This platform was also further extended for our home electrical safety communications, including safety around service wires, ‘don’t do it yourself’ and general home electrical wiring messaging.

These programs achieved outstanding results in audience awareness and behavioural change. We also saw network incidents improve in the last quarter of 2012/13 – and June recorded one of the lowest monthly incident rates in what is traditionally one of the highest months of the year for network-related accidents.

While the year saw an increase in safety incidents involving the electricity network overall, a new safety campaign in the second half of the year appears to have rekindled awareness and helped arrest the upward trend.

**CONCERNING RISE IN COMMUNITY NETWORK RELATED SAFETY INCIDENTS**

![Graph showing safety incidents](image)

The increase in safety incidents this year was largely as a result of an increase in motor vehicle accidents; incidents associated with Earthmoving and Building construction also increased.
Our strategic focus on asset management excellence is about finding the right balance between ‘investing in’ and ‘driving value from’ the asset base to ensure we deliver a reliable, efficient and sustainable electricity supply for our customers.

In response to the slowdown in demand for electricity, we’ve scaled back our works program. At the same time, we’ve continued to develop an increasingly integrated, risk-based asset management approach to improve our efficiency and effectiveness. All of the initiatives highlighted here are part of our commitment to limiting future increases in network charges.

Above: Executive General Manager Asset Management, Tony Pfeiffer, discussing the challenges associated with our asset investment planning with Program of Works Delivery Manager, Tracey Tuxworth.
RESPONDING TO PEAK DEMAND

DEMAND REMAINS STEADY

Ergon Energy’s aggregate peak in network demand has remained steady; significantly less than anticipated. This year’s peak of 2,380MW in December was down slightly on the previous summer.

This reflects the slowdown in consumption growth generally. However, it was also partly due to the transfer of load from two mines in the Mackay region off Ergon Energy’s distribution network, as well as the effects of the weather system associated with Cyclone Oswald which occurred in January 2013; during our peak demand period.\textsuperscript{23}

The most significant slowdown has been in average household use – this year the downward trend saw a 5% fall from 2011/12. Overall energy distributed was down slightly to 15,097GWh, and again well below forecast.

Maximum or peak demand, however, is still forecast to increase steadily into the future. To best inform our forecast we are continuing to build on our understanding of how tariff reform and other demand-related matters are best incorporated into our aggregate demand modelling. The highest maximum demand experienced to date for the whole of Ergon Energy’s grid-connected network was 2,584MW during the summer of 2006/07.

Peak demand on the network is remaining relatively level – with a peak of 2,380MW in December 2012. Ergon Energy monitors the major influences of peak demand to best formulate the five-year capital works program.

THE STATISTICS

<table>
<thead>
<tr>
<th>ENERGY USAGE SNAPSHOT</th>
<th>2012/13</th>
<th>2011/12</th>
<th>2010/11</th>
<th>2009/10</th>
<th>2008/09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population of Ergon Energy’s Service Area\textsuperscript{1}</td>
<td>1.49 million</td>
<td>1.48 million</td>
<td>1.45 million</td>
<td>1.44 million</td>
<td>1.43 million</td>
</tr>
<tr>
<td>No. of Distribution Customers</td>
<td>712,634</td>
<td>700,989</td>
<td>690,708</td>
<td>680,095</td>
<td>667,502</td>
</tr>
<tr>
<td>Average Electricity Use per Household</td>
<td>6,811kWh</td>
<td>7,166kWh</td>
<td>7,242kWh</td>
<td>7,623kWh</td>
<td>7,978kWh</td>
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<tr>
<td>Maximum Coincident ‘Peak’ Demand</td>
<td>2,380MW</td>
<td>2,417MW</td>
<td>2,349MW</td>
<td>2,542MW</td>
<td>2,406MW</td>
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<tr>
<td>Electricity Distributed</td>
<td>15,097GWh</td>
<td>15,212GWh</td>
<td>14,544GWh</td>
<td>15,678GWh</td>
<td>15,722GWh</td>
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<tr>
<td>Electricity Generated by Ergon Energy</td>
<td>114GWh</td>
<td>118GWh</td>
<td>117GWh</td>
<td>114GWh</td>
<td>112GWh</td>
</tr>
</tbody>
</table>

\textsuperscript{1} 2012/13 estimate only. Other years are based on most recent Census.
MAKING NECESSARY INVESTMENTS

As result of peak demand being well below forecast and demand for new customer-requested network connections remaining suppressed, a detailed review of our works program was undertaken. This led to scaling back our capital works program in September 2012 (incorporated into a revised SCI p7).

This saw our capital investment this year remain in line with the previous year at $872 million. We are now expecting our five-year capital investment program up to 2015 to be $1.3 billion below what had been originally allowed for prior to the GFC.

The capital expenditure to date for this regulatory control period, which relates to Standard Control Services, is 44% of what was allowed for (totalling $798 million in this financial year as shown in the graph), even though we are three years into the five-year period.

The projects Ergon Energy initiated – an investment of $664 million – saw us undertake significant replacement of ageing assets, targeted network augmentation or reinforcement works, and the delivery of reliability improvements and other initiatives. An additional $208 million was invested into network connections and augmentation works initiated by our customers.

Key Ergon Energy-initiated capital projects included:

- continuation of both our Reliability (p23) and SWER Improvement Programs, with over $25 million and $14 million invested respectively. Reliability improvement is also being supported by the $17 million invested this year in air break switch refurbishment.
- establishment of new and upgrades to the existing 11kV powerline network to augment supply to high growth townships of Mackay, Gladstone and Rockhampton, valued in excess of $12 million.
- $4 million installation of a second transformer at Tanby zone substation Central Queensland and $6 million to progress the new zone substation at Broadlea inland from Mackay.
- $4 million in works completed this year at the Point Vernon zone substation in the Wide Bay-Burnett region, as part of an increase of 37MVA of installed transformer capacity.
- commissioning of the $37 million redevelopment of the Dalby Central zone substation adding an additional 20MVA of capacity.

- the $28 million capital program for our isolated communities, which included the replacement of ageing generation equipment at Coen and Boigu Island and the installation of a solar power station at Doomadgee. p.32
- progress on the $140 million UbiNet project, which will provide us a secure communication network for key infrastructure. p.27

DEMAND MANAGEMENT OUTCOMES STRONG

A major element of our strategy to reduce pressure on electricity prices is to engage the community in the way electricity is used to improve the load profile of our network and increase the utilisation of our assets. This allows for the deferral of costly investment as has been achieved this year.

For our region, daily peak demand is generally between 4pm to 8pm. The more ‘critical’ annual peak demand occurs in most areas during the summer months, lasting for only short intervals and fluctuating from year to year.

The delivery of our demand management program is performing strongly. More than 47MVA or 40MW of targeted peak demand reductions have been achieved from non-network alternative initiatives for 2012/13 (against a SCI target of 25MW). Since 2010, the program has delivered 107MVA of peak demand reductions – placing us on track to reach 122MVA by 2015. This success is enabling us to defer millions of dollars in costly network augmentations.

A significant proportion of this has come from further improvements to the operation of the load management technology that supports off-peak water heating in North Queensland. Changes to the switching times for electricity supply to hot water systems in the region has seen a further 22.4MVA reduction in peak demand.

We have also continued to have success with our mass-market initiatives. The take up of our ‘Save a Bomb’ pool program’s cash back offers – of between $150 and $250 – for either changing to off-peak tariffs or purchasing energy efficient pumps has this year helped reduce peak demand by a further 1.5MVA. We are also promoting the economy tariffs to new customers, supporting a 5.3MVA benefit.

Part of this success has come through engagement with electrical contractors.

The remaining demand management reductions were achieved through commercial and industrial customer participation in the program to address specific network capacity limitations. This included an embedded generation agreement with AGL in Moranbah (9.4MVA); additional contributions from the Townsville commercial and industrial customer demand management pilot (5.2MVA); delivery of a chilled water plant and power factor correction measures with James Cook University in Cairns (1.2MVA); additional power factor correction gains in Toowoomba (1.3MVA); and customer demand response capacity across Mt Isa and the Bohle industrial estate in Townsville (1.8MVA).
This year also saw Ergon Energy’s Townsville Solar City project on Magnetic Island come to a close, in line with the end of the funding contracted to the seven Australian Government projects. This project has made a significant contribution to the delivery of our five-year demand management target. The project reduced peak demand on the island by 16%, down to 2005 levels, deferring the need to build a costly third submarine cable to the island by at least eight years. The project demonstrated that a comprehensive community engagement program can drive real change to the benefit of customers, electricity utilities and the environment. Despite ending, trials at the heart of the project around solar and hot water load control will continue as part of other sustainable energy initiatives being undertaken. p24

RELIABILITY IMPROVEMENT CONTINUES

Delivering customer value has also been central to our Reliability Improvement Plan. The implementation of an integrated, whole-of-business plan has been critical to delivering on our regulated reliability standards. This suite of operational and asset-focused initiatives, which are now being delivered as a business-as-usual program of works, have supported ongoing improvements in network reliability.

The improved operational response has focused on planned and unplanned outage management, including improvements to works scheduling and packaging, reporting processes and tools and the use of back-up mobile generators. An emphasis is also being placed on returning key out-of-service plant to service and reducing network risk.

Our storm season preparedness activities also remain critical to our emergency response capability. These range from preventative maintenance to our specific disaster scenario planning activities.

Vegetation management is one of the key outage prevention programs. Due to a range of efficiency measures, the investment in this area this year has been reduced to $70 million, after being escalated over recent years to address a backlog in rural vegetation clearing. Information on vegetation clearances is now being provided by our remote observation capability. p27

During the past summer, weather forecasting services were also being used to predict storm activity and prepare additional resources to respond to faults.

Last storm season’s challenge was Cyclone Oswald. The category one system moved on to Cape York Peninsula on 21 January 2013 and travelled overland to become a serious weather event for Queensland’s north.

The storm system then moved down the coast, impacting 40% of the Ergon Energy distribution area, only dissipating after crossing the state’s border after a week of destruction. Around 640 employees were involved in the $20 million plus response effort.

Over the longer term, further reliability improvement will be realised from asset-focused initiatives largely centred on expanding the functionality of the network. This has included outworking the replacement of a large number of defective switching devices, including air break switches.

The accelerated upgrade of Ergon Energy’s network monitoring and control capability, through the installation of SCADA (Supervisory Control and Data Acquisition) technology into 56 zone substations, was completed. This investment, and the developing UbiNet telecommunications network (p27), provides the foundation for the Distribution Management System capability planned. Asset replacement programs are also being targeted at the worst-performing feeder lines.

A continuous improvement focus has also remained around information and technology. This has included deploying and trialling a range of ‘smart’ technologies identified for the network, such as intelligent remote controlled switches and line fault indicators. These devices will increasingly assist the field crews in identifying a fault in a section of the network during the investigation phase immediately following an unplanned supply interruption.

Collectively these efforts have addressed the network performance concerns that we were facing a number of years ago and we are now in a strong position to meet our current regulatory obligations. Performance outcomes, however, will continue to be dictated primarily by the severity of the weather conditions during the storm season.

To ensure expenditure in this area continues to deliver customer value, we support the recommendation by the Industry Review Panel, accepted by the Queensland Government, that the current prescriptive security and reliability standards be replaced with a more economically derived, outcomes-based approach. Any notable matters relating to our network security policy that results if this recommendation is outworked will be published in future annual reports.

LOOKING TO THE FUTURE

INTEGRATING A DEMAND SIDE RESPONSE

Ergon Energy’s investment plans have historically been based largely on traditional poles and wires solutions, however, we’re increasingly looking for the best ‘capacity solution’ including modular traditional network and smart network solutions and demand side participation. The aim is to optimise our investment and efficiently meet our contingency supply and reliability needs, while increasing network utilisation.

We are already integrating low-capacity skid-mounted zone substations and standby generation as economic modular solutions, rather than initiating an immediate traditional full-scale infrastructure build. This staged approach to meeting a gradual increase in load and responding to security criteria thresholds, removes the impetus of relying completely on forecasting to make decisions and allows risk to be managed more efficiently and effectively.

The small staged approach is also allowing us to better integrate demand management and demand response alternatives into our network augmentation plans – to provide lower cost alternatives and optimise our infrastructure investment.

This approach is providing greater flexibility in the timing of decisions around larger network investments.

The purpose of our longer term plans is to avoid work being scheduled too early, resulting in resources being directed away from areas of greatest need, or too late, ultimately risking a reduction in reliability of supply.

Leading the way is our response to the high-growth industrial area supplied from the South Mackay zone substation. Here we are introducing a more efficient delivery model for demand-side participation that invites customers and the third-party market to provide solutions. The invitation to participate is being presented as an online demand reduction incentive map that specifies the problem to be solved (including the time of day or year that demand peaks), the boundaries of the area, the financial incentive we can pay customers in that area for demand reduction and the rules around participation.

The intention is to eventually deploy this model more broadly. However, even where this model will not be rolled out immediately, we are piloting other ways to consult with interested parties to identify the most prudent solution or alternatives as network constraint or capability issues emerge, in line with the future RIT-D requirement. More detail on this is available in our Demand Side Engagement Strategy document available online.
This will also be supported by the publication of our first Distribution Annual Planning Report (p49) as per requirements in the National Electricity Rules (following on from the Australian Energy Market Commissions review of the National Framework for Electricity Distribution Planning and Expansion).

MOVING TO A RISK-BASED APPROACH

Our network investment planning is also increasingly taking a risk-based approach. This is being supported by a growing understanding of how our assets are performing and their requirement for corrective action, replacement or augmentation. As the proportion of assets approaching the end of their viable lives grows, this approach will be critical to achieving targeted security and reliability of supply outcomes and avoiding spiralling costs.

This year network maintenance costs increased largely due to the corrective maintenance work related to Cyclone Oswald - these costs were 2.7% of the regulated asset base compared to a target of 2.4%. Asset replacement costs were also escalated this year, as funds were reprioritised to cover higher costs per defect and the required scale of the asset replacement program.

Quantitative risk assessments at the substation level across standard risk categories have been incorporated during the year into a new business case tool, which will allow consistent comparative assessment of risk in investment decisions and allow consideration of risk when optimising the portfolio. The new capability is also being extended to other areas of the network.

This work complements joint working activity with Energex around embedding condition-based maintenance framework. This is delivering efficiencies in the substation maintenance area.

We are currently progressing a risk-based approach reviewing pole inspection cycles. Risk assessment is also continuing to be used to prioritise initiatives in the Network Adaptation Plan, developed jointly with Energex, which outlines our response to the risks associated with climate change.

Collaboration has also seen more savings through the continued use of less costly aluminium based cables at various voltage levels. We have been collaborating with Energex on a range of joint working initiatives since 2007 - this will continue under the new asset management joint business practice model.

INCREASING CONTROL AND AUTOMATION

To respond to the challenges of powering a modern world, we have begun developing in an increasingly intelligent network - one with greater connectivity and automation.

This direction includes the roll out of the UbINet project, and its cellular data network. p27 We are also planning to implement a Distribution Management System, and target investment in our network monitoring and analytic capability. These will allow us to remotely monitor, analyse, and manage the network, to more effectively improve network performance and enable initiatives to better manage demand on the network.

In addition to the challenges discussed so far, our customers are also increasingly looking for greater choice and even 'energy independence'. This is being stimulated by the fall in prices for solar, batteries and other technologies. In this changing environment, it is becoming increasingly cost prohibitive to use traditional technologies and management tools.

Leading the way in this area is our Energy Sense Communities program, which is part of a joint smart grid trial program with Energex. The integrated program initially focused in Townsville, includes 33 'smart asset management' and 'network of the future' initiatives with an objective to trial new technologies and/or deliver specific capital deferment outcomes related to reduced demand. The initiatives relate to demand management, solar energy systems, electric vehicles, energy storage, network automation, smart customer appliances and community engagement programs.

SOLAR AND OTHER TECHNOLOGIES

The rate that our customers are taking up solar remains a significant challenge. In 2012/13, we supported the connection of 32,000 new solar photovoltaic systems to the network – taking the proportion of our homes with systems installed to 14%. p17

The total capacity of the systems installed is now 255MW - this has contributed to a drop in overall household energy consumption (p27) and impacted the per unit or kilowatt hour price of electricity. The other financial impact is the Queensland Government’s Solar Bonus Scheme. p33

The government is currently considering options put forward by the QCA to reduce the future impact of the solar feed-in-tariff.

The main technical impacts related to solar arise from it causing an increase in network voltage, exacerbated by solar systems with voltage regulation not set correctly. Historically, the network was not designed for electricity to flow intermittently in both directions.

To enable the effective operation of these systems requires considerable issue investigation, as well as network adjustments or upgrades were necessary, to minimise voltage and other issues.

Among the other technical interventions being used to support our customers in using solar, we are progressing the implementation of reactive power control-capsule inverters to moderate voltage fluctuations and minimise the network impact. More sophisticated inverter control characteristics promise to be particularly important to minimising the impact of solar on our SWER and isolated networks, where the issues around voltage regulation and intermittency are magnified.

Electric Vehicles (EVs) could bring similar challenges in the future. To provide a better picture of what these challenges could be if EV sales suddenly escalated, we conducted an 18-month real-life trial. As one of the first research projects of its kind in Queensland, a fleet of five Mitsubishi i-MiEVs was driven by two groups of customers in Townsville (during separate eight-month trial periods) so we could compare the different driving patterns of households close to the CBD to those further away. The insights gained are now informing discussions on future tariffs. The right tariffs will be needed to manage the potential demand from EVs so that we can both meet our customer re-charging needs while directing as much load as possible to off peak periods to avoid the need for costly upgrades of the electricity network. The EVs were economical compared to other popular cars with an average 'fuel' cost of $4.81 per 100km - a small petrol car costs around $11.54.

In another initiative, we are trialling automated demand reduction in large commercial premises. This technology involves an interactive system that combines building automation and dynamic messaging that asks customers in advance to reduce electricity on forecast peak demand days.

We are also benefiting from the lessons learnt through the development of our successful Grid Utility Support Systems (GUSS) - these specialised battery systems are now being rolled out to the more remote sections of our SWER network where power quality performance is an issue - in a new trial to improve supply to individual residences. Through this ResStor project, we are trialling advanced and smart network enabled lithium ion batteries connected to nine different households to investigate the effectiveness of smart energy storage systems in reducing network demand, improving customer power quality and reliability in cyclone prone regions.
Being a high-performance organisation is vital to delivering on our purpose – of providing safe, reliable, efficient and sustainable energy solutions for the benefit of Queensland.

Our strategic initiatives in this area are all about being responsive to the changes taking place in our operating environment and being more effective across all areas of our delivery. To do this, we’re ensuring our workforce has the skills, information and technology support required, as well as the personal engagement needed to carry out their work safely, efficiently and effectively.

Our people strategy is focused on our values, a safety culture, reward and recognition, career opportunities, and employee development. We also have a strong focus on our environmental performance.

Above: We are continuing to place a priority on improving our works delivery capability, by addressing obstacles throughout the end-to-end delivery process, helping employees, like Raj Prasad, meet our customers’ expectations through their various roles.

**REVIEW OF OPERATIONS: HIGH-PERFORMANCE ORGANISATION**

<table>
<thead>
<tr>
<th>STRATEGIC INITIATIVE</th>
<th>ACHIEVEMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Undertake organisational review to respond to the new environment and adjust the workforce in line with the reduced works program.</td>
<td>Single point accountability created for both our retail business and our isolated community supply area. A 9% reduction in employees. p26</td>
</tr>
<tr>
<td>Implement a Works Delivery Improvement Program to support resource optimisation and works delivery outcomes.</td>
<td>Improvements have been achieved in program estimating, asset inspection and defect management, business case preparation and program management. p26</td>
</tr>
<tr>
<td>Deliver a program to better understand the cost to serve in order to provide improved service delivery, while also improving cost effectiveness.</td>
<td>Preparations have been made to support the transition from the current service order dispatch model to a field force automation model. p26</td>
</tr>
<tr>
<td>Progress the Information and Communications Technology investment plan required to sustain the business through the next regulatory period.</td>
<td>A revised ‘2015 Future State Blueprint’ investment plan is being progressed. p26</td>
</tr>
<tr>
<td>Develop our remote observation, automated modelling, and economic simulation capabilities (ROAMES).</td>
<td>The operationalisation of the new capability is being continued, with data collection progressing across the network. p27</td>
</tr>
<tr>
<td>Develop our property strategies to lift the efficiencies of accommodation and facilities delivery to support high performance outcomes.</td>
<td>Employees in Brisbane were co-located to support collaboration and reduce costs. The Townsville master plan also continued to be rolled out. p27</td>
</tr>
</tbody>
</table>
The newly integrated Isolated Systems group now incorporates the Generation Services, Generation Assets and powervsavvy teams under a single general manager with the aim of delivering better outcomes for the generation and supply of electricity to our remote and isolated communities.

The improved transparency of our performance in this area of our business will help inform the government in its consideration of the recommendation of the Independent Review Panel; to ascertain interest from the private sector to operate and maintain the isolated supply assets in Queensland as an independent power producer.

Driving Works Delivery Improvements

In addition to scaling back the works program, we are continuing to place a priority on improving our works delivery capability to help drive greater efficiencies through our operations. Along with our broader efficiency and effectiveness efforts, this has arrested the recent growth in operational expenditure.

For 2012/13 operational expenditure was $635 million, down $47 million and positive to budget – illustrated on page 37. Regulated expenditure was, however, slightly above expectations, largely as a result of the scale of the response to Cyclone Oswald and the associated flooding. P23 Regulated operational expenditure per route kilometre was $2,364, also slightly above target. P7 Cumulative operational expenditure to date for this regulatory control period is at 60% of what was allowed for. This is a significant recovery from the costs associated with responding to the three cyclones in the first year of the current five-year regulatory control period, including Cyclone Yasi in February 2011, for which a pass through was not sought to increase the revenue allowed by the regulator. We are now three years into the five-year regulatory period, with operational expenditure almost in line with the target of 59% of the full allowance.

Addressing expenditure remains the focus of our strategic enablement program, which includes our Works Delivery Improvement Program. This program is addressing existing delays and removing potential bottlenecks throughout the end-to-end delivery of the works program. This has seen improvements in program estimating, asset inspection and defect management, business case preparation and program management. Future program deliverables include a works simulation tool and further development of the portfolio optimisation tool to ensure the prioritisation of the right projects in the capital works program.

Asset management productivity measures will also be reviewed to ensure labour efficiency.

This program is already delivering benefits – a highlight being a $5 million reduction in our asset inspection and defect management costs. As these deliverables are rolled out to the business, further value will be realised through the improved investment decision making capability, greater visibility and understanding of delivery performance and increased effectiveness of the program’s management.

In addition to savings these efforts will further enhance network security and reliability over the long term. The program supports the Strategic Asset Management model, by helping to streamline the interfaces between service provider (or Operations), the asset owner and the asset manager.

Efforts have also been focused on customer service delivery in the distribution business, on aligning the delivery approach across the different regions to drive cost and process efficiencies and ensure a consistently positive customer experience. This will enable us to realise the full benefits of the technology investment planned as we transition from the current service order dispatch model to a field force automation model. P27 This program of work will give greater visibility to the costs of the different customer touch points in the distribution business and in turn help build a service improvement program and boost effectiveness.

An Information Enabled Organisation

We have continued to progress a suite of technology investments core to delivering the efficiencies targeted by our strategic plan. Our aim is become an increasingly information-enabled organisation, one that is readily able to provide the business information required by our employees at all levels of the organisation to enhance decision making, business processes and organisational performance.

Delivering on the blueprint

During the year, the implementation of our Information and Communications Technology (ICT) program – the 2015 Future State Blueprint – continued. The blueprint for the current regulatory period was developed in 2011 with Energex, as well as our ICT service partner SPARQ Solutions, to best support our collective priorities and manage delivery dependencies, as well as enable greater convergence between our respective structures, processes and systems. The investment plans mapped out under this blueprint have continued to be assessed to ensure prudence, and revised where appropriate.
It is our intention to aerial survey the network each year, with the data to then provide three-dimensional geo-spatial images through Google Earth.

Early in 2013, ROAMES also provided valuable support to the Bundaberg Regional Council in its flood recovery efforts, helping to pinpoint flood and building footprints for micro-modelling of the North Bundaberg floodplain. ROAMES was recognised through the esaa 2012 Industry Innovation Award for its innovative approach to efficiently managing and protecting network assets and its potential applicability across other industries. External divestment opportunities are now being explored to allow commercial expansion of this capability while securing operational benefits for Ergon Energy.

The information enablement strategy is also being supported by the roll out of an all-encompassing telecommunications network, known as ‘UbiNet’, which will support a range of network monitoring and control technologies critical to delivering asset management efficiencies, including our developing demand management strategy and providing the operational efficiencies through connectivity for fixed and mobile field communications.

The $140 million investment in phase one of the UbiNet project, which is establishing the telecommunications backbone that will link 40 depots and 90 substations and provide us with a cellular data network, is expected to be completed by December 2013. The project’s delivery is on schedule for this year (delivering a Scheduled Performance Index of 1.0), however, is over budget due to unforeseen foundation costs, the requirement for additional sites, contractor issues and weather related access delays (the Cost Performance Index was 0.8). The second phase of this project, an $18 million investment in the replacement of the now obsolete analogue two way radio network with a digital P25 two way radio network has been completed, covering the area west of Toowoomba, extending to St George and Roma and south to Stanthorpe. This is providing greater capability and utilises GPS technology to our field crews to help improve customer response times and safety risk assessments. It played a crucial role in Ergon Energy’s ability to communicate during the recent Cyclone Oswald weather event.

**PROPERTY STRATEGY FOCUSED ON OUTCOMES**

Ergon Energy’s long-term property strategy is underpinned by the need to deliver consistency, economies, continuous improvement in design, operational effectiveness and excellence in site functionality. The strategy aims to drive the efficiencies needed in our new operating environment by rationalising the number of sites, particularly at the major centres, co-locating field and office-based employees where feasible and reducing the number of owned and leased properties.

As part of this strategy, in March of this year, employees from our Brisbane offices in Mary Street, Eagle Farm office and other locations were relocated to facilities in Ann Street, Fortitude Valley. The new open planned office space, and the co-location of our operations is now supporting greater workplace collaboration. In addition, moving out of the CBD to the new office has reduced leasing costs.

Our Townsville property master plan also continued to be rolled out. This will see employees currently located in five-leased accommodation sites, and white collared workers from our Garbutt site, brought into one leased CBD location in Flinders Street. We are also continuing to look at the redevelopment opportunities for the Garbutt site. The planned redevelopment of these facilities aims to address core capacity issues: age-related building conditions; safety risks associated with increased traffic flows; and inadequate inventory storage. We are also considering our Rockhampton property arrangements.

All new and redeveloped facilities are being designed and built with greater efficiency in mind; through increasing workforce collaboration; better space utilisation, standardisation, avoiding unnecessary travel through increased video conferencing, and reducing energy use.

**Understanding the state of the network**

To better inform network asset management and operational decisions, we are continuing to incorporate spatial visualisation of the state of the network into business practices from outage management to network planning.

The use of Google’s spatial viewing technology for outage management will even revolutionise the way customers interact with us. During the year we established a new online capability that will enable customers to see where outages are occurring or planned across the network. The Outage Finder maps, expected to be available during this summer storm season, will not only serve to empower customers, but also take pressure off the contact centre.

This work is under way in parallel with the operationalisation of our ROAMES (Remote Observation Advanced Modelling Economic Simulation) initiative. ROAMES continued the process this year of capturing network-related condition data, with a focus on clearances from vegetation using aircraft with specially designed LiDAR distance measurement equipment and digital photography.

The most significant initiative progressed this year has been Field Force Automation, which is currently at the final approval stage. This will be central to delivering organisational transformation and achieving the targeted efficiencies and service outcomes across our core distribution activities.

We have also scoped our requirements for a Distribution Management System. This investment is about ensuring we are well placed to manage the network effectively into the future.

Enhancements to our enterprise resource planning system are also being made to drive efficiency savings in logistics and works delivery, as well as to support improved financial management.

In 2012/13, the foundation project for our business intelligence and visualisation program was also completed. This allowed the first deployment of the revised approach in the area of network reliability reporting. This ongoing program is improving access to performance information and also reducing the cost of management reporting.

At the same time, the establishment of an information governance framework has introduced greater data custodianship in order to increase the quality of information. A clearer separation of data between the retail and distribution businesses is also being progressed. The system requirements for this are currently being assessed.
**A SAFE, SKILLED WORKPLACE**

**WORKPLACE SAFETY A PRIORITY**

**Leading Electricity Industry Performance**

Ergon Energy is committed to ensuring the health and safety of employees and the community. Our Health Safety and Environment Improvement Plan 2012-2017 details the strategies for taking the organisation’s safety performance into the top quartile of the electricity distribution industry’s recognised benchmarks. Ergon Energy’s safety performance against the Energy Networks Association (ENA) annual benchmarking (2011/12) has continued to improve and is currently second quartile for both lost time injury frequency rate and compensable claims frequency rate measures.

**Learning Organisation Key to Safety Culture**

We have continued to invest in building a sustainable positive safety culture where safety is inherent in everything we do. To ensure we operate as a learning organisation, we have an inclusive, multi-tiered safety committee structure that promotes consultation and involves all levels of management and employees, including union representatives and/or delegates. These various committees are working to establish a work environment free of harm by developing and implementing policies and initiatives while monitoring health and safety performance. In addition, we have operational forums that are key supports for the decision making within the company. Forums exist for high-voltage live work, overhead and underground standards and practices, switching and access, and personal protective equipment and clothing. Ergon Energy is also represented on a number of external safety related forums, such as Dial Before You Dig.

Our Comprehensive Safety Indicator (CSI) initiative is now in its third year of operation. This year we continued to make improvements to its use of lead (proactive) and lag (reactive) indicators to drive teams’ safety performance. Examples of these indicators include the All Injuries Frequency Rate (AIFR) and management activity, such as completion of safety management plans, site visitation, identification and elimination of hazards and improvements arising from investigations. The CSI puts line management responsibility and employee engagement proactively in the safety management system, as opposed to reactively after an incident or injury has occurred. This has been supported by a significant investment in safety leadership training. Using the CSI measures to recognise and reward employees’ achievements, for both field and office-based employees, is also a key driver of safety engagement. The initiative was used once more to select the crews to compete in Ergon Energy’s annual Field Safety Day Champions competition held in Townsville.

Other initiatives are also being used to embed a safety culture and develop future safety behaviours. The participatory ergonomics for manual handling initiative, known as PErforM, uses the skills and experience of employees to develop effective controls around manual handling which will reduce the risk of injury. Following on from the success of the first PErforM workshop for dunnage (inflatable bags used to secure plant and equipment at site), the focus went to the use of portable earthing devices. More manual tasks are also being identified as PErforM continues to be implemented.

**Inform Decision Making**

Technologically enabled and integrated systems are also further enabling better decision making and sustainable safety outcomes. Centralised reporting has seen improvements in incident investigation, management validation and the development of quick reference guide materials accessed from eSafe. This Health, Safety and Environment Integrated Management System continues to provide a robust governance framework to ensure employees comply with policies, meet obligations and stay safe. It has been developed in accordance with Australian and International Health and Safety standards.

Ergon Energy has continued to maintain accreditation against the AS4801 and ISO 18001 Standards following independent certification audits.

**Ensuring our employees' wellbeing**

Ensuring employees are physically, mentally and emotionally well remains a priority. To support this from a holistic perspective, late in 2012 we launched Health Matters, an online health and wellbeing portal where employees can access informative health-related articles, look for healthy recipe ideas and access physical training programs. Employees can also use the site to obtain an individual health risk assessment, and suggestions to improve any health risk areas identified.
Random drug and alcohol testing continued this year. This initiative remains central to educating our employees on the impact that drugs and alcohol can have on being ‘fit for work’. We also continued the free flu vaccination program to protect employees and support our ability to maintain services throughout the flu season; 1,709 field and office-based employees participated.

Ergon Energy’s strategy to actively assist employees to return to work continued to gain momentum. We are implementing an early intervention and return to work program to lessen the impact of injuries on our people and also on the business. The Employee Assistance Program also continued to provide employees and family members access to professional counselling services.

Improving network and asset safety

Safety remains a major consideration in works planning, infrastructure design, construction and maintenance. This is supported by a risk framework that informs the decision making process at all levels.

An area of network investment that has been prioritised to deliver safety benefits this year has been the staged replacement of aged open wire service lines; $12 million was invested across the state through this ongoing program. From a works practices perspective, the focus has been on lead times and the quality of applications for work on the network, as well as switching communication protocols.

As a result of an increase in dangerous electrical events, a review was also undertaken into the security in place to prevent public access to high voltage plant. New instructions for low voltage connections, refreshed polarity training and new test instruments are also continuing to be rolled out.

As part of defect management, graffiti removal also continued to be prioritised where it impacted the visibility of safety signage or was offensive; when not classed as a risk, it is attended to as part of our routine maintenance cycles.

Asbestos management also remains an asset safety priority. Our Asbestos Management Plan ensures we are effectively managing and minimising asbestos related health risks either at an Ergon Energy site, or from work undertaken by Ergon Energy. Customers are also being alerted to potential dangers in their meter boxes thanks to Ergon Energy’s support of an Australia-wide push to identify and manage asbestos hazards. The program involves labelling switchboards which are suspected of containing asbestos with high visibility warning stickers.

DEVELOPING OUR WORKFORCE

Our future skills capability

Ergon Energy’s workforce is highly skilled, encompassing specialist fields from electrical engineering to administration, and numerous technical trades.

Our future capabilities requirement (skills, knowledge and behaviours) was considered throughout the organisational review undertaken this year. This has helped progress the development of an organisational capability framework, enabling an increasingly integrated approach to shaping the organisation, developing talent and fostering communication.

Understanding how we are evolving as a business and how we need to adapt to meet our customers’ and the business’s requirements means we are able to better target employee development for increased productivity and greater performance. This focus on ‘future skills’ is also helping us plan effectively for the transfer of knowledge, skills and experience as employees approach retirement age and organisational change progresses.

Our increasingly technology-enabled operating environment is one of the major elements defining the future skills set.

Integrating talent management

Ergon Energy’s Talent Management Strategy is about developing an appropriate level of talent within the organisation to ensure current and future success. Our focus is on developing effective leaders, who are flexible and agile, able to inspire and support our people in delivering business results.

During the year we continued to integrate our talent management approach through a program of regular workshops with the senior leadership team to more actively identify and develop our talent as the business’s requirements change. The leadership development model also evolved with the changing environment to deliver more cost effective options to embed lessons learnt and to strengthen linkages with desired business outcomes.

Our aim is to maximise organisational performance by creating career opportunities for the best talent to be challenged, developed and grown into our leaders of the future. Our emerging leaders are also required to demonstrate our corporate values (p5) in their daily decisions and behaviours to help create our desired corporate culture.

We also continued to embed the performance management framework established in 2011/12.

The new framework differentiates employee performance through a five-point rating scale that considers both the business objectives achieved and demonstrated behaviours (SPIRIT values). The review process, which has now gone through its first cycle, is contributing to performance and talent profiles across the organisation – and supporting reward and recognition. Employees are being asked to set challenging goals and to strive to achieve them. This process is already helping to prioritise our employee development investment by maximising and targeting development experience, exposure and education in the business and externally.

Training continues to be vital

Ergon Energy continued to deliver a diverse range of technical and non-technical training from regulations training, such as pole top rescue and resuscitation, to other essential training, such as advanced high voltage switching. A significant investment was made in re-training field workers around the new instructions for low voltage connection. Approximately 6,000 training sessions were delivered to more than 19,000 participants. In addition, more than 2,600 online training programs were completed, covering a broad range of topics from asbestos awareness to diversity awareness.

Our apprentice, trainee and graduates programs, despite some adjustments, continued to deliver our future tradespeople and professionals. 2013 saw the commencement of 58 new apprentices, five of whom were female and 15 new trainees. We continue to have a mix of mature-aged apprentices and school leavers in the program and a 97% completion rate. The Australian Skills Quality Authority conducted a compliance audit endorsing our role as a Registered Training Organisation.
In November 2012, a fellow Ergon Energy employee based at Yeppoon lost his life as a result of a Taipan snake bite while in the field. The tragic nature of his death not only impacted his family and friends, it was felt widely across the business and in the local community. Following his passing steps were taken to review the control measures for snake bites and employees were asked to take a fresh look at the many and diverse risks associated with their work and the actions needed to mitigate them.

More broadly, Ergon Energy’s workplace health and safety performance continued to improve, evidenced by a 20% improvement in our All Injuries Frequency Rate (AIFR) for employees. The improvement exceeded our corporate target of 12.0 – with the AIFR result moving from 9.8 in 2011/12 to 7.8. This indicator includes both Lost Time Injury Frequency Rate (LTIFR), as the more common industry measure, and the frequency rate for medical treatment injuries.

We were just outside our target of less than or equal to 2.3 injuries per million labour hours, achieving a 2012/13 LTIFR result of 2.6 per one million labour hours, steady against the previous year. However, our Compensable Claim Frequency Rate (CCFR) improved within target by 23% to 2.3.

Performance declined against the Dangerous Electrical Event Frequency Rate (DEEFR) for employees measure – from 2.5 in 2011/12 to 4.4. Contractors safety also declined slightly with the LTIFR at 2.2, although this was within the target of less than or equal to 3.0. These remain areas of management focus.

Ergon Energy incorporates the AIFR, along with other lag and lead indicators, into a Comprehensive Safety Indicator to give our people at the work group level a meaningful score of how they are performing from a holistic safety perspective. The organisation overall is performing at the silver benchmark, with 455 total points allocated against a range of areas, out of a possible 600.

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

FOR MORE ON COMMUNITY ELECTRICAL SAFETY SEE PAGE 19.
Employee engagement
Employee engagement remains critical. This is seeing engagement plans, shaped by the results of the previous year’s employee Have Your Say Survey (this survey is being undertaken again in 2014), being outworked. A particular focus has been on recognising and appreciating individuals and teams in order to ensure that we continue to engage and retain our high performers during the current period of transformational change.

These efforts are being supported by a robust, cost-efficient internal communication program which keeps employees and teams well informed about priorities, reinforces how people's roles and efforts support the bigger picture, and promotes a sense of connectedness. The flagship channel is DailyMail, an email bulletin capturing key announcements, safety alerts and operational updates, all drawn from the online 'newsroom’. Ergon Energy’s other major internal communication asset is a bimonthly Team Brief DVD. This ensures that every employee, wherever they live, whether office or field based, shares the same opportunity to get the latest information, to ask questions and provide feedback.

DIVERSITY IN THE WORKPLACE
Through our Diversity Program 2010-15 we are creating a workforce diverse in skills, experiences and perspectives. Our program is about ensuring the attitudes and behaviours of our employees support an inclusive work environment, a workplace where everyone has an opportunity to fully participate and be valued for their contribution.

For us, diversity is about making the workplace more inclusive. This includes increasing the representation of women in leadership, as well as in the technical areas. Support for gender diversity has been incorporated into our integrated talent model, aimed at building leaders of the future.

Our recruitment strategy, we continued to focus on the diversity of our applicant pool, in order to create a workforce that is increasingly representative of our customer base.

The recruitment of A&TSI, as an under represented group, continued to be a target area. This recruitment process for our A&TSI Apprenticeship Intake has commenced, for placements in January 2014, with 10% of these business entry positions earmarked for A&TSI candidates. This is being supported by, for the first time, an A&TSI Pre Employment Program. The aim is to provide participants with the skills and confidence needed to successfully complete an apprenticeship with us in the future.

Managing an intergenerational workplace
With the age composition of our workforce changing, we are facing significant intergenerational challenges. Ergon Energy’s workforce currently has five different generational groups. These include a material number of employees moving towards retirement, some in business critical roles.

By better understanding our talent profile and potential pipeline and responding to our age and tenure profiles, we are responding to a rapidly changing business environment and changing workforce needs by working with our people and introducing innovations, such as our Transition to Retirement program. The age profile of our workforce is provided below.

Our workforce is based across the Queensland, from the northern and western reaches to the population centres along the coast and in the south-east.
We are currently investigating practical intergenerational and career transition initiatives, including leave management, knowledge continuity plan for generational transfer and in some cases flexible work options, which aim to both support our employees and mitigate future resourcing risks.

**PROTECTING THE ENVIRONMENT**

A high standard of environmental performance is central to being a high-performing organisation. We believe we have a corporate responsibility to play a role in conserving the world’s resources (whether materials or energy) through the adoption of efficiency and waste minimisation initiatives or, more broadly, through operational improvements and better asset investment decisions.

**MITIGATING GREENHOUSE GAS EMISSIONS**

**Reducing our electricity use**

As an organisation, we are focused on reducing electricity use across our operations – this is both reducing costs and helping to address indirect greenhouse gas emissions.

Our new buildings are being designed and built with energy efficiency features. Over the past 12 months, three of our new buildings have exceeded their designed energy efficiency by successfully attaining 5 star NABERS ratings, and another achieved a design rating of 4.5 stars. The new leased building in Brisbane is targeting a 5 star NABERS rating, and the Townsville CBD building when complete is aiming for 4.5 stars. p27

In addition, across our existing buildings, the implementation of a range of energy conservation initiatives has achieved a marked reduction in electricity usage. These initiatives included an investment in energy efficient lighting and control systems and the end of life replacement of air conditioning plant with high efficiency plant and associated control systems.

Our energy conservation efforts are not limited to our own operations. We are also supporting our customers to reduce their electricity use. Leveraging other business imperatives – such as our demand management objectives (p22) and our cost-driven diesel reduction strategy – we are achieving positive environmental outcomes.

**Reducing our reliance on diesel**

Diesel fuel accounts for more than half of electricity generation costs in our isolated communities, so reducing our reliance is critical to managing operating costs and the risk of fluctuating diesel prices. Reducing our diesel use also delivers significant environmental benefits.

To achieve this, we are continuing to increase our capacity to generate renewable energy. During the year, as part of this strategy, a new solar farm was constructed at Doomadgee. The new 264kW system of fixed flat plate solar panels will supplement the existing diesel generation plant without adversely affecting stability and is expandable in the future; it is located on a site that can accommodate up to 2MW of panels.

On Thursday Island, which currently has diesel generation and two wind turbines, we are in the process of confirming land availability following a feasibility study into the opportunities for increased wind generation. We are also continuing to explore funding and technical options to cost-effectively replace our ageing geothermal power station at Birdsville, the only wet geothermal power station in Australia. Renewable energy is also continuing to be generated through five solar concentrator dishes at Windorah.

Throughout the year, we used biodiesel B5 blend (5% biodiesel and 95% diesel) at five of our diesel power stations – Boula, Bedourie, Birdsville, Jundah and Windorah. However, after review, due to the cost of transporting the biodiesel to these sites, this practice has been discontinued.

We are also investigating energy efficiency opportunities within our diesel power stations to further reduce diesel usage. A formal energy efficiency assessment is planned for Saibai island power station, with the recommendations to be extrapolated to our operations in the other isolated communities. The assessment will be completed in line with Energy Efficiency Opportunities Act 2006 (Cth) requirements and in the coming months a public report summarising the findings will be published on our web site.

Our isolated communities’ energy saving program, powersavvy, also continued to as an important strategy to achieving the targeted reductions in diesel use for generation. p18
OUR CARBON FOOTPRINT

Our emissions inventory, defined by the National Greenhouse and Energy Reporting Act 2007 (Cth) scopes:

Direct Emissions (Scope 1) – the operation of the 33 diesel-fired electricity generation plants, which we use to supply our communities isolated from the main grid, accounts for about 69% of our direct, or Scope 1, greenhouse gas emissions, the rest being mostly from vehicle fleet fuel use.

Emissions associated with the use of electricity (Scope 2) – these emissions are largely unavoidable network energy losses, comprising around 77% of our total emissions inventory. Street lighting is another significant contributor to emissions associated with electricity use, estimated to be responsible for 7% of our total footprint. Electricity used in our 108 plus buildings across our operations, including 83 depots, represents about 3%.

Indirect Emissions (Scope 3) – these are associated with other entities, including the operations of joint venture SPARQ Solutions. This category also includes air travel, however, this only represents about 0.3% of our emissions inventory. Air travel, while remaining necessary as a regionally dispersed organisation, has been reduced in line with our efficiency targets.

The total emissions across these categories is 887,000 tonnes of carbon dioxide equivalent, based on available 2011/12 data.

ENERGY SCORECARD

THE STATISTICS

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<th>ISOLATED GENERATION</th>
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<td>• Diesel generation</td>
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<td>714,281</td>
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<tr>
<td>• Renewable generation</td>
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<td>75,258</td>
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RENEWABLE ENERGY

We are continuing to support the establishment and growth of renewable generation sources, in line with the Australian Government’s Renewable Energy target of ‘20% by 2020’.

For our grid connected customers, we purchase just over 7% of our energy requirements directly from renewable sources.

During 2012/13, as part of the Solar Bonus Scheme, primarily through the 44 cent feed-in-tariff, Ergon Energy credited almost $75 million to eligible customers’ accounts for the renewable energy their systems exported back into the grid (up from $28 million).

To meet our liability under the federal and state renewable energy targets, we also bought additional Renewable Energy and Gas Electricity Certificates (RECs and GECs).

Our GEC compliance requirements were equivalent to the purchase of 15.00% of our customers’ energy requirements from Queensland gas-fired generation. For RECs, our Large-scale Generation Certificate requirements for 2012 were equivalent to sourcing 9.15% of our customers’ energy requirements from renewable generation. This rises to 10.65% for 2013. We also have a RECs liability under the Small-scale Renewable Energy Scheme for Small-scale Technology Certificates equivalent to sourcing 23.96% of our customers’ energy requirements. This will drop to 19.70% for 2013.

RENEWABLE ENERGY IN ISOLATED COMMUNITIES

- Biodiesel 22%
- Geothermal 20%
- Solar 8%
- Wind 50%

We are continuing to increase our capacity to generate renewable energy for our isolated networks. While these do not all contribute to our renewable energy liability, they are reducing our diesel costs and delivering environmental benefits.

RENEWABLE ENERGY FOR THE GRID

- Bagasse 73%
- Wind and Hydro 4%
- Solar 23%

Ergon Energy purchases just over 7% of the electricity it on-sells to its customers supplied from the main grid directly from renewable sources, a large portion of which supports the local sugar industry through purchase of electricity fuelled by bagasse. The remaining 92.6% of the electricity required comes from the national electricity ‘pool’.
Network losses strategy finalised

During the year, informed by a comprehensive engineering study that sought to identify economically viable opportunities for minimising network losses, Ergon Energy finalised its network losses strategy. Network losses are a largely unavoidable consequence of distributing electricity that results from heat loss from the powerlines and other electrical equipment.

Given that the cost of network augmentation works cannot be justified based on the reduction in network losses alone, the strategy has confirmed opportunities to improve the power factor of large customers in constrained network areas. This approach was reinforced by the Australian Government’s decision to indefinitely defer regulating network losses under the Energy Efficiency Opportunities Act 2006 (Cth).

While 2012/13 network losses data was not available at the time of printing, in 2011/12 5.2% of energy entering the network was not accounted for. This is consistent with the previous year. This figure includes not only real network losses but also other unmetered supplies, such as streetlights.

BEST PRACTICE USE OF MATERIALS

The scale of our capital infrastructure program largely dictates the use of resources, making our demand management efforts and the drive to defer network investment (discussed elsewhere in the report) as central to improving resource utilisation as it is to minimising cost pressures for our customers.

Ensuring a sustainable supply of power poles

This year the programs saw the purchase of around 10,800 new poles (compared to 12,160 in 2011/12), along with around 3,068 transformers (compared to 2,890 in 2011/12).

To ensure a sustainable supply of power poles, Ergon Energy is growing its own renewable supply of poles on a number of native forested properties. Over the past 12 months, detailed forestry management plans have been prepared for the properties at Boomerang (near Bundaberg), Gundiah (south of Maryborough) and Eagle Rock (near Esk). Planning is still underway for the Mt Marsh pole forest property in northern New South Wales. The plans detail how the properties will be managed to promote the growth of suitable trees from for harvesting power poles. Essential property maintenance, including the removal of invasive weeds like lantana, erosion control along creek banks, maintenance of fencing and some thinning of trees, is now being cost-effectively undertaken under an external contract.

We are currently reviewing the Independent Review Panel’s recommendation to divest these sustainable pole forest property assets.

We are also continuing to investigate new ways of recycling timber power poles that have been decommissioned in a number of regions, rather than discarding them as waste to landfill, and to work with Forest and Wood Products Australia and the Queensland Government to test the suitability of different plantation hardwood species for power poles.

Improving waste management

Ergon Energy manages both industry specific and general waste as part of our day-to-day activities. During the year, we started implementing a new Waste Reduction and Recycling Plan. New initiatives in the recycling area include considering the reuse of materials that are left over after construction and maintenance activities. With the increased focus on recycling materials, this year we recovered more than 1,431 tonnes of scrap metal including copper, aluminium and steel for recycling (which is significantly greater than 890 tonnes in 2011/12), and 1,119 tonnes of old transformers for recycling (470 tonnes in 2011/12). We also recovered 335,000 litres of oil (101,700 litres in 2011/12) from our assets for processing for disposal or reuse through licensed facilities.

Practicing water conservation

Throughout our property portfolio we aim to minimise water use. In all new properties, rainwater tanks are installed for supplying toilets and gardens. We also manage water use in the washdowns at our depots. The other area where we undertake water management is in our stand-alone generation plant. In Birdsville, we operate a small geothermal power station that draws from a free-flowing bore, which has existed for more than 75 years. After the water’s heat is used for generation, it is directed into the town’s water supply and lagoon. Any development of this site will consider ongoing water requirements. In our solar farm in Windorah, we use water from a dam filled with non-potable water from a nearby creek for evaporative cooling.

PROTECTING OUR LOCAL ENVIRONS

Environmental incidents

Ergon Energy’s incident management framework classifies incidents using a four-level scale. For environment or cultural heritage impacts, a Class 1 incident is a major impact involving a sensitive environment or a breach of cultural heritage legislation resulting in significant financial penalties. On the other end of the scale is a Class 4 incident – one with a minor localised impact, requiring minimal or no remediation.

During 2012/13, Ergon Energy had no major environmental incidents (Class 1 or 2 incidents) or breaches of the Environmental Protection Act 1994 (Qld). We also continued to maintain certification of our Environmental Management System to AS/NZS ISO 14001.

Ergon Energy has continued to maintain a focus on contaminated land management. A high-level contaminated land assessment of 900 of Ergon Energy’s sites has been undertaken. This will allow us to progress detailed site-specific reviews, on a risk basis, to capture the current and historic uses and extract local knowledge to further define the profile for each site.

Weed control activities sustained

Ergon Energy’s weed management strategy aims to limit the introduction of declared plants and priority weeds into new areas of the network and prevent the spread of existing infestations through effective risk assessment, the deployment of site-specific environmental management plans and ensuring compliance with vehicle wash-down protocols. During 2012/13, weeds remained a key area of environmental concern. This has seen a sustained focus on the control activities undertaken as part of our construction and maintenance programs and a review of the wash-down facilities at our depots, with a number of new wash-down facilities built or temporary facilities constructed. This year, these facilities have been added to our spatial data systems so workgroups can quickly identify the most appropriate facility when planning work or when weed wash-downs are required.
Targeting bushfire mitigation
Although the risk of bushfires in Queensland is lower than in the southern states, it has remained a significant issue from a reliability perspective. While the frequency of fire related Dangerous Electrical Events (p.30) has returned to historical averages, more than 250 poles were lost through fire during the year. Almost all were lost through grass or bushfires. Ergon Energy continues to promote awareness in the community of the importance of protecting the electrical network when conducting controlled burns, and has developed a good working relationship with the Queensland Fire and Rescue Service, which issues fire permits. Trials of fire retardant paint on pole bases continue and installation of steel-butted poles is being pursued in some areas of the network to mitigate external fire risk.

Working sensitively to protect biodiversity
In addition to our bushfire mitigation and weed control activities, we have also continued specific biodiversity protection initiatives. We have continued our powerline corridor mapping program to ensure minimal impact from the operation of our infrastructure located in environmentally sensitive areas, including national parks, state forests and world heritage areas. Through the program, which has been under way since 2006, we have completed ecological surveys of 1,322 kilometres of powerlines across 277 protected areas.

As part of protecting biodiversity, we continue to take measures to minimise the impact when planning our work. This year, proposed line routes were modified when a number of threatened species, including the ooline tree, yakka skink, golden tailed gecko, border thick tailed gecko, king bluegrass, wallum froglet and the glossy black cockatoo were found during field investigations. Innovative cable design was also proposed for one of our projects on Magnetic Island, where a power cable is to be contained within a secure conduit run at a metre above steep ground to avoid the need for either an overhead powerline or burial of the cable in rocky terrain which would substantially increase the potential for erosion of the infrastructure.

We are continuing to improve our vegetation management practices. To maintain appropriate aesthetics in urban areas, we have shortened cycle times, so we can continue with less invasive cutting. Further improvements to the data available on sections where vegetation is at risk of contacting powerlines will allow us to minimise unnecessary vegetation removal as we move from a cyclic-based program to a risk-based approach and ensure locations with special environmental values are managed appropriately.

Building cultural heritage awareness
Ergon Energy remains committed to minimising the impact of our works program and protecting the diverse cultural heritage artefacts found in our region. A considerable investment was made during the year to build employee awareness of the importance of cultural heritage, largely through training and embedding up to date data into our systems.

All new starters, as well as contractors, now undergo a mandatory cultural heritage awareness training module following a revamp of the training suite this year. Access to cultural heritage data was also made easier through a new agreement with the Queensland Government that allows us to incorporate their Queensland Indigenous Registered Heritage datasets into our Google Earth environment. This spatial data has been expanded to a two kilometre buffer around our existing infrastructure from the previous 500 metres.

We have also improved the process for enlisting Indigenous representatives to support local cultural heritage assessment. Cultural heritage matters are now a standard consideration in our Indigenous Land Use Agreements and with our encouragement have been incorporated into the Energy Network Associations Land Management Guidelines.

As this report was being finalised, we were commissioning the new solar farm at Doomadgee, in the Gulf – it will operate in parallel with the diesel power plant that supplies the isolated community.
Ergon Energy is delivering economic value to Queensland through its core services and infrastructure, as well as our financial performance. We also contribute economically through local employment and purchasing.

DEVELOPING ECONOMIC VALUE

AN ECONOMICALLY SUSTAINABLE PATH

Ergon Energy’s overarching strategic goal, to limit increases on average network charges (and the pressure on electricity prices) to less than the CPI over the medium term, is at the heart of delivering our economic contribution to Queensland. This is about finding an economically sustainable path for supplying electricity to regional Queensland.

In line with this goal, Ergon Energy’s capital and operating expenditure plans over the current five-year regulatory control period to 2015 have been reduced by $1.5 billion. This reduction of 20% has been supported by a range of efficiency measures (p13) and workforce reductions commensurate with the revised program of works, p26.

We have begun the process of preparing a proposal for the Australian Energy Regulator to determine our revenue allowance for the next regulatory control period from 2015 with very clear objectives around affordability, customer value, and prudent investment. An extensive stakeholder engagement program has also been developed to ensure these objectives are best informed by our customers’ requirements.

Our focus to date has been on ensuring our approach to forecasting future investment needs is consistent with these needs. We have also begun our engagement with the regulator on the framework and approach to setting prices for 2015 to 2020. The formal proposal regarding our revenue requirements for the next period will be submitted in October 2014.

The revenue allowance set by the regulator (which dictates the network charges we pass on to our customers) allows us to recover the costs of providing regulated network services. An appropriate revenue allowance is central to the economic sustainability of our business and long-term price stability for customers.

Limiting increases to our revenue requirements is dependent on us maintaining capital and operating expenditure forecasts for the end of this period. It is also dependent on future financing costs being lower than what was forecast for the current regulatory control period. If market expectations of lower financing costs eventuate, the revenue requirement is expected to be lower than the revenue requirement for the current regulatory control period.

DELIVERING ON OUR FINANCIAL TARGETS

Our commitment to delivering on this year’s financial targets, agreed with our shareholding Ministers, saw sound results across all of our key measures. Ergon Energy represents a significant investment for the Queensland Government and we recognise that the return on this investment needs to be maximised.

Ergon Energy delivered a consolidated group Net Profit After Tax (NPAT) of $434 million – significantly above the $315 million target agreed in our SCI (p27) – and an Earnings Before Interest and Tax (EBIT) of $980 million (target of $815 million).

This has allowed for a $326 million dividend that, together with the $53 million competitive neutrality fee paid, partly offsets the government’s $596 million Community Service Obligation payment.

The strength of this result has been achieved through our efforts to arrest the recent upward trend in expenditure, coupled with increasing revenue levels. The efficiency-related benefits of in excess of $100 million achieved this year will assist in reducing network prices in the next regulatory period.

The above target component of this result was due largely to an increase in revenue from a change in the accounting treatment for solar feed-in-tariff payments, which brought $100 million in revenue to account, and a substantial STPIS reward (accounting for $26 million), p15.

These results were achieved while delivering an $872 million capital investment program, p22, p38.

The Retail Business

Our retailer, Ergon Energy Queensland Pty Ltd, delivered an NPAT of $85 million. This was $31 million favourable to budget primarily due to a strong performance in the renewable energy portfolio contributing $18 million and the impact of anticipated changes to the Long Term Energy Procurement component of the Community Service Obligation Deed. The latter resulted in a change to the accounting treatment of forward financial instruments the result of which was that movements in the market value of hedges now impact the results. These hedges are entered into to manage future purchase price risk and as such will be offset by movements in electricity purchase costs in the forward years they relate to. However, until these positions are realised, changes in their market value are incorporated into the results as unrealised movements but are excluded from dividends calculations due to their non-cash nature.

CONTRIBUTING COMMERCIAL VALUE

Our subsidiary Ergon Energy Telecommunications Pty Ltd (trading as Nexion), contributed a $3 million NPAT to the 2012/13 financial results. Nexion continued to provide wholesale and retail high-speed fibre-optic connectivity to the resource, transport, energy and government sectors, as well as internal support to our own operations. With the potential for the government to leverage Ergon Energy’s fibre communications network to reduce their overall telecommunications spend recognised by the Independent Review Panel, we are anticipating further business growth in this sector.

Ergon Energy’s manufacturing workshops have also had another successful year – delivering modular data centres to telecommunications infrastructure providers, as well as using new, innovative techniques to better service our clients in the electricity industry. We are currently benchmarking the internal provision of the workshops’ core services against the market to ensure lowest cost.

OUR ECONOMIC AND FINANCIAL PERFORMANCE
Revenue growth has been strong, due to both increases in sales revenue and the Community Service Obligation payment.

Our efficiency and effectiveness efforts have arrested the recent growth in operational expenditure, in line with the revised works program.

The $798 million network investment this year was well below what was forecast for this regulatory period, due to suppressed demand. Total asset value shown.

The strength of the profit result, created a one off jump to the return on investment.

Scaling back the capital program has reduced our funding requirement (enabling a debt repayment plan and a reduction to this year’s funds draw down); mitigating total liabilities.
A. WHERE DOES OUR REVENUE COME FROM?

Ergon Energy’s revenue and other income for the year totalled $3,012 million, an increase of $319 million compared to 2011/12. Our revenue sources include retail electricity sales of $1,715 million, distribution revenue of $320 million from our non-retail customers and customer contributions towards the electricity distribution network of $132 million.

Ergon Energy also received $596 million on Community Service Obligation (CSO) payment from the Queensland Government for 2012/13. The CSO is paid to Ergon Energy Queensland Pty Ltd, our retailer, to meet the difference between the efficient cost of supply and the government’s regulated tariffs. The Uniform Tariff Policy and the CSO ensure that most Queenslanders have access to the same cost of electricity regardless of where they live.

Ergon Energy’s regulated revenue, for the use of our electricity distribution network, is determined by the AER, and is recovered via network charges. The charges are billed to both our retail business and the retailers of customers who have entered the contestable market in regional Queensland. The AER also regulates certain payments by our customers for capital contributions towards network extensions and other services.

B. WHAT ARE OUR MAIN EXPENDITURES?

Ergon Energy’s operating expenses provide a significant economic contribution to Queensland. We’re employing 4,614 people directly - with total payroll costs of $580 million - in addition to engaging a large contractor base - with contract payments totalling $146 million. Ergon Energy adheres to the State Procurement Policy and encourages local sourcing. Operating expenses totalled $635 million - down $47 million on 2011/12 (despite regulated operational expenditure being slightly above budget). To supply our customers with electricity, we incur a number of major expenses - for 2012/13 electricity purchases totalled $689 million and the transmission network charges paid to Powerlink Queensland totalled $302 million.

C. WHAT ASSETS DO WE OWN?

In 2012/13, Ergon Energy’s total asset base increased in value by $860 million to $11,460 million. Property, plant and equipment are the major components of our asset base, at $10,011 million, which includes mostly regulated electricity network assets. Ergon Energy revalued its property, plant and equipment assets as at 30 June 2013, resulting in an increase of $330 million. The directors approved valuations performed by management of all asset categories. At the end of June 2013, $196 million was held as cash, consistent with normal business operations.

D. WHAT DO WE OWE (OUR LIABILITIES)?

Ergon Energy’s total liabilities increased to $7,745 million this year with funds drawn down used for our capital works programs and cash flow requirements. Prudent gearing ratios are being maintained. The reduction in capital expenditure is reducing Ergon Energy’s debt requirements; combined with a debt repayment plan, this has reduced this year’s draw down.

Our largest individual liability is the interest bearing loan with Queensland Treasury Corporation of $4,979 million. The second largest liability is the net deferred income tax liability of $1,758 million. Some of our other key liabilities include current payables due to trade creditors ($116 million) and current employee benefits ($131 million).

Ergon Energy’s long-term corporate credit rating has been maintained with a public rating of AA. This credit rating is influenced by the global economic environment.

E. WHAT WAS OUR CAPITAL INVESTMENT?

Ergon Energy delivered an $872 million total capital investment program. The regulated component of our capital works program was within the five-year regulatory control period allowance - this $798 million investment, associated with our Standard Control Services, included providing new connections, increasing the capacity of the network and improving reliability.

F. WHAT RETURN DO WE GIVE TO OUR OWNERS?

The strength of Ergon Energy’s profit result will enable dividends of $326 million to be paid to our shareholding Ministers, and through them to the Queensland Government, in 2013/14. This payment, ultimately, benefits the people of Queensland.

Dividend Policy – Ergon Energy’s dividend policy requires the Board to recommend, taking into account the investment return its shareholders expect, a dividend of 80% of profit adjusted for unrealised fair value gains or losses on financial instruments (as has occurred this year p.36). This is paid on the basis of its shareholders agreeing to provide the necessary funding for approved projects, the maintenance of Ergon Energy’s approved capital structure and the organisation’s operational viability.
# Financial Summary for Ergon Energy Corporation Limited (Consolidated)

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Our Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue and Other Income</td>
<td>3,012</td>
<td>2,693</td>
<td>2,539</td>
<td>2,204</td>
<td>2,279</td>
</tr>
<tr>
<td><strong>B. Our Expenditure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Network/Electricity Purchases</td>
<td>(995)</td>
<td>(853)</td>
<td>(846)</td>
<td>(926)</td>
<td>(1,038)</td>
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<tr>
<td>Operating Expenses</td>
<td>(635)</td>
<td>(682)</td>
<td>(634)</td>
<td>(509)</td>
<td>(556)</td>
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<tr>
<td>Depreciation Expense</td>
<td>(402)</td>
<td>(380)</td>
<td>(314)</td>
<td>(291)</td>
<td>(278)</td>
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<tr>
<td>Finance Charges</td>
<td>(369)</td>
<td>(321)</td>
<td>(294)</td>
<td>(243)</td>
<td>(223)</td>
</tr>
<tr>
<td><strong>Our Profit</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earnings Before Tax</td>
<td>611</td>
<td>457</td>
<td>451</td>
<td>235</td>
<td>184</td>
</tr>
<tr>
<td>Tax Expense</td>
<td>(177)</td>
<td>(137)</td>
<td>(129)</td>
<td>(68)</td>
<td>(55)</td>
</tr>
<tr>
<td>Net Profit After Tax</td>
<td>434</td>
<td>320</td>
<td>322</td>
<td>167</td>
<td>129</td>
</tr>
<tr>
<td><strong>C. Our Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Assets</td>
<td>1,086</td>
<td>1,144</td>
<td>1,012</td>
<td>1,128</td>
<td>1,031</td>
</tr>
<tr>
<td>Non Current Assets</td>
<td>10,374</td>
<td>9,456</td>
<td>8,963</td>
<td>7,570</td>
<td>6,980</td>
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<tr>
<td>Total Assets</td>
<td>11,460</td>
<td>10,600</td>
<td>9,975</td>
<td>8,698</td>
<td>8,011</td>
</tr>
<tr>
<td><strong>D. Our Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>1,282</td>
<td>1,179</td>
<td>967</td>
<td>1,035</td>
<td>778</td>
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<tr>
<td>Non Current Liabilities</td>
<td>6,463</td>
<td>6,124</td>
<td>5,693</td>
<td>5,002</td>
<td>4,682</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>7,745</td>
<td>7,303</td>
<td>6,660</td>
<td>6,037</td>
<td>5,460</td>
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<tr>
<td>Net Assets</td>
<td>3,715</td>
<td>3,297</td>
<td>3,315</td>
<td>2,661</td>
<td>2,551</td>
</tr>
<tr>
<td><strong>E. Our Investment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Capital Investment</td>
<td>872</td>
<td>870</td>
<td>831</td>
<td>806</td>
<td>844</td>
</tr>
<tr>
<td><strong>F. Dividends</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends Provided For</td>
<td>326</td>
<td>256</td>
<td>253</td>
<td>138</td>
<td>117</td>
</tr>
<tr>
<td>Dividends to Net Profit After Tax</td>
<td>75%</td>
<td>80%</td>
<td>79%</td>
<td>83%</td>
<td>90%</td>
</tr>
</tbody>
</table>

## Financial Ratios

- **Return on Average Assets**
  Reflects the efficiency of our assets to generate earnings.
  \[
  \text{Return on Average Assets} = \frac{\text{Earnings Before Interest & Tax}}{\text{Average of opening & closing asset balances}} \times 100.
  \]
  - 2012/13: 8.9%
  - 2011/12: 7.6%
  - 2010/11: 8.0%
  - 2009/10: 5.7%
  - 2008/09: 5.3%

- **Return on Average Equity**
  Represents the returns generated on the money the Queensland Government, as our shareholder, has invested in Ergon Energy.
  \[
  \text{Return on Average Equity} = \frac{\text{Net Profit After Tax}}{\text{Average of opening & closing equity}} \times 100.
  \]
  - 2012/13: 12.4%
  - 2011/12: 9.7%
  - 2010/11: 10.8%
  - 2009/10: 6.4%
  - 2008/09: 5.1%

- **Gearing (including reserves)**
  Our gearing demonstrates the prudential level to which our activities are funded by owner’s funds versus borrowed funds.
  \[
  \text{Gearing (including reserves)} = \frac{\text{Debt}}{\text{Debt + Equity}} \times 100.
  \]
  - 2012/13: 57.3%
  - 2011/12: 59.3%
  - 2010/11: 56.6%
  - 2009/10: 59.8%
  - 2008/09: 59.1%

- **EBITDA to Interest Cover (times)**
  Shows our ability to adequately meet the interest on current borrowings.
  \[
  \text{EBITDA to Interest Cover (times)} = \frac{\text{Earnings Before Interest & Tax, Depreciation and Amortisation}}{\text{Finance charges}}.
  \]
  - 2012/13: 3.7x
  - 2011/12: 3.6x
  - 2010/11: 3.6x
  - 2009/10: 3.2x
  - 2008/09: 3.1x

---

*Our Economic and Financial Performance*  
Ergon Energy Annual Stakeholder Report 2012/13  
39
Ergon Energy’s corporate governance practices are in line with the Australian Stock Exchange (ASX) Corporate Governance Principles and Recommendations, where applicable, as well as the Queensland Government’s Corporate Governance Guidelines for Government Owned Corporations.

Additional information is available online at www.ergon.com.au/about-us/company-information/corporategovernance

**PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT**

**Our companies**

Ergon Energy Corporation Limited has two operating subsidiaries, Ergon Energy Queensland Pty Ltd and Ergon Energy Telecommunications Pty Ltd, as well as a joint venture with Energex Limited – SPARQ Solutions Pty Ltd. p4

Ergon Energy Corporation Limited, a wholly government-owned corporation, is governed by the provisions of the Corporations Act 2001 (Cth), except as otherwise provided by the Government Owned Corporations Act 1993 (Qld). The company’s electricity distribution responsibilities are outlined in the Board Charter, summarised in the table on page 47. The Board consists of seven non-executive directors. Two resigned during the year (John Bird and Susan Forrester) and two replacements were appointed (John Gardener and John Love). p42

All of the directors are considered to be independent. This assessment is made by the Board on a case-by-case basis against the five criteria listed in the ASX Corporate Governance Principles and Recommendations that reference relationship materiality. The directors of Ergon Energy Queensland Pty Ltd and Ergon Energy Telecommunications Pty Ltd are executives of the Ergon Energy group and as such are not independent. While the Board has a number of committees, discussed in detail in this statement, it does not have a nomination committee as the directors are appointed for a set term of office by Queensland’s Governor-in-Council, in accordance with the Governor-owned Corporations Act 1993 (Qld). This acts as a review mechanism for enhancing Board performance, allowing new members to be selected on a regular basis for their expertise and ability to contribute on behalf of our regional Queensland customer base.

**Board committees**

To assist with the discharge of directors’ duties, the Board has four committees to consider and respond to particular issues faced by Ergon Energy, many of which are linked intrinsically to regional Queensland sustainability challenges, such as electricity affordability; workplace health and safety; community safety; environmental matters, disaster management and other people issues, including Equal Employment Opportunities. The membership of each committee, the committee charts, along with their key focus areas during 2012/13 are summarised in the table on page 47. Refer to the Directors’ Report online in the Annual Financial Statements for committee meeting attendance.

**Executive Leadership Team**

The Executive Leadership Team comprises the Chief Executive and ten executives, including the CEO of SPARQ Solutions. The performance of the team is evaluated annually. The Board sets the key performance measures for the Chief Executive for the year in line with the SCI (p7) and reviews the performance of the Chief Executive and the Ergon Energy group based on these agreements. This process then cascades through the Chief Executive to the Executive. During the year, the most substantial change to the team has been the Executive General Manager Customer Service’s shift from a whole of business customer service focus to a single point of accountability for the efficiency and the broader evolution of our Retail business (as Executive General Manager Retail). This saw the shift in accountability for the distribution customer strategy to the Executive General Manager Customer and Stakeholder Engagement.

**Board committees**

The responsibilities of the Ergon Energy Corporation Limited Board are outlined in the Board Charter (summarised p47). The Board delegates functions to management, however, certain matters are reserved for the Board – as detailed in the Charter and a policy document; Delegation of Power. These documents are available online.

The activities of the subsidiary companies are overseen by their own boards, which consist of senior executives of the parent company. The Board of SPARQ Solutions Pty Ltd has detailed shareholder agreements that guide the governance of this company with its board, comprising of executives from both Ergon Energy Corporation Limited and Energex Limited.

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The Board has been focused on a continuous improvement of their processes following the recent change in composition. At each Board meeting, the Board has also been evaluating the effectiveness of the meeting. The next full performance review is scheduled to commence in January 2014, pending further government industry reform announcements.

Access to information and quality advice
The directors have unfettered access to the information and records relevant to the Board in effectively discharging their duties in accordance with the requirements under the Government Owned Corporations Act 1993 (Qld) and the Corporations Act 2001 (Cth). The appropriateness of Board agendas and papers are reviewed on an ongoing basis with a formal review annually. Directors also have access to the Company Secretary on any matter relevant to their role.

As necessary in the performance of its duties, the Board has the authority to initiate investigations or retain services, such as legal or accounting services, from time to time at the company’s expense. Individual directors’ Code of Conduct also provides for each director to have the right to seek independent professional advice at the company’s expense, subject to the approval of the Chairman.

A Deed of Access and Indemnity with each director gives them right of access to all documents that were provided to them during their term in office, for a period of 10 years after ceasing to be a director and to indemnify them to the extent allowed by law in respect of certain liabilities that they may incur as a result of, or by reason of, being a director.

PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING
It is a fundamental principle of Ergon Energy to conduct all business activities legally, ethically and with strict observance of the highest standards of integrity and propriety.

Code of conduct and disclosure of interests
This principle is implemented through the Ergon Energy Corporation Limited Board Charter and Directors’ Code of Conduct and Conflict of Interest Guidelines. The subsidiary boards have adopted the Directors Code of Conduct applicable to the Ergon Energy Corporation Limited Board. The Board of SPARQ Solutions Pty Ltd has a Corporate Governance Manual, which includes a Code of Conduct based on those approved by its shareholders.

Each director is expected to have regard for these practices and policies in the performance of their duties as a director of the company.

The Corporations Act 2001 (Cth) applies to all of the companies in the Ergon Energy group; accordingly, the statutory duties of directors apply. The Board follows normal procedures for the disclosure of directors’ standing interests and material personal interests, and how to deal with them. These include reviewing the register of directors’ interests at each meeting. All new declarations of interest are brought to the attention of the other directors.

Ergon Energy’s employees are expected to act appropriately and practice ethical behaviour. This expectation is outworked through the Code of Conduct Standards. Our code, which applies to all employees, is available on the intranet and is reinforced regularly through our learning and development programs, and employee engagement.

Reporting breaches of conduct
Ergon Energy continues to operate the FairCall Service, established in 2003 as a means by which staff, contractors and members of the public can report unethical conduct, breach of corporate policy - such as the Code of Conduct - or suspected fraud. The service is independently operated and reflects the principles embodied in the Public Interest Disclosure Act 2010 (Qld), and various whistleblowers’ protection standards, ensuring fairness to all concerned.

All allegations lodged using the FairCall Service are referred to the Senior Internal Auditor for investigation and, where these are substantiated, appropriate disciplinary measures are applied. During the year, six allegations were received, but as after investigation they were unable to be substantiated, no disciplinary measures were required.

The Senior Internal Auditor is also the liaison officer for referring any suspicions of official misconduct to the Crime and Misconduct Commission (CMC) as required of government-owned corporations by the Integrity Act 2009 (Qld), as well as overseeing any investigations and reporting of the findings/outcomes. Ergon Energy’s Fraud and Official Misconduct Policy, Employees’ Code of Conduct Policy, Employees’ Code of Conduct Standards Procedure and Reportable Conduct Guidelines support the CMC’s legislative power to investigate suspicions of official misconduct.

Supporting diversity at board level and in the workplace
As part of the board appointment process, shareholding Ministers consider diversity when reviewing the register of suitable board candidates.

In the workplace, Ergon Energy has a Diversity Policy, which is implemented through the diversity program as a part of Ergon Energy’s People Strategy, to support an inclusive workplace culture. Details on the measures and our achievements related to diversity can be found on page 32.

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING
Ergon Energy has a robust structure to independently verify and safeguard the integrity of our financial reporting, as well as a comprehensive internal and external audit process, of which the Audit and Financial Risk Committee has oversight. The committee’s charter and focus for 2012/13 is provided on page 44.

The Chief Executive provides representation, through the Audit and Financial Risk Committee, to the Board that the Financial Statements and Directors’ Report are a true and fair view and in compliance with reporting standards.

As per the provisions of the Auditor-General Act 2009 (Qld), the Queensland Auditor-General is the external auditor for Ergon Energy Corporation Limited and its subsidiaries. The Audit and Financial Risk Committee review the performance of the external audit annually.

PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE
Disclosure to shareholders
The Board has reporting and disclosure obligations to the shareholding Ministers under the Government Owned Corporations Act 1993 (Qld) and Corporations Act 2001 (Cth). These obligations are outworked through Disclosure to Shareholders Policy and a Communications Strategy Guideline ensuring the Queensland Government is kept informed of material matters.

Ergon Energy also has established policies and practices that specifically cover our government communication obligations around performance targets, public safety, probity, occupational health and safety, employment practices, privacy and environmental protection.

Continued on page 49
THE BOARD OF DIRECTORS

As Chairman, Malcolm Hall-Brown brings to Ergon Energy a strong, proven track record in public practice accounting and commercially-oriented enterprises. He has had extensive practical, commercial experience across a diverse range of fields – including marina, resort and other commercial developments – and a deep understanding of Ergon Energy’s regional Queensland operating environment. Malcolm is the foundation director of the Port Binnli group of companies, with a development portfolio that includes the Raby Bay and Mackay marinas, as well as Mackay’s Clarion Hotel. He has also served on several prominent industry development boards, including Brisbane Marketing.

Gary Humphrys brings more than 35 years of experience in the energy and mining industries to the Board. As a chartered accountant, he has held senior executive roles in both the private and public sectors across a range of disciplines, including finance and accounting, treasury, taxation, information and technology, procurement, risk management and audit. In recent years, Gary has undertaken Board and related committee roles in the water, energy, mining and health industries. He is currently a Director of Miles Dolphin Consulting Group who are committed to improving the productivity and profitability of regional Queensland businesses by focusing on business strategy, finance and people solutions. Annabel is also a member of the Regional Committee for the Australian Institute of Company Directors.

John has extensive experience in both the private and public sectors, covering finance, governance, information technology, utilities, business services and economic development, through executive and senior technical management roles in the Northern Territory, Queensland and Victoria. He has also undertaken overseas work assignments in Canada and the USA and received formal training in Management at Harvard University. His is currently involved in residential property development and public sector consulting. Previous Board appointments include treasury, superannuation, utility services and gas supply, as well as research related functions. He is a Life Member and former non-executive Director of the Charles Darwin University Foundation.

Malcolm Hall-Brown
BCon BCom FCPA
CHAIRMAN
Independent Non-Executive Director
First appointed May 2012
Term in office 15 months

Gary Humphrys
CA GAICD
DEPUTY CHAIRMAN
Independent Non-Executive Director
First appointed October 2009
Term in office 4 years

Annabel Dolphin
BBus Mgt AAICD CAHRI
INDEPENDENT NON-EXECUTIVE DIRECTOR
First appointed October 2011
Term in office 23 months

John Gardner
FAIM MAICD Grad Dip (Mgmt) Harvard
INDEPENDENT NON-EXECUTIVE DIRECTOR
First appointed December 2012
Term in office 9 months

Annabel Dolphin is a qualified business management practitioner with both private and public sector experience in mining, energy, manufacturing, engineering and travel industries across Queensland. She is currently a Director of Miles Dolphin Consulting Group who are committed to improving the productivity and profitability of regional Queensland businesses by focusing on business strategy, finance and people solutions. Annabel is also a member of the Regional Committee for the Australian Institute of Company Directors.

John has extensive experience in both the private and public sectors, covering finance, governance, information technology, utilities, business services and economic development, through executive and senior technical management roles in the Northern Territory, Queensland and Victoria. He has also undertaken overseas work assignments in Canada and the USA and received formal training in Management at Harvard University. His is currently involved in residential property development and public sector consulting. Previous Board appointments include treasury, superannuation, utility services and gas supply, as well as research related functions. He is a Life Member and former non-executive Director of the Charles Darwin University Foundation.
CHANGES TO THE BOARD DURING 2011/12

The following Board members resigned during the 2012/13 reporting period. Their full profiles are provided in the Directors’ Report available online.

**John Bird** brought considerable auditing expertise and financial oversight to Ergon Energy as Deputy Chairman of the Board, Chairman of the Board’s Audit and Financial Risk Committee and through his directorship on the Board of Ergon Energy Telecommunications Pty Ltd. He was first appointed in November 2006 and resigned in December 2012.

**Susan Forrester**, as an experienced company director, brought more than 20 years of commercial management experience in the legal, governance and human resource areas experience to the Board and to her role as Chair of Ergon Energy’s Board Establishment and People Committee. She was first appointed in October 2008 and resigned in December 2012.

<table>
<thead>
<tr>
<th>JOHN LOVE</th>
<th>ROWENA MCNALLY</th>
<th>HELEN STANTON</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MAICD</strong></td>
<td><strong>FIAMA LLB AFAIM MAICD</strong></td>
<td><strong>BE MAICD</strong></td>
</tr>
<tr>
<td>INDEPENDENT NON-EXECUTIVE DIRECTOR</td>
<td>INDEPENDENT NON-EXECUTIVE DIRECTOR</td>
<td>INDEPENDENT NON-EXECUTIVE DIRECTOR</td>
</tr>
<tr>
<td>First appointed December 2012</td>
<td>First appointed November 2011</td>
<td>First appointed July 2005</td>
</tr>
<tr>
<td>Term in office 9 months</td>
<td>Term in office 22 months</td>
<td>Term in office 8 years</td>
</tr>
</tbody>
</table>

**John Love** is a licensed electrical contractor with extensive experience in the fields of electrical contracting and reticulation, as well as in the management of large-scale commercial and industrial construction projects. He was the founding director of John Love Electrical, which grew to be one of Queensland’s largest privately-owned electrical contracting companies.

John is currently the Managing Director of Steppe Pty Ltd, a residential, commercial and industrial development company, and is also involved, as business advisor to Autres Pty Ltd, in pharmaceutical research and patent development. He is also active in humanitarian organisations locally and overseas.

**Rowena McNally** is an experienced company director. She has served on a number of water infrastructure boards (Mount Isa, Gladstone and Burnett Water) and hospital boards (Brisbane, Toowoomba and North-west Queensland). She is the Chair of the Mount Isa Water Board, the National Chair of the Institute of Arbitrators and Mediators Australia, Chair of Catholic Health Australia, a Trustee of Mary Aikenhead Ministries and the Chair of the Ministerial Advisory Committee on Flood Manuals. She has previously served on the boards of WorkCover Queensland and Cerebral Palsy Australia. Originally a litigation, intellectual property and corporate lawyer, she is a member of the Queensland Law Society and Law Council of Australia (Business Law Section).

**Helen Stanton** lives in Ingham and has a background in mining and industrial processing and currently consults in strategy implementation, business process analysis, risk and change management. She is a non-executive director of Townsville Mackay Medicare Local and Ingham Disability Services and Townsville Enterprise Limited.

**Our Corporate Governance Statement**

**Ergon Energy Annual Stakeholder Report 2012/13**
OUR GOVERNANCE FRAMEWORK

Queensland Government Shareholding Ministers
Hon. Tim Nicholls, Treasurer and Minister for Trade
Hon. Mark McArdle, Minister for Energy and Water Supply

Boards of the Ergon Energy Group
Ergon Energy Corporation Limited

Operating Subsidiaries
- Ergon Energy Queensland Pty Ltd
- Ergon Energy Telecommunications Pty Ltd (Nexium Telecommunications)

Incorporated Joint Ventures
- SPARQ Solutions Pty Ltd (50% owned)

Board Committees
- Audit & Financial Risk Committee
- Operational Risk Committee
- Establishment & People Committee
- Regulatory Committee

Chief Executive

Executive Leadership Team

Business units
- Finance & Strategic Services
- Asset Management
- Operations
- Energy, Sustainability & Market Development
- Major Projects
- Employee & Shared Services
- Retail
- Customer & Stakeholder Engagement
- Corporate Governance

SPARQ Solutions (Office of the Chief Information Officer)

Internal Audit, Business Risk & Compliance

OUR CORPORATE GOVERNANCE STATEMENT ERGON ENERGY ANNUAL STAKEHOLDER REPORT 2012/13
### FOCUS OF THE BOARD AND THE BOARD COMMITTEES

#### MEMBERSHIP

<table>
<thead>
<tr>
<th>Ergon Energy Corporation Limited Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>M Hall-Brown</td>
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</tbody>
</table>

#### SUMMARY OF CHARTER

- Responsible for the strategic direction of the organisation.
- Ensures the corporate governance required to monitor operational, safety, environmental, social and financial performance and reports to the shareholding Ministers.
- Delegates authority to the Chief Executive, management and employees.

#### FOCUS IN 2012/13

- Ensuring the strategic direction had strong response to addressing electricity affordability.
- Driving operational efficiency through the business.
- Ensuring a focus on delivering major customer connections.
- Supporting the industry review and reform agenda.

#### Audit & Financial Risk Committee

| G Humphrys | M Hall-Brown | A Dolphin | J Gardner |

- Approves and monitors Ergon Energy’s in-house internal audit program.
- Provides ongoing assurances to the Board that its obligations are being met in relation to:
  - financial integrity
  - financial risks
  - regulatory reporting
  - compliance issues.

- Oversaw the implementation of a new co-sourced audit and assurance framework to focus on strategic risk and end-to-end processes.
- Reviewed the external audit report and recommendations.
- Recommended to the Board that it adopt the Annual Financial Statements and Directors’ Report.
- Oversaw compliance with the conditions of the Australian Financial Services Licence.
- Received reports on debt management and other treasury functions.
- Endorsed the Regulatory Information Notice return submitted to the Australian Energy Regulator.

#### Regulatory Committee

| J Gardner | M Hall-Brown | G Humphrys | H Stanton |

- Assists the Board to fulfil its corporate governance and oversight responsibilities by reviewing and reporting on the due diligence process conducted in relation to the preparation and outcomes of regulatory proposals.

- Developed responses and submission in relation to regulatory compliance issues and tariff reform impacts.
- Oversaw progress in the preparation of the submission to the AER for the 2015-2020 distribution determination.
- Received reports on key issues, including matters around the significant regulatory changes associated with the next distribution determination and the broader regulatory framework.

#### Operational Risk Committee

| H Stanton | M Hall-Brown | J Love | R McNally |

- Assists the Board in its response to business and operational risks and oversight responsibilities in relation to:
  - health and safety, including community safety,
  - environmental risks
  - risk exposure
  - insurance and claims management.

- Oversaw the introduction of a new corporate risk capability and management maturity framework.
- Ongoing monitoring and management of health and safety and network risk associated with internal organisational change and external industry reform agendas.
- Reviewed changes to the corporate risk profile in response to emerging issues and regular reports from management on health, safety and environmental issues.
- Validated the risk appetite statements for health and safety, and for procurement, as well as the insurance program for the transfer of risk.
- Oversaw the ongoing development of the organisational resilience framework.

#### Establishment & People Committee

| A Dolphin | M Hall-Brown | J Love | R McNally |

- Assists in developing a strategic, long-term and sustainable approach on issues relating to people working for Ergon Energy.
- Fulfils the Board’s oversight responsibilities in relation to:
  - remuneration; performance management; industrial relations; employee engagement; organisational culture; and learning and development.

- Monitored the establishment resizing efforts to ensure delivery of improved efficiencies.
- Monitored key talent and succession planning risks.
- Endorsed the Employment and Industrial Relations Plan.
- Received regular management reports on human resource and diversity issues.
- Recommended executive remuneration arrangements to the Board.

**CB = Chairman of the Board**

**CC = Committee Chairman**
OUR EXECUTIVE LEADERSHIP TEAM

IAN McLEOD
FAIM GAICD
CHIEF EXECUTIVE

John Hooper is responsible for managing the profitability and sustainability of all aspects of the business, as the asset owner, and through the provision of finance and strategy development. John has significant accomplishments in financial and general management and has worked for a diverse range of businesses, including large public corporations and private businesses. John is a director of Ergon Energy Queensland Pty Ltd, SPARQ Solutions Pty Ltd and Ergon Energy Telecommunications Pty Ltd.

JOHN HOOPER
BEcon (Accounting) FCPA
GAICD FAIM
CHIEF FINANCIAL OFFICER

TONY PFEIFFER
BEng FIEAust CPEng RPEQ
NPRA GAICD
EXECUTIVE GENERAL MANAGER, ASSET MANAGEMENT (ACTING)

Tony is responsible for the efficiency and effectiveness of Ergon Energy’s asset strategy and for defining the distribution business’s program of work. He brings 30 years of industry experience in business strategy, economic regulation, operation, construction, asset management and business performance in the electricity utility industry. Tony was intimately involved in the formation of the National Electricity Market and development of the original National Electricity Code. Tony is on the Board of the Australian Power Institute, as well as Green Cross Australia.

PETER BILLING
EXECUTIVE GENERAL MANAGER, OPERATIONS

Peter Billing is responsible for the operational effectiveness of the distribution business, including the delivery of the program of work that brings Ergon Energy’s asset management planning to fruition. He brings a wealth of industry, leadership and change management experience from trade roles to management. Peter was directly involved in the transformation of the electricity industry in South Australia through the period of deregulation in the 1990s. Peter is on the board of Mackay Whitsunday Regional Development Corporation Ltd, as well as Energy Skills Queensland.

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Ian McLeod is responsible for the business’s overall direction and, ultimately, for meeting the service delivery expectations and requirements of our customers, the community and regulators, as well as the business and financial objectives of our shareholders. Ian brings extensive electricity industry experience to Ergon Energy: experience gained through management roles in the private contracting industry, in Powercor Australia, the State Electricity Commission of Victoria and Ergon Energy. Ian is a director of Energy Supply Association of Australia and is Chairman of Ergon Energy Queensland Pty Ltd, SPARQ Solutions Pty Ltd and Ergon Energy Telecommunications Pty Ltd.

IAN McLEOD
FAIM GAICD

CHIEF EXECUTIVE

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PETER BILLING

EXECUTIVE GENERAL MANAGER, OPERATIONS
Philip Keogan is responsible for leading the development of Ergon Energy’s non-traditional energy solutions with the aim of finding sustainable ways to provide our customers with a dependable, affordable electricity supply into the future. Philip brings considerable product development and strategic investment experience to Ergon Energy’s management team, gained from a career with senior positions in a number of leading infrastructure service providers, including Jemena and Optus.

Brian Iwaszczyn is responsible for the delivery of Ergon Energy’s major corporation-initiated and customer-initiated capital projects. His team works closely with Asset Management and Operations to ensure Ergon Energy’s overall program of works is delivered efficiently and cost-effectively. Brian brings his professional electrical engineering expertise backed by a wealth of experience in project management, operations and maintenance in heavy industry and mining, infrastructure, manufacturing and transport to Ergon Energy’s executive.

Mal Leech is responsible for shared services and ‘people-related’ functions including health, safety, and environment, administration, property, human resources, industrial relations, training and development, organisational development, change management and program management of business improvement initiatives. Mal Leech has more than 15 years’ industry experience following a career in management consulting, human resources and engineering.

Roslyn Baker is responsible for Ergon Energy’s franchise retail business, including strategy, energy trading, community service obligations and customer billing. Roslyn is also responsible for customer service processes and delivery through the Contact Centre. Throughout her career, she has been Chief Executive Officer of the Australian Technical College NQ, held senior positions with the Chamber of Commerce and Industry Queensland and been involved in establishing franchise networks within the dairy industry and retail management in the petroleum industry. Roslyn has been granted AFMA Accredited Individual status.
Justin Fitzgerald is responsible for customer and other stakeholder engagement and the broader distribution customer strategy; promoting business understanding of key customer concerns, as well as other stakeholder insights; and championing the brand and corporate reputation. Justin brings extensive industry knowledge and a strong appreciation of stakeholder expectations to Ergon Energy’s strategic challenges and social responsibility agenda, particularly in the area of disaster management. Justin is a director of Ergon Energy Queensland Pty Ltd and SPARQ Solutions Pty Ltd.

Graeme Finlayson is responsible for Board secretariat services, risk management, regulatory strategy, network pricing and legal services and Ergon Energy’s high level compliance functions. He brings to Ergon Energy broad-ranging private and public sector experience – having held senior in-house commercial legal roles in some of Australia’s top national law firms, and executive positions and directorships in some of Australia’s largest and fastest growing organisations, including Queensland Rail and the Gold Coast City Council. Graeme is the Company Secretary for each board in the Ergon Energy group.

Peter Effeney is the Chief Executive Officer of SPARQ Solutions, Ergon Energy’s Information and Communications Technology (ICT) joint venture with Energex. As the Chief Information Officer his responsibility on the executive leadership team is to ensure that Ergon Energy’s ICT strategy, architecture and investment, and SPARQ Solutions’ ICT services, are aligned with the business’s strategic priorities and deliver maximum value. Prior to leading the formation of SPARQ Solutions, Peter held various management, engineering and ICT roles within Ergon Energy.
Ergon Energy has an obligation to protect the personal information collected from misuse, loss, unauthorised access, modification or disclosure strict data security systems and procedures are in place across the access/use of the repositories that hold personal information. During 2012/13, Ergon Energy received fourteen complaints relating to customer privacy matters: eleven were not substantiated and the remaining three were resolved.

Ergon Energy manages applications for information and the publication of non-personal information, which is considered to be of significant interest to the wider public, in accordance with the Right to Information Act 2009 (Qld) and the Information Privacy Act 2009 (Qld). The process for individuals to apply for information and summary information of documents released is found at www.ergon.com.au/about-us/right-to-information.

Principle 6 – Respect the Rights of Shareholders

Ergon Energy respects the rights of shareholding Ministers, as the ultimate owners of the business, and commits to work in a collaborative fashion with the government to deliver the best outcomes for our customers and the Queensland economy.

Government Shareholder Communications

The Chairman has regular meetings with shareholding Ministers and their representatives, as part of a broader government engagement program, to ensure there is active dialogue throughout the year.

This ensures the operation and strategic direction of the business is consistent with the Queensland Government’s energy policy and broader objectives and generally meets the expectations of our shareholders.

We also have a comprehensive reporting regime, prescribed by the Government Owned Corporations Act 1993 (Qld), and GOC Amendment Regulation (No. 2) (2009), as well as other mechanisms.

This is supported by teams dedicated to managing the business’s government and regulatory relationships and to responding to reporting requests.

The content of Ergon Energy’s annual reporting suite is one of many reports that are required to meet statutory and specific government requirements. It endeavours to enable our government shareholders to have an informed assessment of our operations, including the organisation’s overall efficiency and effectiveness.

Directions and Notifications

Under the Government Owned Corporations Act 1993 (Qld), the reserve powers of the shareholding Ministers provide that they may in the public interest notify Ergon Energy (as a government-owned corporation) of a public sector policy that is to apply to the corporation (section 114) and may also give a written direction to Ergon Energy (section 115) or a direction to amend the SCI (section 108). Directions can also be given under the Electricity Act 1994 (Qld).
During 2012/13, the following directions were given:

- A direction was received under the Electricity Act 1994 (Qld), in February 2012, to transfer the ownership and the operation of “B” Switchyard at Mica Creek power station from Stanwell Corporation Limited to Ergon Energy Corporation Limited in order to meet the long term energy needs of the Mt Isa region. This transaction was completed in 2012/13 with a purchase price from Stanwell Corporation Limited of $164,000.

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

Our risk management framework

Ergon Energy recognises that effective risk management and compliance frameworks are necessary to meet the expectations of its stakeholders. Fundamental to this is that our directors and management are able to demonstrate an understanding of the business risks and compliance obligations and that these are being efficiently and effectively managed. All board committees play a role in assisting the directors in fulfilling their oversight responsibilities in respect to business risks.

To give effect to its risk management and compliance commitments, Ergon Energy has established policies on these and other areas (e.g. Health, Safety and Environment) and implemented a risk management framework based on the Joint Australia/New Zealand Risk Management Standard: AS/NZS ISO 31000:2009, and a compliance program based on the Australian Compliance Standard AS 3806:2006.

Ergon Energy also has a Standard for Corporate Risk Management, Corporate Risk Management Guideline and Corporate Risk Assessment Tables. The standard sets out the principles that Ergon Energy must follow to achieve effective risk management and provides guidance on how risk management should be implemented and integrated into Ergon Energy. The guideline supports the standard by providing practical guidance on how to implement the risk management process referred to in the standard. The tables, used in conjunction, provide uniform risk management criteria to support consistent risk-based assessments.

Risk management activities and compliance

During 2012/13, the following risk management and compliance activities were undertaken by Ergon Energy:

- Risk Management Framework: A review of the framework for managing material business risks was undertaken. This supported assurances to the Board by the Chief Executive and Chief Financial Officer, in accordance with section 295A of the Corporations Act 2001 (Cth), that the framework is founded on a system of risk management and internal control and that it is operating effectively in all material respects in relation to financial reporting risks.
- Insurance Program: The review and renewal of Ergon Energy’s 2012/13 Insurance Program was undertaken to ensure cost-effective coverage of the organisation’s insurable risks.
- Risk Profiles: Ergon Energy’s Corporate Risk Profile and Business Unit Risk Profiles were reviewed and updated. As part of this process a review of the profiles against Ergon Energy’s Corporate Plan and Business Unit Plans was performed to ensure alignment.
- Risk Appetite and Risk Assurance: Work continued on developing risk appetite statements which will set the level of risk Ergon Energy is prepared to accept in pursuing its corporate objectives. Risk assurance maps were also developed to show the assurance activities performed in relation to key corporate risks and also to assist with the development of a three-year internal audit plan.

The key compliance matters for 2012/13, which are discussed elsewhere in the report, network service standards (p15); Guaranteed Service Levels (p16); network planning (p23-24); safety performance (p30); renewable energy targets (p33); and environmental incidents (p35).

Certainty reduces trading risk

As part of an ongoing review of energy purchasing arrangements, the Queensland Government announced changes this year to improve the efficiency of the government’s energy portfolio. This will mean, from 2013/14, energy purchased by our retailer will be supplied predominantly through state-owned electricity generators; CS Energy and Stanwell. The new market-based wholesale energy procurement arrangements have been implemented for a term of up to four years from 2013/14, supplementing rather than replacing existing supply arrangements. The new contracting arrangements will support energy purchasing price certainty for the retail load. This will build on the significant turnaround in trading results achieved over the past year through effort in the trading area’s front and middle office to understand our revenue and risk.

External and internal audit

Ergon Energy submits to a number of external audits in pursuit of world-class practice and, in some cases, to gain or retain the certification we need to do business, such as Quality Assurance ISO 9001 certification for our Transmission and Project Services. Other audits we regularly undergo include Australian Standard 4801 Occupational Health and Safety, Electrical Safety Legislation, International Customer Service Standards and Environmental Standard ISO 14001. These audits ensure external assurance of the performance standards made in this report.

Ergon Energy’s annual accounts and financial statements are audited by Deloitte Touche Tohmatsu (Deloitte), as delegate of the Auditor-General of Queensland.
The scope of our internal audit function covers all of Ergon Energy’s operations, either directly or through auditors contracted by the organisation or its subsidiaries. Our internal audit function helps us accomplish our objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The Ergon Energy Internal Audit Charter is established by the authority of the Ergon Energy Audit and Financial Risk Committee.

This year’s plan included audits of corporate card, relocation expenses, consultants and professional services resources, warehousing and inventory, depot administration, procurement to pay, forced and planned maintenance, and contractor management. These reviews focused on documenting and testing key management controls. Other audit reviews covered specific risk areas such as reportable gifts and the at risk performance process for senior executives.

The Group Manager Risk and Assurance reports for administrative purposes to the General Counsel/Company Secretary but retains unrestricted access to the Chief Executive to discuss any matter relating to the finances or operations of Ergon Energy. Internal Audit also ensures its independence by reporting to the Audit and Financial Risk Committee. The Group Manager Risk and Assurance also has access to the Board through the Audit and Financial Risk Committee Chair.

PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

Ergon Energy recognises that to attract and retain the personnel necessary to deliver on the company’s strategic plan and achieve its vision, salaries and salary packaging must be competitive, flexible and performance orientated.

As part of our Human Resources Policy, we have a total employment offering considered to be attractive by both prospective and current employees and representative of the expectations of our community. This policy is designed to attract high calibre employees, retain employees, incorporate current industry benchmarks and ensure employees are aware of what they need to do to contribute to team and organisational goals.

Performance agreements are based on the strategic objectives of the organisation as per the SCI agreed with the Queensland Government. Reimbursement is made for reasonable limits have been observed during 2012/13 for aggregate event expenditure and expenditure per head, taking into account the nature of the event. At the request of shareholding Ministers, the SCI includes information on Corporate Entertainment and Hospitality. For 2012/13, the following entertainment and hospitality expenses over $5,000 were:

<table>
<thead>
<tr>
<th>Event Name</th>
<th>Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southern Employee Christmas Party - Toowoomba</td>
<td>$8,680</td>
</tr>
<tr>
<td>Brisbane Employee Christmas Party - Brisbane</td>
<td>$6,748</td>
</tr>
<tr>
<td>Central Employee Christmas Party - Rockhampton</td>
<td>$18,792</td>
</tr>
<tr>
<td>Far North Employee Christmas Party - Cairns</td>
<td>$6,300</td>
</tr>
<tr>
<td>North Employee Christmas Party - Townsville</td>
<td>$6,335</td>
</tr>
</tbody>
</table>

NETWORK STATISTICS

<table>
<thead>
<tr>
<th>Category</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Customers Served</td>
<td>712,634</td>
</tr>
<tr>
<td>Network Area Serviced</td>
<td>1.7 million km²</td>
</tr>
<tr>
<td>Employees</td>
<td>4,614</td>
</tr>
<tr>
<td>Power Stations (grid connected &amp; isolated)</td>
<td>34</td>
</tr>
<tr>
<td>Bulk Supply Points</td>
<td>22</td>
</tr>
<tr>
<td>Zone Substations</td>
<td>363</td>
</tr>
<tr>
<td>Major Power Transformers (33kV to 132kV)</td>
<td>650</td>
</tr>
<tr>
<td>Distribution Transformers</td>
<td>94,500</td>
</tr>
<tr>
<td>Power Poles</td>
<td>1 million</td>
</tr>
<tr>
<td>Overhead Powerline</td>
<td></td>
</tr>
<tr>
<td>Sub-transmission</td>
<td>16,000km</td>
</tr>
<tr>
<td>High Voltage Distribution</td>
<td>117,000km</td>
</tr>
<tr>
<td>Low Voltage: Distribution</td>
<td>20–25,000km</td>
</tr>
<tr>
<td>Underground Power Cable</td>
<td>8,000km</td>
</tr>
</tbody>
</table>

FOR FURTHER DETAILS ON OUR REGULATED ASSETS, AS WELL AS OUR ASSET MANAGEMENT POLICIES, STRATEGIES AND SPECIFIC INITIATIVES REFER TO ERGON ENERGY'S DISTRIBUTION ANNUAL PLANNING REPORT AVAILABLE ONLINE.
COMMON INDUSTRY UNITS OF MEASURE

SAIDI  System Average interruption Duration Index. Network reliability performance index, indicating the total minutes, on average, that customers are without electricity during the relevant period (minutes).

SAIFI  System Average Interruption Frequency Index. Network reliability performance index, indicating the average number of occasions each customer is interrupted during the relevant period (interruptions).

Customer Minutes  Customer minutes is a measure of the number of customers interrupted multiplied by the duration of a power outage or outages, incorporating any staged restoration.

AIFR  All Injury Frequency Rate – measured as number of injuries per million hours worked. Lost Time Injuries (LTI) + Medical Treatment Injuries (MTI) x 1,000,000 / Exposure Hours

LTIFR  Lost Time Injury Frequency Rate. Number of lost-time injuries per million hours worked over the 12 month reporting period. Lost Time Injuries (LTI) x 1,000,000 / Exposure Hours

LTIDR  Lost Time Injury Duration Rate. Total days lost due to injuries per million hours worked over the 12 month reporting period. Lost Time Injuries Progressive Days Lost x 1,000,000 / Exposure Hours

DEEFR  Dangerous Electrical Event Frequency Rate. A safe work practice measure that tracks Dangerous Electrical Events (DEEs) associated with work done by our employees (DEEs x million / exposure hours). Dangerous Electrical Events (DEE) x 1,000,000 / Exposure Hours

V  volt: the unit of potential or electrical pressure

VA  volt ampere: volt amperes are the ‘apparent power’ and are the product of the voltage applied to the equipment times the current drawn by the equipment. The VA rating is limited by the maximum permissible current, and the watt rating by the power-handling capacity of the device

kVA  kilovolt ampere: one kVA equals 1,000VA

MVA  megavolt ampere: one MVA equals 1,000kVA

kV  kilovolt: one kV equals 1,000 volts

W  watt: a measure of the power present when a current of one ampere flows under a pressure of one volt

kW  kilowatt: one kW equals 1,000 watts

MW  megawatt: one MW equals 1,000 kilowatts

kWh  kilowatt hour: the standard ‘unit’ of electricity which represents the consumption of electrical energy at the rate of one kilowatt over a period of one hour

MWh  megawatt hour: one MWh equals 1,000 kilowatt hours

GWh  gigawatt hour: one GWh equals 1,000 megawatt hours or one million kilowatt hours

HV  high voltage: alternating current above 1,000V

LV  low voltage: alternating current above 32V and not exceeding 1,000V

GJ  gigajoule: a measure of energy, one million joules
ABBREVIATIONS

A&TSI  Allied and Torres Strait Islander
AER  Australian Energy Regulator
ASX  Australian Stock Exchange
CMC  Crime and Misconduct Commission
CPI  Cost Performance Index
CPI  Consumer Price Index
CSI  Comprehensive Safety Indicator
CSO  Community Service Obligation
DEEs  Dangerous Electrical Events
EBIT  Earnings Before Interest and Tax
ENA  Energy Networks Association
EV  Electric Vehicle
FTE  Full Time Equivalent
GECs  Gas Electricity Certificates
GFC  Global Financial Crisis
GPS  Global Positioning System
GRI  Global Reporting Initiative
GSLs  Guaranteed Service Levels
GUSS  Grid Utility Support Systems
ICT  Information and Communications Technology
IRC  Investment Review Committee
ISO  International Organisation for Standards
KPI  Key Performance Indicator
LEP  Long-Term Energy Procurement
MSS  Minimum Service Standards
NIRC  Network Investment Review Committee
NPAT  Net Profit After Tax
QCA  Queensland Competition Authority
RAP  Reconciliation Action Plan
RECs  Renewable Energy Certificates
ROAMES  Remote Observation Advanced Modelling Economic Simulation
SCADA  Supervisory Control and Data Acquisition system
SCI  Statement of Corporate Intent
SHADO  Sexual Harassment and Anti-Discrimination Officer
SPI  Scheduled Performance Index
STPIS  Service Target Performance Incentive Scheme
SWER  Single Wire Earth Return

KEY SERVICE CENTRES

Cairns
109 Lake Street
CAIRNS QLD 4870

Townsville (Registered Office)
22 Walker Street
TOWNSVILLE QLD 4810

Mackay
23 Cemetery Road
WEST MACKAY QLD 4740

Rockhampton
Cnr Fitzroy and Alma Streets
ROCKHAMPTON QLD 4700

Maryborough
97-99 Adelaide Street
MARYBOROUGH QLD 4650

Toowoomba
Cnr South and Hampton Streets
TOOWOOMBA QLD 4350

Brisbane
825 Anne Street
FORTITUDE VALLEY QLD 4006
ANNUAL STAKEHOLDER REPORT 2012/13

Customer Service
13 10 46
7.00am – 6.30pm, Monday to Friday

Faults Only
13 22 96
24 hours a day, 7 days a week

Life-Threatening Emergencies Only
Triple zero (000) or 13 16 70
24 hours a day, 7 days a week

Customer Advocate
PO Box 264 Fortitude Valley QLD 4006
customer.advocate@ergon.com.au

Ergon Energy Corporation Limited ABN 50 087 646 062
Ergon Energy Queensland Pty Ltd ABN 11 121 177 802

ergon.com.au