peace of mind

choice and control

for the best possible price

Ergon Energy
Annual Stakeholder Report 2014–15
Creating fresh value and choice
Details our focus on building customer value and addressing electricity affordability, and how we have delivered against our service commitments and as a responsible provider.

Evolving a smarter network
Showcases how we are optimising our investment and evolving a smarter network, and building on our demand management success, to deliver more efficiently and create new value.

Embracing change and technology
Highlights how we’re investing in our people and becoming increasingly technology-enabled – to be ‘future ready’ – and outlines our focus on safety and the environment.

Delivering economic value
Our corporate governance statement

Looking for more information?
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 reports, are available online at www.ergon.com.au/annualreport
Many of our challenges in servicing regional Queensland are unique. Our communities are spread out to the far reaches of the state, and we can experience cyclones and floods one day and bushfires the next.

To us, as an energy company, these and our other ‘shared’ challenges have a silver lining. They make us innovate, and think forward.

They spur us on to develop different, smarter ways of doing things, like using technology to help better service our customers, or renewable energy and battery storage to create more efficient solutions.

We’re guided in this by talking to our customers, and finding out what’s important to them. Then placing our commitments to them at the heart of what we do. And here, our people are our greatest asset.

Our customer commitments are about delivering the peace of mind intrinsic to a safe, dependable electricity service, and enabling greater customer choice and control by way of tariff options and how the network can be used... all for the best possible price.
About our report

This report covers Ergon Energy’s overall performance for the 2014-15 financial year – highlighting the contribution of Ergon Energy Corporation Limited and its subsidiary Ergon Energy Queensland Pty Ltd. It also provides limited commentary on our other subsidiaries and our joint venture.

Sustainability and Ergon Energy

While our most significant contribution to the sustainability concerns across regional Queensland remains our response to electricity affordability, this report also addresses a range of other sustainability matters relevant to our stakeholders and our purpose as an organisation.

We are active in assessing our stakeholder expectations. This understanding has guided the content of this report.

Our approach to reporting also continues to be guided by Global Reporting Initiative’s Principles of Sustainability Reporting, as well as the Australasian Reporting Awards criteria for best-practice reporting.

We welcome your feedback on our reporting.
Our PURPOSE is to provide safe, reliable, efficient and sustainable energy solutions to support our customers and the Queensland economy.

Our distribution business

Our role as a distributor is to transport electricity along our ‘poles and wires’ across regional Queensland.

Our distribution business is regulated by the Australian Energy Regulator (AER), who effectively caps the revenue we are allowed to collect from our customers for the use of the network. These charges are just one of the components making up the price of electricity.

We also operate under Queensland Government electricity industry laws and regulations. Ergon Energy is a Queensland Government-owned corporation.

Our retail business

Our retailer (Ergon Energy Queensland Pty Ltd) buys electricity from the generators, through the market and in direct deals, and on-sells it to customers.

As a non-competing retailer, we sell electricity at the Queensland Government’s Notified Prices, which are set by the Queensland Competition Authority (QCA). This enables Queenslanders to access the same regulated electricity tariffs, wherever they live, even though the supply cost may be different.

Some customers in regional Queensland have chosen to purchase their electricity from other retailers in the competitive market – at a price set by that retailer. However, Ergon Energy’s distribution network is still their supplier.

Our other businesses

Nexium Telecommunications (Ergon Energy Telecommunications Pty Ltd) services Ergon Energy’s communications needs and, as a licensed telecommunications carrier, also offers the open market wholesale high-speed data services.

SPARQ Solutions Pty Ltd, our joint venture with Energex Limited (our south-east Queensland counterpart), provides each of our respective organisations with information and communications technology solutions and services.
Ergon Energy supplies electricity across a vast, diverse service area of more than one million square kilometres – across 97% of the state of Queensland.
**CAPABILITY**

4,447 employees

$11.5 billion asset base

160,000 km of powerlines

69 service depot locations

2 network control centres

2 customer solutions centre sites

**TO DELIVER**

733,000 customers served ▲

2,382 MW peak demand met ▼

15,140 GWh electricity distributed ▼

2.9 power outages per customer ▲

13,300 new solar systems connected ▼

1.7 million calls answered ▼

**HOW ERGON ENERGY COMPARES TO OTHER DISTRIBUTORS**

- **Our network**
  - Around 70% of our electricity network runs through rural Queensland, a vast service area with large distances between communities. Our customer density per network kilometre is the second lowest in the National Electricity Market.
  - We have both a high proportion of costly subtransmission assets, compared to our urban counterparts, and one of the largest Single Wire Earth Return (SWER) networks in the world. Both the limited capacity ‘SWER’ lines, and the radial design of the network generally, limit our options when responding to outages or demand; compared to an interconnected network with a higher customer density.
  - Ergon Energy also has 33 stand-alone power stations supplying communities isolated from the main grid, in western Queensland, the Gulf of Carpentaria, Cape York, various Torres Strait islands, and Palm Island. Our retailer also has a gas-fired power station at Barcaldine, which supplies the main grid.

Our service area is by far the largest distribution area in the National Electricity Market (NEM). However, proportionally our customer base is small.

Source: Huegin Ergon Energy Expenditure Benchmarking.
Year in summary

Performance highlights

To help refine our network tariff reform journey, we engaged our customers, and launched industry leading, voluntary demand-based tariffs. p14

A major investment was made into our customer information systems as part of our response to changing customer expectations and competition. p14

We successfully responded to the two major cyclones that hit Queensland this year – category five Cyclone Marcia and category four Cyclone Nathan. p19

Our $162 million reliability improvement program was completed – and our new ‘battery’ Grid Utility Support System is set to deliver for rural customers. p16, 24

We are realising greater efficiency and effectiveness with our crews now accessing real-time information in the field and the integration of internationally-awarded ‘Roames’ spatial technology into our operations. p31

We presented to the AER a comprehensive proposal for the next five years that is about delivering peace of mind, choice and control, for the best possible price. p39

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OUR FINANCIALS IN A SNAPSHOT

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<tbody>
<tr>
<td><strong>Total Assets (million)</strong></td>
<td>$11,485</td>
<td>$10,931</td>
<td>$11,058</td>
<td>$10,354</td>
<td>$9,889</td>
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<tr>
<td><strong>Total Capital Investment (million)</strong></td>
<td>$983</td>
<td>$812</td>
<td>$872</td>
<td>$870</td>
<td>$831</td>
</tr>
<tr>
<td><strong>Net Profit After Tax (million)</strong></td>
<td>$696</td>
<td>$295</td>
<td>$308</td>
<td>$193</td>
<td>$232</td>
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<tr>
<td><strong>Dividends Provided For (million)</strong></td>
<td>$1,925</td>
<td>$392</td>
<td>$326</td>
<td>$256</td>
<td>$253</td>
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<td><strong>Community Service Obligation Payment (million)</strong></td>
<td>$596</td>
<td>$519</td>
<td>$596</td>
<td>$415</td>
<td>$399</td>
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<tr>
<td><strong>Return on Average Assets</strong></td>
<td>11.6%</td>
<td>7.2%</td>
<td>7.5%</td>
<td>5.9%</td>
<td>6.6%</td>
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<tr>
<td><strong>Return on Average Equity</strong></td>
<td>28.5%</td>
<td>9.1%</td>
<td>9.4%</td>
<td>6.1%</td>
<td>7.8%</td>
</tr>
<tr>
<td><strong>Debt to Debt Plus Equity Gearing</strong></td>
<td>74.4%</td>
<td>62.5%</td>
<td>59.2%</td>
<td>60.6%</td>
<td>57.0%</td>
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<tr>
<td><strong>EBITDA to Interest Cover (times)</strong></td>
<td>5.2x</td>
<td>3.3x</td>
<td>3.2x</td>
<td>2.9x</td>
<td>3.3x</td>
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FOR MORE ON OUR FINANCIAL PERFORMANCE SEE PAGES 39-42.
Performance overview

Ergon Energy’s performance targets for 2014-15 are detailed in our Statement of Corporate Intent (SCI). As part of our performance agreement with our shareholding Ministers, the SCI is tabled in the Queensland Parliament with this corresponding report. These performance results are discussed in more detail throughout this report.

<table>
<thead>
<tr>
<th>Targets</th>
<th>Results</th>
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<tbody>
<tr>
<td><strong>Creating fresh value and choice</strong>&lt;br&gt;p12</td>
<td><strong>Value to Customer</strong> Survey&lt;br&gt;Better than peer average&lt;br&gt;99&lt;sup&gt;1&lt;/sup&gt;</td>
</tr>
<tr>
<td><strong>Supply Reliability Indicators:</strong>&lt;br&gt;Duration (SAIDI):</td>
<td>≤149&lt;br&gt;145&lt;br&gt;≤424&lt;br&gt;357&lt;br&gt;≤964&lt;br&gt;1,051</td>
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<tr>
<td>Frequency (SAIFI):</td>
<td>≤1.98&lt;br&gt;1.3&lt;br&gt;≤3.95&lt;br&gt;3.2&lt;br&gt;≤7.40&lt;br&gt;6.8</td>
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<tr>
<td>Asset Related Public Shocks&lt;sup&gt;2&lt;/sup&gt;</td>
<td>≤253&lt;br&gt;191</td>
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<tr>
<td><strong>Evolving a smarter network</strong>&lt;br&gt;p22</td>
<td>Actual capital expenditure within regulatory allowance&lt;sup&gt;3&lt;/sup&gt;&lt;br&gt;≤71.9%&lt;br&gt;71.8% of five-year allowance&lt;br&gt;≤71.9%&lt;br&gt;71.8% of five-year allowance</td>
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<tr>
<td>Demand management reductions&lt;sup&gt;4&lt;/sup&gt;</td>
<td>≥13.3MVA&lt;br&gt;13.6MVA&lt;br&gt;≥13.3MVA&lt;br&gt;13.6MVA</td>
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<tr>
<td><strong>Embracing change and technology</strong>&lt;br&gt;p28</td>
<td>Actual Operating Expenditure within Regulatory Allowance&lt;sup&gt;3&lt;/sup&gt;&lt;br&gt;≤96.8%&lt;br&gt;99.8% of five-year allowance&lt;br&gt;≤96.8%&lt;br&gt;99.8% of five-year allowance&lt;br&gt;Employee Engagement&lt;br&gt;Action Plan Complete&lt;br&gt;On track&lt;br&gt;Safety Indicators:&lt;br&gt;- Lost Time Injuries Frequency Rate – Employees&lt;br&gt;≤2.2&lt;br&gt;1.9&lt;br&gt;- All Injuries Frequency Rate&lt;br&gt;- Employees&lt;br&gt;≤8.5&lt;br&gt;5.0&lt;br&gt;- Lost Time Injuries Frequency Rate – Contractors&lt;br&gt;≤2.5&lt;br&gt;3.2&lt;br&gt;Environmental Protection Agency Breaches (Class 1)&lt;br&gt;Nil breaches&lt;br&gt;Nil breaches</td>
</tr>
<tr>
<td><strong>Delivering economic value</strong>&lt;br&gt;p39</td>
<td>Net Profit After Tax&lt;br&gt;≥$591 million&lt;br&gt;$696 million&lt;br&gt;≥$591 million&lt;br&gt;$696 million&lt;br&gt;Dividends Provided For&lt;br&gt;≥$473 million&lt;br&gt;$1,925 million&lt;br&gt;≥$473 million&lt;br&gt;$1,925 million&lt;br&gt;Customer Service Obligation Payment&lt;br&gt;≥$654 million&lt;br&gt;$596 million&lt;br&gt;≥$654 million&lt;br&gt;$596 million&lt;br&gt;Return on Average Assets&lt;br&gt;≥9.7%&lt;br&gt;11.6%&lt;br&gt;≥9.7%&lt;br&gt;11.6%</td>
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1. Result for final six months, the average score for the whole year was 101, above the peer average.
2. Original Statement of Corporate Intent 226 target was calculated incorrectly. Target corrected based on the previous five years data.
3. Standard Control Services expenditure cumulative for the five year regulatory control period.
4. Key measure, however, not in the Statement of Corporate Intent.
Chairman’s message

There is no doubt that the electricity industry, both in Queensland and further afield, is undergoing rapid, unprecedented change.

As a Board, we have been dealing with this for a number of years, setting and then refining Ergon Energy’s strategic direction.

With more customers taking up solar energy, and products on the horizon that will make use of emerging energy storage technologies, we took steps early to put the organisation on a path that is now seeing it move from being an essential service, to being a provider of the essential infrastructure that connects buyers and sellers of energy services.

This is now not only guiding the investment priorities of our distribution business, but also the strategic direction of our retailer, one that is about delivering fresh value as a trusted, regional Queensland market participant.

This year, I believe Ergon Energy has made significant progress along this strategic journey. This has been achieved despite the challenges of operating in an environment with a high level of uncertainty – the process of determining our revenue allowance is still underway, the proposed merger with Queensland’s other government-owned network service providers is still to be outworked, and the future of our retail operations also remains unclear from a number of perspectives.

Over the past 12 months, Ergon Energy has worked hard to truly understand the efficiency opportunities available to it, and the business will continue to deliver against these to achieve the targets put forward in our Regulatory Proposal for the 2015-20 period. These efficiency targets will help keep the organisation’s average annual revenue requirement for the period under inflation.

I would also like to recognise the milestones reached as we advocate for a more effective market. We appreciate that we need to be an enabler of new technologies. At the same time, we know this needs to be done in a way that delivers the best economic outcome for regional Queensland, and which leverages ongoing commercial value for our shareholders (and, ultimately, taxpayers).

In this area, we have undertaken network tariff reforms, we have separated our customer-related systems to enable our retail and distribution business to replicate the way other company’s distributor-retail relationships work, and we have better aligned our service delivery with the national market. These are all things that will ultimately support a more competitive energy market in regional Queensland, and deliver greater value for our customers.

The Board, both before and after I moved into the role of Chairman in March this year (after having been a member of the Board since 2009), has been driving the business quite hard, so I congratulate the leadership team and everyone across the organisation for their achievements.

I would also like to thank the outgoing Chairman and directors for their stewardship.

There is no doubt that the rate of change will continue to gather pace, even after the current matters of uncertainty are resolved. I am equally certain that the effort already undertaken to reposition the business and ensure the organisation is agile and responsive, has placed Ergon Energy in the best possible position for the future.

I look forward to seeing some really strong outcomes emerge for regional Queensland.

GARY HUMPHRYS
CHAIRMAN

“... the effort already undertaken to reposition the business and ensure the organisation is agile and responsive, has placed Ergon Energy in the best possible position for the future.”
Chief Executive’s report

“...delivering ‘peace of mind’ by way of a safe and reliable electricity supply, as well as greater ‘choice and control’ around how our network can be used, all for the best possible price.”

“I don’t think we should disrupt things unless that disruption is going to result in something fundamentally better for society. I’m not really a fan of disruption; I’m a fan of things being better.”

Tesla founder and CEO Elon Musk shared his energy vision at the 2015 EEI Annual Convention.

Embracing change for a brighter future

Elon Musk’s sentiment has a lot of relevance for Ergon Energy. I believe we have a significant role to play in ‘things being better’ – our network is the only thing that links our energy resources, wherever they are located, to our homes, farms, business and industry. So whether the cheapest resource is from the sun, or from the local tip or the sugar mill, our network connects it all. It provides security, enabling a more competitive energy market, increases fuel diversity, and enables the efficient integration of renewable energy resources.

Our challenge, as an organisation and collectively as an industry, is to work through the disruption and current market upheaval to unearth the real value for our customers. In just five years, we have seen the take-up of solar energy go from less than 10,000 to over 110,000. This, along with advances in battery energy storage, is revolutionising how we manage power. We now need to ensure this delivers the best possible price for all.

I am confident that we are responding well to this revolution through our network investment plans, through our technology platforms and market processes, and through the readiness of our people.

I am committed to our business remaining at the heart of any future energy supply scenarios for regional Queensland. I even see the electricity grid as playing a central role in efforts to ‘decarbonise’ the transport network, by supporting electric vehicles.

We are positioning Ergon Energy to take advantage of battery storage by integrating it with other technologies. Our aim is to provide our customers with greater choice and control around their energy use while using the technology to help us to make our network cheaper to operate in the longer term.

In line with this, we have made significant progress this year reforming tariffs. While we worked hard to ensure our network can meet the changing needs of our customers, we recognise that the way we price electricity has not kept pace with these changes. The cross-subsidies inherent in our current tariff structures have partially contributed to electricity prices rising, a dynamic which is now being addressed as part of our reform pathway.

We have also taken giant steps to build on our capability to manage the take-up of these customer technologies. We are ensuring our people have the right skills and knowledge for this future and we are investing in the systems and processes needed, specifically to automate the management of the contracted demand.

2014-15 a milestone for our organisation

I would like to take the opportunity now in the rest of my report to reflect a little further back than usual. In addition to reporting on Ergon Energy’s performance, I’d also like to consider how we have positioned the organisation over recent years to best deliver for our customers into the future.

As a distribution business, Ergon Energy operates largely under a five-year regulatory control period. This report covers 2014-15, the last year of the regulatory period – we have just moved into the next, extending from 2015 until 2020. As such, I would like to note here the success Ergon Energy has had in delivering against our plans over the past five years.

As we entered the 2010-15 period, it became clear that the demand growth on the network experienced in earlier years was easing. This was unprecedented and largely as a result of the impacts of the Global Financial Crisis (GFC). Thankfully, we were well placed to respond. We intensified our investigations into alternative methods for achieving the long-term security of supply and reliability. This led to a formal review of our network security planning obligations, resulting in a move away from the deterministic N-1 planning approach. We were then able to scale back our capital investment program, and, make appropriate adjustments in the organisation to achieve the necessary efficiencies.

At the same time, we were also advancing our capability to manage our customers’ demand on the network. We set ourselves a challenging demand reduction target at the start of the period, and I am pleased to say we surpassed this five-year target early, achieving 139MVA of demand reduction in total, which further helped to defer costly augmentation.
Chief Executive’s report (continued)

I would also like to recognise here a number of other specific innovations.

Firstly, the development of our Grid Utility Support System, aka GUSS. GUSS is effectively a huge set of batteries, which charge overnight when electricity use is at its lowest and discharge during the day if required when energy use peaks. It is a cost-effective utility solution when you consider that traditional augmentation on the rural networks where we are now deploying GUSS can cost in excess of $2 million.

Secondly, our increasing use of information enabling technology. Here our Field Force Automation and award-winning remote observation technology represent some of the many ways that we are using what some might call disruptive technology to put downward pressure on electricity prices.

**Our efficiency efforts are supporting price relief**

Collectively, our efforts led to us being able to demonstrate in our October Regulatory Proposal a $1.7 billion reduction in our total expenditure for the 2010-15 period, more than 22% below what the regulator had allowed.

This enabled us to reduce our revenue requirements by $99 million over the last three years of the period. It also meant that when cyclones like category fives Yasi and Marcia, and the dozens of smaller storms, battered regional Queensland, we were able to absorb the high costs associated with restoration rather passing on these costs to customers.

The reduced level of spending in this period, and the efficiency improvements now embedded in the business, have also placed us well to deliver price relief as we move into our next five-year period.

**Service standards and safety have remained a priority**

Critically, our efficiency achievements have not come at the expense of safety or service.

At the start of the last five-year period, we were struggling with increasingly stringent reliability standards and there was room for improvement in meeting some customer expectations. In response, we implemented a $162 million reliability improvement program, which was completed in the last financial year. Overall, it has delivered a 29% reduction in the average number of planned and unplanned outages experienced by our customers. Today, in our urban areas, the average customer will experience just over one interruption per year.

As an organisation, we are also extremely proud of the turnaround in our workplace safety over the period. We have focused hard on shifting our culture to one which is high performing, decisive and agile; an organisation where safety holds the utmost priority, at every level. The result has been a two-thirds reduction in the number of injuries to employees. While we still have some way to go to meet our goal to stand with the very best in the industry, this is a momentous achievement, and it deepens our commitment to seeing every person in Ergon Energy leave for home safely at the end of each day.

**Delivering when regional Queensland needed us most**

There is no doubt that we have demonstrated our strengthening disaster response capability in recent years.

We started the 2010-15 period with a severe storm season, culminating in our massive response to the devastation Cyclone Yasi brought to Far North Queensland in February 2011. Dozens of major storms and floods hit our communities and tested our restoration capability in the years that followed, working up to another category five this year, Cyclone Marcia. I am always very proud of the way our people respond following these types of events to restore supply to impacted communities. Particularly this year, I believe Cyclone Marcia’s 10 day power restoration timeframe is a record for a cyclone of such force, and the goodwill and overwhelmingly positive support from the affected communities left us in no doubt as to how much they appreciated our response.

**Thinking forward into the next five years**

I would also like to publicly congratulate our people for their efforts this year in developing our investment plans for 2015-20, and in positioning us well for the future.

In October 2014, Ergon Energy put to the Australian Energy Regulator a comprehensive investment proposal that was about delivering ‘peace of mind’ by way of a safe and reliable electricity supply, as well as greater ‘choice and control’ around how our network can be used, ‘all for the best possible price’.

We then received and reviewed stakeholders’ feedback and the AER’s Preliminary Determination. And in early July, we submitted to the AER an updated proposal that includes expenditure reductions in the order of a billion dollars compared to what we spent during the 2010-15 period.

Shortly after this annual report is published, the AER will hand down its Final Determination of Ergon Energy’s revenue allowance for the five years to 2020. This will allow us to confirm our ability to deliver against the service commitments we refreshed in consultation with customers in 2014, and get on with the job of delivering our plans.

Once again, I would like to thank our stakeholders who have engaged with us and shared their insights as we have moved through the revenue determination process. It is crucial to get the balance right and we can only do that by understanding what the community expects today and into the future.

Ergon Energy has a big role to play – we’re about building an organisation which, as Elon Musk puts it, delivers something ‘fundamentally better for society’.

I am optimistic that our talented and committed people will rise to this challenge in the coming years; not just through the ambitious goals we have set for ourselves, but also through our response to the unanticipated issues and changes which will no doubt come our way. It is an honour to work with them.

IAN McLEOD
CHIEF EXECUTIVE
Prior to 2010 we were focused on securing the network, being safe, ‘getting fit’ (on efficiency and effectiveness) and playing a leadership role in renewables.

Thinking forward, our plans are about enabling an effective energy market and our people to deliver an increasingly efficient service.

To deliver on our customer commitments we are proposing a $5.1 billion investment program - one billion dollars less than what we spent in 2010-15.

OUR VISION
To be a high-performance, customer-driven energy business

OUR ACHIEVEMENTS 2010-15

- Completed a major $162 million reliability improvement program.
- Evolved the network, and our business model, as a platform for distributed energy resources.
- Showed industry-wide leadership in demand management surpassing our five-year target.
- Drove an organisation-wide focus on efficiency and effectiveness.
- Refined our disaster response, and general outage restoration capability.
- Embedded a new safety culture and addressed our areas of greatest risk.
- Built our business intelligence capability and enabled our people with technology.

OUR SERVICE COMMITMENTS

- Peace of mind
- Choice and control

For the best possible price
Ergon Energy’s strategic focus is on building customer value and addressing electricity affordability – not only through our own efficiencies but, importantly, by enabling an effective market for economic energy solutions. This section of the report also outlines how we have delivered across our service commitments, and as a responsible service provider.

Above: As part of our efforts to position ourselves for a marketplace that is becoming increasingly dynamic, with changing expectations from customers and industry participants, we made a major investment this year in our customer information systems. We are replacing a 30 plus year old system with separate systems for our retail and network businesses.

Engaged our customers to help refine our network tariff reform journey, launching industry leading, voluntary demand-based tariffs. These tariffs aim to give our customers the opportunity to save when the network is not being used.

A major investment was made into our customer information systems, helping to reposition the business for a marketplace that is becoming increasingly dynamic, with changing expectations from customers and industry participants.

Significant work was undertaken to map the impacts and implement changes required for the introduction of the National Energy Customer Framework, and a range of other regulatory reforms, to Queensland.

Continued to refine our disaster response capability, successfully responding to the two major cyclones that hit the Queensland coast during our storm season – category five Cyclone Marcia and category four Cyclone Nathan.
An effective market key to customer value

An effective market will deliver the best value

Ergon Energy is very aware that the marketplace for energy is becoming increasingly dynamic, and that the way our customers are using our network is changing rapidly with the take up of new energy options. We have been showing leadership in this industry-wide shift for a number of years now, both as a network business and a retail business, with our purpose being to provide sustainable energy solutions. Our aim is to empower customers with greater ‘choice and control’ so that we are collectively investing in the most cost-effective electricity supply solutions.

We see the future of the network business being about operating an open access platform for distributed energy and other energy-related solutions – and the future of our retail business being about delivering fresh value through new products and services, as a trusted energy provider in what is a rapidly changing marketplace.

Understanding what our customers value

In order to best position ourselves for this future we have continued to engage with our customers to better understand what they value.

Central to this has been our peak body engagement activities. Our Customer Council is our umbrella stakeholder engagement forum. Established in 2011, this consultative forum brings together representatives from a range of community service, environmental management and business sector advocacy organisations.

The membership of the council’s Regulatory Proposal working group evolved during the year to broaden the consumer advocacy groups participating and build on the engagement capacity developed. This has continued our engagement on our investment plans following the submission of our Regulatory Proposal in October 2014 (p39) and helped inform our tariff reform journey (p14).

Industry forums have also been initiated for the agricultural industry and the solar/micro generation industry (p25) to explore opportunities where we can collaborate to deliver better outcomes for our customers. We also continued our real-estate developers’ reference group to guide improvements to our new connections service (p18).

To build on the insights we have gained through these engagement efforts, we also kicked off a major customer research piece to help inform how we can best meet our customers’ needs going forward as a distribution business. This will support the development of plans for each customer segment – from end users to retailers – that will help ensure our end-to-end processes are customer-centric, with performance monitoring, targeted investment and greater accountability.

Targeted research has also been undertaken to support the development of our retail service and products offering, in order to provide our customers with greater control, choice and fresh value. p14

RESEARCH CONFIRMS NEED TO GENERATE FRESH VALUE

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WORKING TO SUPPORT THE BEST POSSIBLE PRICE

Changes to the way our customers are using the network, and the support that we have been able to provide for this, has kept the average price increase for households over the past five years to 24% (and for the households who have not invested in solar to 50%), well below the rise in the unit price of electricity.

For new homes, which have benefitted more from energy conservation measures like insulation and more efficient appliances, as well as solar (p26), the average household energy costs today are only around $58 above the average bill overall five years ago.

We continued to track perceptions of overall value through our ‘value to customer’ research, which commenced in 2001. Our residential customer score remained at 6.9 out of 10 on average for the year – which is the same score as achieved the previous year. This result delivered a ‘better than peer average score’ of 101 (100 equals parity). However, this benchmark was deteriorating towards the end of the financial year (seeing it below our SCI target at 99 for the final six months of the year). Our business customer score dropped to 5.8 out of 10 on average for the year (compared to 6.0 the previous year). This result and again the deterioration towards the end of the year is of concern. This is driving our customer service improvement programs. For both customer segments we have maintained significantly stronger results for ‘corporate responsibility’ compared to our peer-suppliers for both residential and business customers.

TO GENERATE FRESH VALUE

RESEARCH CONFIRMS NEED TO GENERATE FRESH VALUE

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TO GENERATE FRESH VALUE

RESEARCH CONFIRM...
These tariffs contribute to around half this year was our network tariff reforms. One of the most significant deliverables progressed network tariff reform enablement programs that touch choice and control, we have been to create fresh value, and enable greater choice.

Fresh value and greater choice

To create fresh value, and enable greater choice and control, we have been progressing a suite of market enablement programs that touch every part of the business. Network tariff reform progressed

One of the most significant deliverables this year was our network tariff reforms. These tariffs contribute to around half of the average electricity bill.

Ergon Energy embarked on a network tariff reform journey over two years ago now to deliver fairer, more equitable pricing signals and meet everyone’s needs into the future for the best possible price.

This saw us introduce, as we moved into July 2015, an innovative suite of voluntary demand-based seasonal time of use tariffs for customers using less than 40GWh of electricity a year. The new tariff structures give customers the opportunity to save, by looking at what drives our costs and aligning our pricing signals appropriately.

The savings are offered when the network is not being used to its full capacity, with cost-reflective rates charged when the level of demand across the network is higher and likely to drive costly capital investment, during our ‘summer months’.

The modelling to support our tariff development showed that without these reforms customers in regional Queensland could be paying up to a billion dollars more than they need to in the coming decade. This is a direct result of the cross subsidies that are being created by our current tariffs.

In addition, the reforms also saw an excess reactive power charge introduced for our largest customers, and the use of kVA as the basis for the demand tariffs for our very large energy users. Some tariffs were also standardised to reduce complexity.

In parallel with this, our retailer has been working closely with our large customers to ensure they are accessing the optimal tariff for their business. This has seen some customers, including the Queensland Government and some local government organisations, saving hundreds of thousands of dollars.

Delivering services the way our customers like it

During the year we made a major investment in our customer-related systems, and we are well progressed in replacing a 30 plus year old billing system, delivering a major boost to our customer service capability. The project is improving our ability to manage our call centre enquiries, customer billing and market transactions.

The investment has seen the launch of new contact centre technology and the progression of a replacement retail and distribution customer information system, dramatically improving the experience for our customers when they call Ergon Energy.

We’ve simplified our Interactive Voice Recognition (IVR) system, which was designed using feedback from customers and employees. It is now easier for customers to get through to a customer service representative with smoother menu options, pay bills by credit card over the phone using our self-service channel, or listen automatically to tailored messages about an outage in their area (even request a call back once the outage is restored, a major benefit for our life support customers). The new system also supports post call surveys to help track customer satisfaction and enhanced call recording for service coaching purposes.

Distribution systems support choice

This investment program will also see our distribution business move to a separate customer information system, market solution and network billing manager. The system is the same one used by Energex in south-east Queensland, supporting the creation of a joint Market Transaction Centre, which will process market transactions on behalf of Ergon Energy’s network business and Energex. This continues a joint working approach between the two businesses that is about driving consistency and efficiency across our services for the benefit of all Queenslanders.

This will enable our retail and distribution businesses to transact with each other via the national electricity market in the same way as other retailers and distributors across Australia. This is essential given the potential for an increase in competitive retailing activity in regional Queensland.
An investment has also been made in systems to register metering assets, manage customer complaints and claims, and to meet the requirements of the National Energy Customer Framework.

To ensure a smooth transition, a significant amount of work and training of staff has occurred this year in preparation for the new systems. The move will build on the roll out of Field Force Automation (p31), allowing a seamless exchange of service orders between retailers and operational teams.

**Developing simple innovative energy solutions**

We are also striving to deliver fresh value as a retail business by providing customers with new innovative products and services.

To provide our customers with choice about how they interact with us, we’ve developed an online self-service portal, including the introduction of e-billing, with over 65,000 accounts already registered.

We also launched a new customer-focused website in July 2014 to provide customers with easy to find information to better understand our business and the different services provided by retail and distribution. The new look site is available on any device – being responsive to mobile, tablet or desktop formats.

Throughout the year we have also been working with our customers to help them embrace new energy-related technologies. A highlight has been the development of the HomeSmart product, a home energy management technology that will give our customers greater control over their electricity consumption and ultimately reduce their power bill. Expected to be rolled out more broadly next year, to date 100 residential customers in Townsville have been benefitting from the online energy consumption dashboard and the ability to remotely control major appliances, such as hot water systems, pool pumps and air conditioners. This solution will allow customers to take advantage of time-of-use or solar feed-in-tariffs, or receive SMS or email alerts when using the budget tracking function.

Another 33 customers in Cannonvale, Toowoomba and Townsville are currently testing a new Hybrid Energy Service which gives customers access to a combination of renewable energy, battery stored energy and time of use tariffs that will provide noticeable energy bill savings over a 12 month period. The use of an energy management system allows the customer to plan when solar, battery or the network is used to maximise the benefits of storing electricity during cost-effective times and discharging the battery at peak times.

We have also been developing a Business Solar Saver offer to enable small to medium businesses to access competitively priced solar energy and lower their energy costs overall. The product removes the barrier of the upfront cost of buying a solar energy system and the worry of maintaining the system over time. The offer, once made available, will be made by assessing the energy usage of the business to determine the best sized solar energy system and tariff arrangements to maximise the savings. The solution will then be supported by an online portal EnergyCheck Enterprise, to give the business owner a detailed view of their energy use and the amount of solar energy being generated.

To support our customers’ investment in distributed generation we have also been building our expertise in battery technologies to ensure the best outcome for both our customers and our business. p25

**Regulatory change brings customer benefits**

In September 2014 Queensland Government brought in legislation introducing the National Energy Customer Framework, known as NECF, into Queensland from 1 July 2015. This means there are now a common set of rules governing the sale and supply of energy, no matter which service provider a customer uses, and consistent service standards.

In preparation for NECF, from a retail perspective, we looked at our customer protections, including our processes for identifying and assisting customers in financial hardship and finding it difficult to pay their bills (p19), and our service offering for customers using card-operated meters in our isolated communities.

From a distribution perspective, the focus was on the notification required for a planned outage, the management of life support customers, our connection services for new sites or alterations, our responsibilities in the customer and retailer relationship, the classification of customers as small or large, as well as matters around the reconnection and disconnection of a customer.

Regulatory reforms have also seen changes in our application process for connecting micro embedded generating units to the network – things like solar energy systems, batteries and any other forms of inverter energy systems. p25

Significant work was also required to implement changes to the way metering services are to be charged, following a decision by the AER to move to a user pays system from July 2015. The reforms allow the electricity industry to transition to a fairer, more transparent way of billing metering costs and, in the future, support greater competition in metering and in the electricity market.

These reforms will see customers charged upfront when they ask to have a new meter installed or upgraded. There will also be ongoing charges to recover the capital cost of the existing meters and charges to cover the cost of reading, maintaining and operating each meter. Previously, these costs were spread across all customers and wrapped up into the other charges that make up a retail bill.
Customers largely satisfied with network reliability

Customer satisfaction with supply performance improved over the last 12 months, with research showing our customers are largely satisfied with the level of supply they receive. Since 2009-10, prior to entering the five-year regulatory control period that had just ended, network reliability has improved dramatically - 25% from a frequency perspective and 29% from a duration perspective.

This reflects the $162 million invested over the five-year period directly into network reliability improvement and the operational priority given to achieving the regulated Minimum Service Standards (MSS), which were becoming increasingly stringent.

With regulatory changes to the standards seeing the requirement for continuous improvement removed, to balance the objectives of price and reliability, our focus going forward will be on improving our worst performing sections of the network, and simply maintaining reliability levels overall.

For 2014-15, performance was positive against five of the six MSS limits. The outcome for the average duration of the 'long rural' outages was the only measure that did not perform better than the standard.

The long rural parts of the network include a significant proportion of our radial distribution network and SWER lines. These sections of the network have limited redundancy and were impacted by the severity of the storm season experienced this year. We experienced a 70% increase in lightning strikes on the long rural part of the network compared to the five-year historical average.

As the long rural outage result was due to the severity of the weather conditions, Ergon Energy considers this year’s MSS results overall to be in line with the regulatory requirements now incorporated into our Distribution Authority. We will continue to monitor performance for systemic performance issues.

Running parallel with the MSS is the AER’s Service Target Performance Incentive Scheme. This framework provides a financial incentive for improving unplanned outage performance, as well as customer service standards. This year the result has supported a positive financial outcome for the business.

For further information on our reliability improvement program, and the reliability of our worst performing feeders, refer to our Distribution Annual Planning Report online.

Meeting customer service expectations

Customer solutions satisfaction

The Customer Solutions Centre (previously known as the contact centre) manages our customer enquiries and is located across two sites in Rockhampton and Townsville. Customer satisfaction with this service has remained steady this year, with an average satisfaction rate of 91%.

Performance in the general enquiries area is measured through a grade of service of 70% of calls being answered within 120 seconds. This year, distribution general enquiries achieved a service grade of 89.8%. Retail general enquiries recorded 60.3%. This result is due to the challenging summer period, and significantly higher call volumes following the removal of the carbon tax from retail bills and a resourcing shortage at the same time.

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<td>System Average Interruption Duration Index (minutes)</td>
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<tr>
<td>• Urban Distribution</td>
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<td>134</td>
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<td>System Average Interruption Frequency Index (number of outages)</td>
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<td>1.3</td>
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<td>◼</td>
<td>6.8</td>
<td>6.1</td>
<td>6.2</td>
<td>7.0</td>
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</table>

Reporting based on the Minimum Service Standards (MSS) exclusion criteria outlined in the Electricity Industry Code.
Call centre performance for the unplanned outage enquiries and emergency line was well above the target of 77.3% with a service grade of 80.8%. This was supported by a strong response following Cyclone Marcia.

There has been a significant focus this year on improving the systems and technology used in managing customer enquiries (p14). New contact centre technology was implemented in May, which will make it easier for the customer solutions team to serve and interact with customers.

**Standing by our service commitments**

Ergon Energy has a range of Guaranteed Service Level (GSL) commitments – associated with outage restoration timeframes, the number of outages experienced, and the notification of planned power interruptions as key examples – where, if we don’t deliver, we pay the customer for the inconvenience. As part of the Electricity Industry Code, which set out the GSL regime for the period of this report, these commitments also cover appointments, new connection and reconnection timeframes, wrongful disconnections, and the resolution of hot-water supply matters.

Enhancements to outage notification processes this year, including our ‘knock on door’ policy and our life support customer connection procedures, saw a further reduction of 26% in the number of claims associated with the notification of planned interruptions.

There was, however, a significant increase in the claims for network reliability (restoration timeframes and the number of outages) and the remaining GSLs. This was due to a number of contributing factors, in particular the severe weather experienced in the early part of 2015 with 75% of the reliability-duration GSLs occurring in the month of February. Our focus during this time on the response efforts following Cyclone Marcia (p19) also saw day-to-day activities and appointments missed, leading to an increased number of GSL payments. Training and the use of longer-term service contracts will help improve our service delivery in many of these areas.

**Complaints management**

Effective complaint handling is fundamental to the provision of quality service. This year Ergon Energy has continued to perform favourably in the Energy and Water Ombudsman Queensland’s (EWOQ) complaints scheme when comparing complaint numbers on the basis of the participants’ customer base in Queensland.

This data is a valuable mechanism for highlighting areas of possible improvement in customer service and complaints management.

This year, Ergon Energy Queensland Pty Ltd represented 7% of total EWOQ cases. Like other retailers, our complaints data indicates that credit management issues are the biggest retail complaint category, followed by billing issues. Ergon Energy Corporation Limited outperformed other distribution scheme participants achieving 2.25 complaints per 10,000 customers, or 2% of the total EWOQ cases.

We take complaints seriously. To ensure we continue to gather reliable and comprehensive complaints data, we are preparing to launch new complaints management systems for our retail and distribution businesses. The systems will improve the customer experience and improve efficiencies in the complaints process.
CUSTOMER SCORECARD (continued)

Improving connections to the network
Service standards for major customer-initiated connections and embedded generation have continued to improve.

Significant work occurred during 2013-14 to improve the application timeframes for major customer connections and this focus has continued this year with formal connection offers now being made within 31 business days following an application from a major customer for a non-complex connection – down from 43 business days in 2013-14 and well inside the 65 business days required by the national framework (p15). Major customer service satisfaction also continued to improve with 77% of our major customers indicating they are likely to speak well of Ergon Energy.

Ergon Energy is also working more collaboratively with customers to achieve more holistic outcomes, collaboratively with customers to

• Notification Planned Interruption
• Remaining GSLs

This year has seen changes to National Electricity Rules to help make it easier for large embedded generating units, like solar and wind farms, to connect to the grid. The new rules, introduced in October 2014, required distributors to make available information packs for prospective applicants, enquiry and application forms for connections, and the provision of a register of completed connections. There are currently 31 major embedded generators with connections to the grid in regional Queensland.

Following on from improvements made to process and productivity during 2013-14, we have continued to deliver for our non-complex customer-initiated connections and upgrades, achieving an average of 124 days this year for ‘contract acceptance to construction’ – well within the 160 day target. We also delivered 96% of these projects within the agreed target.

Connecting solar
During the year, over 13,300 new solar energy systems were connected to the network, taking the total installations in Queensland to more than 110,500. While the rate of connections has dropped since 2013-14, there continues to be sustained take up of this technology – with an average of around 260 connections per week.

We have continued to deliver against our timeframes for solar applications with most approvals granted within one week for applications not requiring assessment and for applications requiring technical assessment a response is usually provided within five weeks.

Interest in emerging technologies has also seen approximately 145 customers applying to connect batteries to the network. This is an annual figure that we are expecting to grow significantly over the next 12 months as the products available in the marketplace become less cost prohibitive.

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<tr>
<th>GUARANTEED SERVICE LEVELS</th>
<th>2014-15 CLAIMS</th>
<th>PAYMENTS</th>
<th>2013-14 CLAIMS</th>
<th>PAYMENTS</th>
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<tr>
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<td>5,510</td>
<td>$572,949</td>
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<td>Other</td>
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<tr>
<td>• Notification Planned</td>
<td>2,609</td>
<td>$82,108</td>
<td>3,533</td>
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<td>Interruption</td>
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<tr>
<td>• Remaining GSLs</td>
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<td>$151,498</td>
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<td>$52,000</td>
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<td>TOTAL</td>
<td>10,100</td>
<td>$806,555</td>
<td>6,333</td>
<td>$379,990</td>
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OUR STATISTICS

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<td>Value to Customer –</td>
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<td>Residential Research</td>
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<td>101</td>
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<td>Parity</td>
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<td>Customer Solutions</td>
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<td>Centre – Customer</td>
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<td>Satisfaction</td>
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<td>General Enquiries</td>
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<td>Calls Answered in 30</td>
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<td>Seconds</td>
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<td>Enquiries and</td>
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<td>Emergency Calls3 – Calls</td>
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<tr>
<td>Answered in 30 Seconds</td>
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<td>81.3%</td>
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<td>155 days</td>
<td>170 days</td>
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<tr>
<td>Contract to Construction</td>
<td>160 days</td>
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* Target as set for the Australian Energy Regulator’s Service Target Performance Incentive Scheme.
Ergon Energy supplies the majority of Queensland’s Indigenous communities, one of the most disadvantaged consumer groups in Australia. Providing electricity services to these communities is challenging, with the majority being remote and supplied by stand-alone diesel power stations.

To support these communities we continued our innovative powersavvy program. The program engages with these communities directly to help them reduce their power consumption and save. It is estimated the program has to date cut electricity use by around 21GWh, delivering more than $4.6 million in savings to our customers and helping to reduce the Queensland Government’s Community Service Obligation payment (p40).

These savings have been achieved by providing advice and education on energy usage behaviour and by incentivising the installation of new energy efficient technologies and equipment, and the take up of solar energy systems, which is cheaper than the diesel generation used in isolated communities. This year, after implementing powersavvy recommendations, both the Thursday Island Grand Hotel and the Kowanyama Court House are now saving an estimated 27,000kWh of electricity annually.

This year also saw elements of the powersavvy program delivered for the first time to a non-isolated community. Residents of the Aboriginal community of Cherbourg were experiencing issues with high electricity bills and high levels of debt and disconnections, and we wanted to see if we could assist with a modified version of the program. This saw eight local residents participate in an energy efficiency training program, covering energy efficiency, safety, understanding electricity bills and our hardship program. These ‘local experts’ are now able to share the information with other members of their community to help them better manage their electricity costs and reduce the number of disconnections.

We have also been active in helping customers with card-operated meters in our isolated communities, access to rebates and concessions, and ensuring those using life support equipment have the support they need.

Recognising our Indigenous communities as being a key customer group is also important to our workforce diversity efforts. p30

In preparation for this year’s storm season a new operational response plan was put in place to increase the efficiency, effectiveness and safety of our response to emergency and disaster events. The plan was refined to improve the consistency of our response across the state and included improved practices identified from previous events. It didn’t take long before these plans were put into action.

In February, Cyclone Marcia crossed the coast near Shoalwater Bay, resulting in 73,500 customers losing power, between Clairview (north of Rockhampton) to Mundubbera in the south and inland as far west as Springsure, at some stage during the event. The system destroyed over 35 kilometres of powerlines as it crossed the coast and moved inland. The heavily populated centres of Rockhampton and the Capricorn Coast were the worst affected areas with 100% of the 13,500 customers in Yeppoon and 90% of the 40,200 customers in Rockhampton losing power.

In anticipation of the cyclone making landfall, crews were placed on stand-by and mobile generators were pre-deployed to Mackay, Yeppoon, Rockhampton, Gladstone and in the Wide Bay area to minimise the risk of access issues hampering the restoration effort. We also relocated resources from our Rockhampton control centre and customer solutions centre to the Townsville equivalent centres in preparation for the impact on Rockhampton.

Throughout the response more than 1,000 Ergon Energy, Energex and third-party contractor personnel worked tirelessly in difficult conditions to restore supply to impacted communities. Within 10 days all customers who were ready to be reconnected were.

During the restoration effort, we managed an influx of more than 55,000 outage-related customer calls. We also kept our customers up-to-date online with more than 740,000 individual page views, 10,000 Facebook page ‘likes’ and comment posts and 550 Twitter interactions relating to Marcia.

Our online Outage Finder also proved to be invaluable with more than 263,000 views during the restoration effort - an average of 24,000 a day.

Being a responsible provider

We are proud to be recognised as a good corporate citizen. We see we have responsibilities around supporting those in financial hardship, being there after the storm, community electrical safety, local employment and apprenticeships, energy conservation and community participation generally.

Our contribution in these areas this year are highlighted here and in the people section of this report (p29-34).

Assisting those experiencing financial hardship

Ergon Energy considers disconnection for non-payment a last resort option and instead works closely with customers to help them manage their electricity bills. We make every attempt to contact customers to discuss their options to avoid disconnection, providing payment plan options and our hardship program details. In the past twelve months, there has been a significant increase of customers being identified as experiencing financial hardship.

This has largely been due to an extended summer (and the associated high bills) and the increase in the fixed component of the Notified Tariffs set by the QCA, as well as higher unemployment rates, especially in the regional Queensland centres that support the mining sector. This increase also reflects a more proactive approach to identifying hardship circumstances and contacting customers pending disconnection.

Our hardship program, called Customer Assist, supports customers who are in financial hardship and unable to pay their accounts. During the year, 3,502 customers ‘graduated’ from the program with an improved financial capability and the energy usage knowledge needed to meet their energy debts on a sustainable and independent basis.

We also continued to work with community groups to promote the program to vulnerable customers.

Working with our Indigenous communities

Ergon Energy supplies the majority of regional Queensland’s Indigenous communities, one of the most disadvantaged consumer groups in Australia. Providing electricity services to these communities is challenging, with the majority being remote and supplied by stand-alone diesel power stations.

To support these communities we continued our innovative powersavvy program. The program engages with these communities directly to help them reduce their power consumption and save. It is estimated the program has to date cut electricity use by around 21GWh, delivering more than $4.6 million in savings to our customers and helping to reduce the Queensland Government’s Community Service Obligation payment (p40).

These savings have been achieved by providing advice and education on energy usage behaviour and by incentivising the installation of new energy efficient technologies and equipment, and the take up of solar energy systems, which is cheaper than the diesel generation used in isolated communities. This year, after implementing powersavvy recommendations, both the Thursday Island Grand Hotel and the Kowanyama Court House are now saving an estimated 27,000kWh of electricity annually.

This year also saw elements of the powersavvy program delivered for the first time to a non-isolated community. Residents of the Aboriginal community of Cherbourg were experiencing issues with high electricity bills and high levels of debt and disconnections, and we wanted to see if we could assist with a modified version of the program. This saw eight local residents participate in an energy efficiency training program, covering energy efficiency, safety, understanding electricity bills and our hardship program. These ‘local experts’ are now able to share the information with other members of their community to help them better manage their electricity costs and reduce the number of disconnections.

We have also been active in helping customers with card-operated meters in our isolated communities, access to rebates and concessions, and ensuring those using life support equipment have the support they need.

Recognising our Indigenous communities as being a key customer group is also important to our workforce diversity efforts. p30

Delivering on our commitment to be there after the storm

We know the importance to a community of Ergon Energy being there as soon as possible after a storm. Two major weather systems crossed the Queensland coast this year, category five Cyclone Marcia and category four Cyclone Nathan.

In preparation for this year’s storm season a new operational response plan was put in place to increase the efficiency, effectiveness and safety of our response to emergency and disaster events. The plan was refined to improve the consistency of our response across the state and included improved practices identified from previous events. It didn’t take long before these plans were put into action.

In February, Cyclone Marcia crossed the coast near Shoalwater Bay, resulting in 73,500 customers losing power, between Clairview (north of Rockhampton) to Mundubbera in the south and inland as far west as Springsure, at some stage during the event. The system destroyed over 35 kilometres of powerlines as it crossed the coast and moved inland. The heavily populated centres of Rockhampton and the Capricorn Coast were the worst affected areas with 100% of the 13,500 customers in Yeppoon and 90% of the 40,200 customers in Rockhampton losing power.

In anticipation of the cyclone making landfall, crews were placed on stand-by and mobile generators were pre-deployed to Mackay, Yeppoon, Rockhampton, Gladstone and in the Wide Bay area to minimise the risk of access issues hampering the restoration effort. We also relocated resources from our Rockhampton control centre and customer solutions centre to the Townsville equivalent centres in preparation for the impact on Rockhampton.

Throughout the response more than 1,000 Ergon Energy, Energex and third-party contractor personnel worked tirelessly in difficult conditions to restore supply to impacted communities. Within 10 days all customers who were ready to be reconnected were.

During the restoration effort, we managed an influx of more than 55,000 outage-related customer calls. We also kept our customers up-to-date online with more than 740,000 individual page views, 10,000 Facebook page ‘likes’ and comment posts and 550 Twitter interactions relating to Marcia.

Our online Outage Finder also proved to be invaluable with more than 263,000 views during the restoration effort - an average of 24,000 a day.
A significant effort was put into helping our customers most impacted by the event manage their bills, including putting bills and notices on hold and delaying disconnections for debt within the impacted areas. Residents who suffered total, severe or moderate damage to their homes were assessed to see what assistance could be provided through flexible payment options, our Customer Assist program or a debt waiver. We worked with the 395 customers in the impacted areas already recognised as being in financial hardship to revise their individual hardship packages and another 140 customers entered our assistance program during this time.

Exactly one month later Cyclone Nathan crossed the coast between Cape Melville and Cape Flattery in Far North Queensland. Preparations were made early with up to 400 crew on stand-by and mobile generation pre-positioned for quick deployment in Cooktown, Lakeland, Hopevale and Wujal Wujal. Fortunately – being a less populated area of our network – there was limited damage and all of the 480 customers who were without supply due to the cyclone were restored the same day through repairs or generation.

During the storm season, Ergon Energy also sent crews from Toowoomba to support Energex after a severe hail storm hit Brisbane in November 2014.

Investing in community electrical safety awareness

Ergon Energy continued its commitment to improving electrical safety awareness within the community and better understanding the community safety risks associated with our infrastructure.

This year we launched a new home safety campaign to ensure our key safety messages are engaging and memorable. The campaign challenges the viewer to ‘Think ahead a bit’ around electricity using a memorable character, the Grim Llama, who appears at the moment someone is about to do something electrically unsafe. It highlights messages for DIY home renovators, reporting shocks and tangles, having a professional trim trees near powerlines, the dangers of fallen powerlines and heavy machinery operators to ‘look up and live’.

The peer recognised campaign has to date achieved strong message take out. To drive further engagement, a mockumentary style advertisement was most recently added to the suite to build on the story of the Grim Llama and extend its reach of the campaign within the community.

Our ‘Working together to make this summer the best it can be’ campaign also continued to build awareness of the dangers during in the summer storm season.

School children encouraged to become safety heroes

This year Ergon Energy launched a new, Queensland first, curriculum-based school electrical safety education program, Called Safety Heroes, the primary school program focuses on years five and six, providing schools with a range of resources for teaching about electricity, and electrical safety. It has also provided supporting materials, for prep to year six, for ‘Electrical Safety Week’ in September 2015. The program is being offered to 800 schools across regional Queensland and has the potential to reach 300,000 primary aged school children.

Analysing incident data remains central to developing the effectiveness of our community safety strategies. The statistics show our efforts to target the ‘Look Up and Live’ messaging and other safety advice as potentially having a positive impact in the number of incidents in the agriculture, aviation and earthmoving industries over the past 12 months.

This year we also launched a new measure in our reporting that gives transparency to the number of incidents of public shocks from our assets as an important part of building public awareness. In 2014-15 there were 191 asset related public shocks, pleasingly below trend (see SCI target of 253 per year).

While community safety is the overwhelming priority of our efforts, network-related incidents also most often cause inconvenience to customers and add operational costs, with outages of approximately 12 million customer minutes affecting 87,000 customers in 2014-15.

Targeting the areas of greatest risk

The level of incidents continues to require sustained, collective ownership and action, and drives our partnership efforts with a diverse range of external organisations.

To reduce electrical safety incidents, we continued to collaborate with AgForce Queensland, Dial Before You Dig, Electrical Safety Office, Energex, Local Government Association Queensland, Master Builders and Plumbers, Queensland Building and Construction Commission, Queensland Trucking Association, Work Health and Safety Queensland, Civil Contractors Association, Cotton Australia and Canegrowers.

During the year we also participated in major industry and community events distributing more than 100,000 items of ‘Look Up and Live’ campaign material and developed educational materials to help heavy vehicle operators identify electrical hazards.

Our community safety team also participated in regional agricultural shows and delivered ‘Look Up and Live’ safety presentations to approximately 15,000 workers in 105 different locations. Our Seven Mate community awareness advertisements also continued to target our most at risk community segments.
Supporting community safety by improving the visibility of assets

We are also looking at cost effective ways to improve our assets to support a reduction in community safety incidents. Trials are currently underway to test a number of new overhead powerline markers for both temporary and permanent powerlines to improve the visibility of our infrastructure. We are also reviewing the use of pillar boxes and power pole stay-wire markers to determine if using colour variations in these assets can assist with the reduction of community safety incidents.

Partnerships connecting communities

We have continued to connect with our local communities, with our ‘local faces’ active in their local communities, participating in business community forums and local community events. We see this as important to maintaining relationships with local communities and ensuring we are operating effectively at the local level.

Our Community Fund continued to support local organisations to bring their energy conservation and electrical projects to life, with 142 applications received.

The Royal Flying Doctor Service (RFDS) Queensland Section continued to receive active support from Ergon Energy customers and employees, with more than 125,000 now regularly donating. This year marked 15 years of partnership and the signing of another two year contract. More than $9.5 million has been raised for the lifesaving service through customer electricity bills and we are on track to reach $10 million by the end of the 2015 calendar year. These customer donations were central to supporting the purchase and fitting out of the new aircraft added to the RFDS fleet this year, which will be Mount Isa’s primary patient retrieval aircraft. To celebrate the new addition to the fleet, a ‘name the new plane’ competition saw Maryborough customer Shirley Ashford win, christening the new B200 King Air ‘Cooee’.

The rise in the total number of incidents this year can be attributable to some degree to improvements in our data collection, in line with an expanded scope for reportable incidents; however, the level remains a concern. The improved incident data is starting to reveal the causal factors and will assist us to deliver more effective safety communication strategies.

While we are concerned about the number and breadth of community safety incidents recorded, we have seen a reduction in the number of incidents in the agriculture, aviation and earthmoving industries over the past 12 months.

This year the projects supported included the purchase and installation of energy efficient LED workshop lights and sensor lights for the Men’s Shed in Cocktown; replacement of multiple small freezers with a larger, energy efficient freezer at football facilities in Maryborough; and the purchase of a water pump to allow a primary school in Mackay to water their school vegetable gardens with water from their rain tank, teaching kids about sustainability and energy efficiency.

Sponsorship support was also provided to key regional community events, such as the annual Ergon Energy Flower, Food and Wine Festival, which is part of the Toowoomba Carnival of Flowers and the tri-annual Beef Australia event in Rockhampton. Another highlight of this year’s sponsorship program was our support for the Queensland Energy Museum’s Queensland Energy Exhibition Centre at Highfields, Toowoomba. The centre, which opened in May, is the only museum of its kind in Australia, re-opening a door to the history of electricity in Queensland with more than 1,000 items in its collection, including popular appliances, a replica of an early Faraday generator and portions of the first underground electricity cables used in the world, known as the ‘Edison Tubes’.

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Evolving a smarter network

Ergon Energy, like other distributors, is operating in a period of rapid change, in the choices we have in how operate the network, and in the choices our customers have in meeting their electricity needs. This, and the unique challenge we face in our service area, is driving us to develop smarter ways of doing things.

Here we showcase how we are optimising our network investment, evolving a smarter network and building on our demand management success to deliver more efficiently and enable the creation of new value – integrating renewable energy and other market innovations into regional Queensland’s electricity supply solutions.

Review of operations:

Above: In a defining moment in the evolution of the network, the delivery of our new Grid Utility Support System units saw the start of a new era for customer reliability and quality of supply for various locations on our rural network. These units are basically ‘smart’ batteries, building on the know-how seen as critical to managing the inevitable mass-market integration of batteries into the network.

Our five-year $162 million reliability improvement program has dramatically improved network performance. We are now looking to more innovative ways, like smart grid solutions, to improve power supplies to areas where the network is not performing.

Our nationally recognised demand management program saw us exceed our target, and further develop our Demand Response Incentive Maps, build on our Trade Ally Network and invest in the systems needed to interact with market participants.

Our network is increasingly acting as an open access platform for distributed energy resources with over 1GW of capacity now connected – including 110,000 solar energy systems – and we’re further developing our capabilities to support the take up of batteries.
Optimising the use of the network

The way our customer are using the network is changing

Over recent years the demand profile of the network, and our approach to growth forecasts, have changed dramatically. Between 2005 and 2009 Queensland was experiencing high economic growth and as a result demand on the network peaked above our forecasts. Due to a combination of factors, including the impact of the GFC, the rate of growth in electricity demand slowed significantly over the course of 2010 and 2011. Since then demand has remained steady, with pockets of localised growth.

Going forward, in line with Australian Energy Market Operator’s forecasts, our best estimate for future electricity demand in regional Queensland is for low level demand growth overall. While Queensland’s economy has declined, post the boom in resource industry investment, growth is still expected to come as LNG exports ramp up and industries outside of mining, like tourism, and the housing market improve.

We’re challenging our network planning approach

In this operating environment we have needed to continue to challenge our investment planning approach. This has been especially important this year in reducing our capital expenditure forecasts as we developed our investment plans for 2015-20 (p39).

We are now benefiting from the support we received last year from the Queensland Government to move to a new network planning criteria. This has seen us review our forward plans against the new risk-based planning approach. The new planning criteria are still about maintaining a high standard of electricity supply. But they are allowing our planners to identify more innovative and cost effective alternatives to delivering an appropriate level of security, and ultimately reliability of supply.

We are also increasingly using staged approach, rather than a full-scale infrastructure build, and other smarter network solutions. Using modular solutions to meeting a gradual increase in load, as is the case with our investment in the East Warwick Substation this year, is also allowing us to better integrate customer demand-side engagement solutions into our network plans.

Evolving a smarter network

Evolving a smarter network, with greater use of remote monitoring and control, and ultimately automation, is allowing us to operate the network in a more dynamic way.

This journey began with upgrades to our ‘SCADA’ monitoring and control capability, and then a significant investment over a number of years in our own all-encompassing telecommunications network, UbiNet, that now links our monitoring capability with our controllers.

This evolution of the network, coupled with the falling cost of distributed energy generation and energy storage, could in the future see us at the point where it becomes viable for us to temporarily ‘island’ critical sections of the grid, such as supply to a community’s central shopping area, to minimise the impact of a major natural disaster or other unplanned outage or even to more effectively undertake routine maintenance.

This ‘feeder of the future’, operating like a micro grid within the main grid, could be achieved with the electricity supply coming solely from strategically located assets, or as the cost of ‘smart’ technologies becomes less prohibitive, through our customers’ investment in energy solutions and our investment as a utility merging as one system of supply.

Making use of new technologies

Ergon Energy’s network has over 65,000 kilometres of limited capacity, limited redundancy SWER line technology. It was an ideal solution in the early years of the electrification of our vast state – however today, the way we use electricity in our modern lives is increasingly seeing these lines overloaded and constrained.

To address this issue, over recent years, we have developed our Grid Utility Support System, known as GUSS, culminating with the successful trial of three prototypes. The unit is effectively a medium scale ‘battery’ application, which, primarily, stores power during off-peak times and puts it back on the network during times of peak demand.

This year we have invested in 20 of the GUSS units for deployment throughout the state to both enhance the local capacity of the network and manage voltage issues, for a lower cost than traditional network solutions.
This is a great example of how we have worked with the market to develop new technological solutions. The units are a critical first step in our grid smart strategy, which will ultimately allow us to be even more proactive in working with our customers to achieve greater asset management and operational efficiencies.

We are also preparing for the network of the future by improving the management and analysis of asset condition data. This will allow for better utilisation of network assets and will lower the risk of asset failure and unplanned outages, significantly reducing operating costs.

**Enabling new markets, new value**

**Demand management capability beyond expectations**

We have continued to integrate customer demand-side solutions into our suite of solutions, as a cost-effective way to respond to demand growth, and defer or even avoid costly expenditure in major electricity infrastructure.

At the start of the regulatory control period in 2010, we set ourselves a significant demand reduction target of 122MVA (103MW). By working actively with our customers to better manage their demand, we have since surpassed the target, delivering 139MVA in reductions in total, the equivalent of removing a city the size of Rockhampton off the grid in peak time.

This achievement delivers on a number of fronts. It has helped defer over $660 million in network investment, which was important in reducing our capital investment outcome for 2010-15 (p39). It has built confidence in our ability to manage security of supply risks, and the impact of an outage, using demand management, which is critical to our new network planning approach. It has also increased the level of asset utilisation in the areas targeted.

Importantly, it has also delivered financial value to the participants, both the end-user involved in many of the initiatives and the service providers.

The 13.6MVA in peak demand reductions achieved this year have come from across the state with the continuation of the Mackay EMPower program, operating in the high-growth area of South Mackay; the delivery of key demand outcomes in Gordonvale, St George and Moranbah; and good progress with the initiatives underway in Malanda and Kingaroy.

The Mackay EMPower program is the most significant in that its success provides the foundations for how we plan to interact with the market to continue to deliver against our demand management targets in the next regulatory control period.

To attract and encourage market-based demand management solutions, the South Mackay program continued to use the Demand Reduction Incentive Map (DRIM), launched the previous year, with different types of incentives. It also continued to build on the success of the Trade Ally Network, a reference list of businesses with capabilities, products or services to assist customers in accessing the incentives (energy consultants, electrical contractors, air conditioning specialists and finance companies).

To support this market delivery mechanism, during the year we developed an incentive payment portal and payment processing system. These simplify the management of the incentive payments used in the DRIM, which we are continuing to develop, and support the mapping concept as a communications channel to the market.

Our Demand Management Plan can be found online.

**Ready to harness the value of distributed generation**

To build on this success, and enable Ergon Energy to effectively manage the increasing numbers of customer contracts and distributed energy resources, particularly in residential and small commercial premises, there is an increasing requirement to automate the management of the contracted demand.

To respond to this, Ergon Energy invested this year in a demand response system. This important piece in the operational technology puzzle will enable us to efficiently target, operate, measure, verify and control demand contracts automatically. It will allow us to interact with market participants in an automated and seamless manner with clear interface rules.

This will be especially important as storage solutions such as batteries evolve, and customers become more sophisticated in their energy use. To enable a market to develop we will need to have the capacity for complex interactions and be able to interface this new resource through our network management tools.

In addition to this work, we also undertook a ‘blue-printing’ exercise to fully scope a holistic, umbrella computer-based Distribution and Outage Management System to deliver greater asset management and operational efficiencies into the future. While advancing the automation and information management capability used to operate the power network is fundamental, the exercise highlighted the complexity in delivering a fully integrated suite at this time. The benefits are now expected to occur over a much longer time period with a focus on regular incremental improvements in the control rooms, switching of the network and how outages are managed.

Becoming an intelligent power network will also see an increasing population of intelligent electronic devices beyond the substation within the distribution network. All of these investments are increasing our visibility of what is happening on the network, so that we can operate the network closer to its technical limits and achieve greater network utilisation (and potentially defer costly network investment).

**Solar continues to lead in customer choice**

The take up of solar energy systems is leading the change to the way our customers use and think of the network. This has been an important consideration in evolving our business model, and our approach to managing the network.

From a business-model perspective, our efforts are about changing our customer value proposition from one of an essential service, to a provider of essential infrastructure that connects buyers and sellers of energy services. This will give customers greater choice and control over how they source and use power.
In recent years we have put a strategic focus on learning more about battery technologies from the product deployment perspective, and how they could interact with our network in the future. This is building on our expertise in batteries developed over two decades in remote area power supply solutions, and most recently through our GUSS application (p24).

This has seen us undertake a ‘real life’ customer trial of battery electricity storage systems as part of the supply solution in 10 homes in Townsville. The trial evaluated six different systems, with different energy storage capabilities and sizes, in our Cairns research laboratory before four were selected for the customer trial. We are testing the way customers interact with the technology through the energy use information sent via a home energy management system and different tariff scenarios. Reports on the trial, funded by the Department of Energy and Water Supply, will be completed once the project is finalised.

“Whatever the future brings, we will continue to adapt to play our role in creating an energy future that delivers the best for our customers.”

In preparation for the growth in the residential battery electricity storage system market we also continued to engage with a range of other domestic and international leaders in residential and grid battery systems.

We are partnering with SunPower and storage provider Sunverge in a 12-month customer pilot of Ergon Energy’s Residential Hybrid Energy Service product (p15).

In March 2015, we entered an agreement with Japanese technology giant Panasonic to cooperate on the testing of a new residential battery product. The testing is about to get underway in our research laboratory in Cairns and may then undergo field tests to gather further ‘real world’ understanding of how batteries could benefit customers and interact with the network.

We also entered, in May 2015, into a Memorandum of Understanding with American-based electric car manufacturer Tesla around the introduction of their home and industrial battery systems into the Australian market.

These systems can be programed to take advantage of tariff reforms (p14), allowing customers to reduce their electricity costs and helping us to better manage peak demand and increase the utilisation of the network during non-peak periods. They also provide an emergency backup in times of need.

These partnerships will be invaluable as batteries and also Electric Vehicles (EVs) become more accessible.

We have a good understanding of the behaviour of customers using EVs through an earlier 18-month ‘real-life’ customer trial which looked at the EVs themselves and the ecosystem that supports them, including chargers and electricity tariffs. This year saw one of the vehicles from this fleet of cars provided to the Townsville City Council as a promotional vehicle to raise awareness around EVs in the city.

To support the expected increase in uptake of this technology, as part of our EV strategy, we are planning to incorporate a range of other suitable EVs into our operational fleet.
OUR NETWORK SCORECARD

Energy delivered and demand met

In 2014-15 we distributed 15,140GWh of electricity through our state-wide grid and isolated electricity networks. This is consistent with the stable overall trend in maximum ‘peak’ demand. At the same time, the trend in the amount of electricity being used by the average household across regional Queensland began to increase, after falling dramatically in recent years from the 2005-06 high.

The system-wide peak in demand for electricity across our grid-connected network was 2,382MW in January 2015 (temperature corrected). Demand in regional Queensland peaks during the summer months, for short intervals, with the level fluctuating from year to year. This year’s summer weather conditions, together with the general softening of the Queensland economy, saw the level of demand overall continue to remain relatively level.

While overall demand remains steady, pockets of localised growth over recent years continue to require an investment into subtransmission and substation assets in order to address the areas where the network is constrained.

Solar energy systems supported

Across our network, 110,552 customers have already connected solar energy systems to our network – the total capacity installed is now 405MW. This is seeing around 29,000MWh of renewable energy exported into Ergon Energy’s network for distribution to other customers every month.

Over recent years solar exporting into the network at the distribution level has contributed to our system-wide peak shifting into the early evening. Indicatively, 120MW of demand at the substation level was averted during the previously typical daytime peak period by solar energy generation. This means this demand is supplied for at the distribution level, and therefore not recorded at the substation level.

FALL HOUSEHOLD ELECTRICITY USE STABILISED

During the year the fall in the amount of electricity being used by the average household without solar energy systems across regional Queensland has stabilised. At the same time, the electricity being used by households with solar has continued to increase on average as the profile of the households with solar has evolved.

* The average residential consumption is based on Ergon Energy Queensland Pty Ltd accounts on a combination of regulated tariffs, excluding households with solar energy systems installed. The second trend line shows households with solar energy systems installed.

THE TAKE UP OF SOLAR IS CONTINUING

Ergon Energy has seen a dramatic increase in the number of residential solar energy systems connected to the grid over recent years, with over 110,000 now connected, and the average inverter capacity growing to 3.7kVA. We remain optimistic that this growing resource will play a more valuable role in supporting the network in the future.

OUR ELECTRICITY DELIVERED STATISTICS

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<tbody>
<tr>
<td>Population of Ergon Energy’s Service Area*</td>
<td>1.54m</td>
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<td>No. of Distribution Customers</td>
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<td>724,264</td>
<td>712,634</td>
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<td>Average Annual Electricity Use per Household</td>
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<td>111GWh</td>
<td>114GWh</td>
<td>118GWh</td>
<td>117GWh</td>
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* 2014-15 estimate only. Other years are based on the most recent Census
Delivering on our works program

During the year, we continued to deliver against our revised capital investment plan, with the overall level of capital investment at $982.5 million (up from $812.4 million in 2013-14) this includes both system and non-system investment.

This saw the regulated capital expenditure associated with distribution system (Standard Control Services), at the end of our five-year regulatory control period, at 71.8% of what was originally allowed for.

The system investment Ergon Energy initiated saw $595 million invested (compared to $486 million in 2013-14) – delivering a range of outcomes including significant renewal of parts of the network to maintain safety and reliability standards; targeted network augmentation to meet local growth in demand (this was however reduced largely through the deferral of a number projects); and the delivery of reliability improvements; as well as other projects.

$162 million was invested, at the request of customers, into network connections or upgrades (this was down from the $200 million in 2013-14).

Highlights of the capital program included:

• completion of our $162 million reliability improvement strategy. The $51 million invested this year included the installation of 400 reclosers and remote controlled gas switches across the network to improve our ability to detect, isolate and restore supply as quickly as possible when an outage occurs; and the establishment of a 110kV bus bar at the Warwick bulk supply substation, which will increase the security of supply to the communities of Warwick and Stanthorpe.

• completion of stage one of the $38.5 million East Warwick substation rebuild program. This project will deliver long term reliability to the Warwick community, with the first stage including the installation of a new control building and transformer. The second stage of this project, now underway, will include the removal of the existing substation and the installation of a second new control building and transformer.

• progress on the $86 million Toowoomba Central substation project. This project, which will underpin growth in the city’s CBD for decades to come, includes a new, fully-enclosed three-story substation as part of a new major shopping centre; an upgrade at the South Toowoomba substation (with the latest in gas insulated switchgear delivering improved safety and cost outcomes); and a high reliability, dual circuit powerline between the two substations.

• the initial investment in the $15.5 million Grid Utility Support System initiative that is utilising battery storage to reduce the cost of improving quality and reliability of electricity supply on the constrained areas of our rural SWER network (p23).

While we are now better placed to target network renewal, as our understanding of the condition of the network has increased, this has also increased our safety-related investment in asset refurbishment and replacement. This area remains the largest proportion of our investment program, followed by customer requests for new connections and then the projects we initiate to keep up with growth in general demand.

The scaling back of the capital expenditure plan, against our regulated allowances, is being supported by demand remaining steady overall, by changes to our network planning criteria, and our demand management efforts. This graph shows the investment related to our Standard Control Service for the 2010-15 period being significantly lower than allowed for by the AER.

We have also achieved substantial efficiencies in our operational delivery – in line with our reduced works program – over the five years of the regulatory control period that has ended with 2014-15. This has allowed us to pass on savings to our customers in recent years and placed us well to deliver further savings as we move into 2015-16.
Review of operations: Embracing change and technology

This section highlights how we’re investing in the capability of our people, becoming increasingly technology enabled and capitalising on organisational reforms.

To us ‘high-performance’ is about being as efficient and effective as possible across our delivery areas and embracing the changes taking place in our operating environment – it is about being ‘future ready’.

We also outline our work safety and environmental performance.

Our people are our future. Our focus remains on building the right organisational culture, supporting our leaders, developing our upcoming talent and improving our performance management. We have also seen success this year in building a diverse workplace.

Continued to realise greater efficiency and effectiveness through technology enablement and our organisational reforms. Our crews have real-time data in the field on hand-held devices, and our world-beating remote observation technology has created a virtual world of information for our planners.

Safety leadership continues to be a strategic priority with the aim of achieving an improved safety culture... the shared safety responsibility needed for us to see our safety performance to stand with the best in our industry.
Investing in our people

In a rapidly changing business and industry environment, our future success is dependent upon having the right culture and workforce capability.

Our people strategy, Our People Our Future, has four key pillars – culture, leadership, talent and performance – to ensure we enable and engage our workforce to meet the challenges of the future. We know our people are our greatest asset.

A focus on culture and employee engagement

Significant work has occurred to define and shape the culture required to deliver on our long-term organisational objectives. We know as an organisation we need to be open, decisive, collaborative, and action-oriented to succeed in times of change.

This has seen us, this year, focus on actions developed in response to our ‘yourView’ employee engagement survey results to address the issues our people told us mattered most to them.

Although the next whole-of-business survey is not due until later in 2015, results from pulse checks with our senior leaders and targeted employees indicate positive progress. An example of our success has been the remarkable improvement within our retail business – the results showed the business unit now in the top quartile in terms of employee engagement with an overall score of 75%. This has been a pleasing result and demonstrates the commitment and desire by these employees to deliver on the transformation agenda in our retail business.

Our leaders have been focused on connecting with their teams through manager-led engagement action plans. With an emphasis on reward and recognition the ‘Say Thanks’ initiative continued this year with more than 1,800 employees personally thanked for a job well done via the simple e-card or the hard copy certificate.

The continued focus on employee engagement has achieved real financial returns for the organisation. Decreases in unscheduled absenteeism over the past 12 months has realised almost $2.5 million dollars in savings.

We have also promoted a culture of innovation through facilitated innovation forums and challenges, sponsored by the Chief Executive, where employees are asked to put forward new ideas and be recognised for their achievements.

“With our business landscape shifting rapidly, building the right culture and the capability of our people will be central to our future success.”

Constructive workplace relations

We approached this year’s negotiation of our Enterprise Agreements for employees’ wages and conditions with the aim to support our drive to be a modern, agile and responsive organisation, while having an open and co-operative relationship with our people.

In finalising the agreements, despite some delays, we were able to achieve positive outcomes, with conditions now locked in for the next three years. These agreements apply to the majority of our employees – one for our retail business and one for the distribution business.

In our retail business, the negotiation of their first ever agreement was about shaping an agreement that was tailored to the retail operating environment – a key step in evolving and realising their ambition to be Australia’s most trusted energy provider.

Finalising these agreements provides certainty for our people as we move through the potential changes anticipated in the future. We are committed to a respectful, engaging and effective relationship with our people and unions.

Developing leadership, talent and performance

Supporting our leaders

We recognise that leaders who are able to inspire, engage and empower our workforce are key to creating a successful organisation and delivering value to our customers. We implemented a Performance Leader Framework this year to define and build the core leadership capabilities required to lead a high performing organisation.

Our leaders, now and in the future, will require a range of skills including strong commercial acumen, the ability to effectively drive change at the local and organisation level, lead performance and develop employees with the right skills, knowledge and experiences needed to deliver the business strategy.

To achieve this we have implemented programs such as our Change Champions initiative that has provided more than 160 leaders across the business with the foundations needed to develop the mind-sets, behaviours and skills that an effective, high performing leader requires to succeed. Our Senior Leaders Team engagement forums also continue to align and focus the leadership group in addressing the strategic priorities of the business.

And our Safety Citizen program (p33), is another aspect of the framework providing a consistent set of performance expectations to help build our leadership capability.

To support these programs a consolidated manager information kit and updated intranet portal was developed, providing an easy how-to guide and relevant information.

Managers also received further coaching in performance and development planning processes following improvements to the performance and development framework.

Our upcoming talent and people capability

Assessing the performance, leadership potential and capabilities of our talent is important to building a strong leadership pipeline for the future. In identifying the talent profile, development plans are targeted to provide specific on-the-job experiences to build capability and provide leadership opportunities.
Considerable work has also occurred to define the skills and capabilities required for a changing business, regulatory and technology environment. Our five-year Strategic Workforce Plan has been refreshed, identifying our future critical capabilities and the types of work that are likely to emerge.

We are evolving towards greater integration of technologies and information for effective and efficient customer energy solutions and this will require a shift in the mix of traditional and new skill sets. Employees of the future will require the ability to analyse information for improved outcomes, apply critical thinking and problem analysis, and operate in a customer centric, commercial environment.

**Managing performance and development**

Throughout the year we continued to utilise our established performance management framework to support our leaders in defining and setting clear performance expectations, and driving high performance outcomes. The focus was on ensuring performance reviews were effective and engaged staff appropriately.

There was also a focus on investing in our people via effective development plans, as part of the formal performance management process, to actively identify and support more meaningful development opportunities for employees. These plans target development opportunities through exposure, experience and recognising formal training/education, including mandatory training, where relevant.

Ergon Energy has continued to deliver a diverse range of technical and non-technical training. In total there were over 38,000 face-to-face and online training modules completed, over 2,000 competencies achieved and 66 formal qualifications issued.

New training programs were developed to meet specific needs or risks of the business, including the switching mentor program. High voltage network switching is a high risk area for our employees and this program provides those with an existing high level of skill in switching tasks with the coaching and mentoring skills needed to pass best practice techniques to their teams back at the depot. This peer-to-peer training is designed to improve how we approach switching, set a higher standard for all operators and reduce the number of incidents.

We also continued our graduate, apprentice and trainee programs to ‘grow our own’ talent and the capabilities required now and in the future. Our graduate and undergraduate program is highly regarded by participants, with the program being voted fifth from the top forty companies in the 2015 Australian Association of Graduate Employers Survey.

These programs ensure that the relevant skills, experience and business knowledge are built through targeted rotations within the business, including field placements, relevant technical training and ongoing internal mentoring.

Our apprentice programs provide career pathways to become a systems electrician, communication technician, fitter and turner, boilermaker, linesperson or sheet-metal worker. The yearly intake continues to see a greater focus on system electricians with higher order systems diagnosis and systems engineering skills to operate on our changing network.

The apprenticeship intake in February this year has seen new apprentices located from Thursday Island to Quilpie, demonstrating our continued commitment to retaining front-line employees in our local communities.

**Valuing diversity and inclusion**

A workforce which values difference leads to a more innovative, engaged and successful organisation. Diversity in the workforce also demonstrates respect and connection with our customers. Creating a workplace in which all employees feel heard, valued and are invited to share their ideas is at the heart of our diversity and inclusion strategy.

To build awareness and understanding of the many aspects of a diverse and inclusive workplace, key events have been celebrated locally across the organisation, including White Ribbon Day, inviting male champions of equality to speak on International Women’s Day; and NAIDOC week, promoting Ergon Energy’s engagement with our Indigenous communities and customers.

The 2014-15 intake of apprentices demonstrates our success in attracting a diverse pool of employment candidates. Of the 60 new recruits, seven Indigenous candidates secured apprenticeships, and we were overwhelmed by the degree of interest from women, resulting in a record 11 females breaking into the traditionally male-dominated field.

The number of women in leadership roles has also increased over the past twelve months.
A technology enabled workforce

Having information at our fingertips, wherever we’re working or whatever role we play in the organisation, is seen as critical to our ability as an organisation to respond to the changes taking place in our operating environment and to continuing our efforts to deliver greater efficiencies for our customers.

Technology connecting our field crews

Our biggest leap forward this year in becoming a technology and information enabled workforce has been the introduction of Field Force Automation. This has seen the dispatch, to our crews in the field, of customer service orders and the work orders linked to our unplanned faults response now coming electronically from a centralised business support function.

This has seen over 500 hand held ‘toughpads’ deployed to our field crews. These devices allow the crews to receive jobs while on the go and record work completion information electronically, with the data increasingly being updated in our host systems automatically. Manuals relating to customer service and fault response work are also available on the toughpads, allowing us to phase out of hard copy manuals. Our contractors tasked with customer service work are also utilising the capability.

This initiative has already improved our responsiveness to customer requests and the consistency of delivery standards across the state, as well as provided for a greater level of flexibility and efficiency in the field. The next phase of this initiative will see an expanded use of this technology, along with the introduction of a field mapping capability.

During the year we have also made a significant investment in our customer information systems to improve our customer service delivery and cost to serve. p14

To achieve greater efficiency and reduce costs associated with our system investment, wherever possible we are aligning the systems and the related processes between ourselves and Energex.

Spatial data the way forward for efficiencies

The expansion of our Geographic Information System (GIS) capability, and the integration of our data with Google Earth, is also continuing to be supported by the remote asset and vegetation monitoring management technology, Roames. This year the aircraft-based laser and imaging capture system undertook a second mapping of our entire network. The system creates a virtual version of the real world to allow the fast and accurate inspection and assessment of the network and the surrounding environment, particularly vegetation, without the need to deploy field crews.
The integration of FugroRoames data into Ergon Energy’s decision works planning processes is increasingly delivering productivity and efficiency improvements. The capability was also used to assess damage in the wake of Cyclone Marcia (p19). This capability was developed within Ergon Energy, however, was sold last year with Ergon Energy retaining access to the capability on a commercial basis.

Communications playing an increasingly vital role

To ensure communication is maintained between crews around the state and control centres in Rockhampton and Townsville, Ergon Energy relies heavily on its two-way radio network. Over the past three years we have been steadily replacing the aged analogue radio system with a current technology digital radio system. To provide cost effective communications across our vast service area we have drawn on a variety of Australian radio technologies.

The project is now 75% complete, with the full digital transition expected by 2017. This investment is especially critical to our field crews in enabling a well-orchestrated emergency response. With normal communications methods often unavailable after a cyclone, or the impact of other natural disasters, Ergon Energy relies heavily on radio communications. Being based on emergency services standards the new highly resilient system can now also interconnect with other first responder networks.

The introduction of a current generation radio system has also enabled productivity enhancements. For example, the clip on extension radios are enabling communications in the substation or up in work platforms rather than just from the truck. Add in GPS tracking, overlaid with the spatial mapping of our electrical network, the opportunity to achieve greater efficiency in assigning works, for example, becomes real.

Approach supported by structural reforms

From an organisational perspective the focus in 2014-15 was on bedding down the structural changes made in the previous financial year to ensure we realised the efficiency and effectiveness benefits targeted.

In the Customer Service business unit of our distribution business, for example, we successfully completed the move of our field-service delivery from a regional focus to one aligned to key functions. This has been about delivering clear lines of accountability, reducing duplication, improving service consistency across the state and lowering costs.

The reforms have delivered, with greater day-to-day efficiency across our works program, especially in the asset design area, and in the centralising of the scheduling and dispatch of work on the network. The benefits of single point accountability for disaster management were tested and came through with flying colours during Cyclone Marcia (p19). These structural reforms are working hand in hand with the increasing levels of technology enablement.

The organisational change journey we have been on has helped us deliver against our targeted reduction in regulated operating expenditure for the five-year regulatory control period. With 2014-15 being the last year in the period, our expenditure is within the allowance, at 96.8%, despite being above the allowance earlier in the period, due largely to costs associated with major disasters (p39).

Looking forward we will need to continue to drive efficiencies into the business to meet our customers’ expectations around price, and deliver the efficiencies built into the expenditure programs that make up our revised Regulatory Proposal for 2015-20 (p39). To deliver these efficiencies we are now looking largely to advancing our technology-based capabilities. We are also continuing to seek greater efficiencies through our property strategy. During the year the redevelopment of our facilities in Glenmore Road, Rockhampton progressed. This will take our operational sites in Rockhampton from six properties to three, and deliver a better disaster response capability, improved fleet management and logistics, as well as improved traffic safety. As part of this strategy, we have also continued the redevelopment of our facilities in Garbutt, Townsville. The year has seen the logistics warehouse refurbished and work on the existing administration building commence. This investment furthers the consolidation of our operations in Townsville that was achieved in the previous year.
Workplace safety
our priority

Ergon Energy is committed to ensuring the health and safety of our people.

This year has seen the introduction of a new Health, Safety, Environment and Cultural Heritage Policy, providing a long-term vision to manage and reduce risks, safeguard employees, and protect the environment and communities where the company operates.

The move to the new policy demonstrates a more integrated approach to managing health, safety, environment and cultural heritage – and builds on our efforts to learn from incidents and continuously improve our performance to be a sustainable business and to ensure the best outcome for the business, our customers and the community.

Safety leadership supports improved safety culture

Safety leadership continues to be a strategic focus in achieving an improved safety culture.

As part of this we have introduced the Safety Citizenship program this year for our leaders, as well as field employees. The program's aim is to shift our current safety culture from one of personal safety compliance to one of shared safety responsibility.

The outcome of the program will see leaders better equipped to recognise and reward positive behaviours, communicate effectively and support the continued improvement in how we work. The benefits of the program are already being seen in some of our performance indicators.

Our annual Field Safety Day Championships also continued to demonstrate our commitment to our safety culture, with crews from across the state meeting in Townsville to put their technical and safety rescue skills to the test. The competition ensures plenty of local banter between regional teams, but it is serious when it comes to competing and demonstrating the engagement the teams have with the work they perform.

We have enhanced our Comprehensive Safety Indicator (p34) to better capture quality information and behaviours and we continue to review identified trends, in both incidents and close calls, and implement health and safety initiatives to address them. These initiatives include fatigue risk management, drug and alcohol programs, behavioural leadership programs and vehicle monitoring systems. The upgrade to the risk register in our eSafe system has also improved the consistency and quality of information available in order to better manage safety risks across the business.

The continuous improvement of our integrated health, safety and environment management has been recognised with the maintenance of our certification to ISO 14001, BS OHSAS 18001 and AS/NZS 4801 standards.

Addressing the risk of fatigue a priority

Travelling the distance our crews do, and the nature of delivering an essential service, makes fatigue management a critical issue for us. To respond to this, we introduced a new fatigue management framework in December 2014 with supporting guidelines that include revised hours of work and consecutive days of work limits.

The review was prompted after serious incidents occurred where fatigue was identified as a contributing factor, a review of how fatigue was managed during disaster response efforts and the introduction of new fatigue specific requirements through the new National Heavy Vehicle Regulation.

The revised framework was informed by current fatigue science and expert advice on industry best practice in consultation with our Fatigue Risk Management Review Group. It provides a robust methodology for managing the safety risk of fatigue while accounting for our service delivery commitments.

A personal fatigue calculator was also developed for trial to help assess an individual's fatigue likelihood – enabling sleep and wake data of an on call worker to be used to produce a score of the likelihood of fatigue, and the potential for this to impact safety at work. The tool is currently being assessed for its potential for business-wide implementation.

Our commitment to employee health and wellbeing

Ensuring the physical, emotional and mental wellbeing of our employees continues to be an ongoing commitment for Ergon Energy. This was acknowledged with Silver Recognition from the Queensland Government’s Healthier. Happier. Workplaces initiative.

Healthier. Happier.
Workplace
Silver

Registrations for our Health Matters portal continue to remain steady with over 1,500 employees now signed up to access the tools, resources and support to assist them to self-manage their health and work towards their personal health and wellbeing goals.

To support employees in the goal to quit smoking, a Health Matters Quit Smoking program was launched. Employees receive resources, free confidential telephone support and free nicotine replacement therapy products for a 12 week period. Registrations for the program continue to increase with 65 people participating in the program since it commenced in 2014.

Other ongoing initiatives have seen more than 1,900 employees participating in the free flu vaccination program, an increase of more than 200 participants compared to last year. And following the completion of a 12 month trial of defibrillators in our largest workplaces, 53 defibrillators have been deployed to our larger sites and to rural and remote locations with limited access to emergency medical services.

Drug and alcohol testing continues to be a key initiative to ensure employees are ‘fit for work’.

Our Employee Assistance Program also continued to provide employees and their families free confidential counselling service for work and personal concerns.
Asbestos management recognised as best practice

The removal of asbestos containing materials from Ergon Energy facilities has continued to be a focus over the last 12 months. This has seen all asbestos containing pillar boxes and over 1,500 asbestos containing power pole fuses across the state removed as part of a proactive identification program.

New technology has also been introduced at every site where asbestos has been identified that utilises QR codes to provide contractors and staff accessing any of our sites, including at our unmanned substations and communication sites, specific information on any asbestos within the site and the relevant risk ratings and controls.

In November 2014 Ergon Energy addressed an international conference in Melbourne on asbestos awareness and management best practice, and the Asbestos Safety and Eradication Agency selected us to be showcased in their case studies on best practice asbestos management.

OUR SAFETY SCORECARD

Striving to stand with the best in our industry... ALWAYS SAFE

Since 2009-10, prior to entering the five-year regulatory control period that has just ended, we have improved our workplace safety dramatically, with our All Injury Frequency Rate (AIFR) reduced by two thirds. This year saw a significant 20% reduction in our AIFR from last year to 5.0.

The year did, however, see a slight increase in the Lost Time Injuries Frequency Rate (LTIFR) for employees; from 1.4 in 2013-14 to 1.9 in 2014-15, although within target. The LTIFR for contractors has remained stable at 3.2.

While above the target, there has not been a contractor LTI within the last six months; a reduction in the exposure hours for contractors has contributed to the year’s result.

We continued to participate in the annual industry workplace safety benchmarking, now undertaken by the Energy Supply Association of Australia. While we are awaiting the final result, early indications show that while we are performing well, we need to continue to strive for our goal for our safety performance to stand with the best in our industry.

The severe storm season this year contributed to the majority of Dangerous Electrical Events (DEEs) – Assisted Asset Failures and is the dominant cause of the increase to this indicator, with 542 storm events recorded, exceeding the annual historical average of 360.

Performance of the DEEs Unassisted Asset Failures, which are asset failures within Ergon Energy’s control, has improved with a reduction of approximately 20% from last year to 367.

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<tbody>
<tr>
<td>Lost Time Injuries Frequency Rate – Employees</td>
<td>Target 1.9</td>
<td>1.4</td>
<td>2.6</td>
<td>2.6</td>
<td>3.2</td>
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<tr>
<td>All Injuries Frequency Rate – Employees</td>
<td>Target 5.0</td>
<td>6.4</td>
<td>7.8</td>
<td>9.8</td>
<td>13.7</td>
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<tr>
<td>Lost Time Injuries Frequency Rate – Contractors</td>
<td>Target 3.2</td>
<td>3.2</td>
<td>2.2</td>
<td>1.8</td>
<td>2.2</td>
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<tr>
<td>Total Dangerous Electrical Events (DEEs)</td>
<td>1,152</td>
<td>1,116</td>
<td>956</td>
<td>1,050</td>
<td>888</td>
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<tr>
<td>– Unassisted Asset Failure (within Ergon Energy’s control)</td>
<td>367</td>
<td>423</td>
<td>323</td>
<td>359</td>
<td>377</td>
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<tr>
<td>– Assisted Asset Failure (outside Ergon Energy’s control)</td>
<td>785</td>
<td>693</td>
<td>633</td>
<td>691</td>
<td>511</td>
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<tr>
<td>Dangerous Electrical Events Frequency Rate – Employees</td>
<td>Target 3.5</td>
<td>3.1</td>
<td>4.4</td>
<td>2.5</td>
<td>4.9</td>
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The frequency of workplace injuries has continued its downward trend with a strategic focus in achieving an improved safety culture.

Programs focusing on the reduction of Dangerous Electrical Events Frequency Rate – Employees (DEEFR) have continued (p33) with this measure not meeting target at 3.5.

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 550 total points allocated against a range of areas, out of a possible 600.

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<th>DRIVING SAFETY CULTURE KEY TO RESULTS</th>
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<td>AIFR</td>
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The organisation’s Lost Time Injuries Rate increased slightly, although no major incidents occurred.

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<th>LOST INJURIES FREQUENCY RATE UP SLIGHTLY</th>
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<td>LTIFR</td>
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Protecting the environment

Ergon Energy has a corporate responsibility to demonstrate leadership in protecting the environment and conserving the world’s resources. To us, a high standard of environmental performance is an important element of being a high-performing organisation.

This has seen us, in February this year, commence a review of our existing objectives and targets around environmental performance. Our aim is to build ownership at the operational level, so that all employees understand the part they play in identifying and managing our key environmental risks, ultimately helping to minimise the business’s overall environmental footprint.

The project is initially focusing on energy usage and emissions and waste management. The review will result in new objectives and targets being set within business unit and personal performance plans throughout the business. Improving our performance in these areas has environmental benefits and will also deliver efficiency benefits for the business in the medium and long term.

Conserving energy and mitigating emissions

Reducing the electricity used

Ergon Energy has long had a focus on energy conservation, within our own operations and by helping our customers save on their usage.

Energy efficiency remains a key focus in the management of our administration and technical buildings. In our major property redevelopments in Rockhampton and Townsville (p33), and in the smaller refurbishment works undertaken this year, we have incorporated many energy conservation technologies, including using natural light and ventilation and installing movement sensors that manage lighting and air conditioning.

To support our customers, and deliver on other business imperatives, we also continued our long-term focus on educating our customers about energy efficiency. Our efforts have supported whole communities to achieve reductions (p19) and potentially even supported the reduction over recent years in average household consumption (p13, 26). Our customers have more information than ever before about how to achieve greater levels of energy efficiency.

And, we are keen to take this even further. Our HomeSmart energy trial is a great example of this (p15).

Following on from the success we had in engaging with ‘greenfield real-estate’ developers in Townsville last year, efficient building design guidelines are currently under development for use across the state to foster more energy and demand efficient communities. This will provide information to property developers and our customers about how to make their homes more efficient.

Reducing our reliance on diesel

We continued to focus on reducing our reliance on diesel in our isolated communities and increasing our capacity to generate electricity using renewable energy. Our aim is to take our reliance on diesel to zero by 2050.

A great example of this is our award winning solar farm at Doomadgee, an Aboriginal community located in the Gulf of Carpentaria. The success of the 1,056 panel solar farm, commissioned in 2013, has led to the Federal Government’s Australian Renewable Energy Agency (ARENA) granting funding for the expansion of the existing 264kW generation capacity by an additional one megawatt.

The project is expected to be commissioned at the end of 2016 and for the first time will integrate high penetration solar photovoltaic generation into one of our stand-alone supply networks. Due to the costs associated with remote electricity supply, this area of our operations is well placed to take advantage of renewables. Incorporating energy storage and voltage stability technology (to smooth the ‘dips’ in solar generation caused by cloud cover) will allow for the instantaneous use of 100% of the solar energy generated and, ultimately, cut the diesel used in providing electricity to the community by 33%.

Through knowledge sharing, this project will provide us and the electricity industry more broadly, with the know how to accelerate the rollout of renewable energy into isolated communities across Australia.

Ensuring best practice operations

Working to control weeds and pests

This year our priority has been controlling the biosecurity risk associated with the Panama disease Tropical Race 4 in the banana growing areas in North Queensland, which was identified between Cooktown and Townsville, including Lakeland and Atherton Tablelands.

In response to this, wash down audits occurred and additional procedures were put in place for work undertaken in the vicinity of banana plantations. This was particularly important in our response following Cyclone Nathan (p19), due to the increased vehicle movement in the impacted areas. This saw mobile wash downs moved into strategic locations to manage the potential impact of this biosecurity risk.

We also responded to the risk associated with the Cucumber Green Mottle Mosaic Virus, identified in the Charters Towers district, as well as a range of ongoing weed and pest risks.

Working sensitively to protect biodiversity

Along with high standards of weed and vegetation management practices, Ergon Energy undertook a number of specific initiatives to protect the biodiversity of the environment this year.

We completed revegetation and land stabilisation after erosion along an electricity easement in Burrum Coast National Park. The site will now be released to the Department of Environment and Heritage Protection (EHP).

A partnership with the Mackay Regional Council saw 50 100-year old Cycas media (cycads) saved and relocated to the Mackay Botanical Gardens during the clearing of a high voltage powerline route needed to connect a major customer in the Habana area.
ENERGY SCORECARD

Our carbon footprint
Ergon Energy’s greenhouse gas emissions total 857,826 tonnes of carbon dioxide equivalent. This information is based on available 2013-14 emissions data as the most up to date at the time of publishing.

Our emissions, as per the National Greenhouse and Energy Reporting Act 2007 (Cth), include:

Direct Emissions (Scope 1) – electricity generation through our 33 diesel-fired power stations, which we use to supply electricity to our communities isolated from the main grid, accounts 9% of our total emissions. Our remaining direct emissions are mostly from fuel use in our vehicle fleet.

Emissions associated with the use of electricity (Scope 2) – these emissions are largely unavoidable network energy losses, consistently comprising around 79% of our carbon footprint. This figure includes real network losses and losses associated with unmetered supplies. Street lighting is also a significant contributor to emissions associated with electricity use, estimated to be responsible for 8% of our footprint. The electricity used across our operations in our 100 plus buildings represents 2%.

Although not required to be reported, Ergon Energy’s operations also result in indirect emissions (Scope 3). These are associated with other entities, including the operations of joint venture SPARQ Solutions (p3) and air travel.

Renewable energy
Ergon Energy continues to support the establishment and growth of renewable generation sources.

For our grid connected customers, we purchased just over 10.5% of our energy requirements directly from renewable sources.

Through the Solar Bonus Scheme, we credited customers more than $117 million (down slightly from $118 million in 2013-14) for the 3.48TWh of renewable energy their systems exported back into the grid for use by other customers.

We also purchase additional Renewable Energy Certificates (RECs), to meet our liability under the Australian Government’s renewable energy targets. Our Large-scale Generation Certificate compliance requirements for 2014-15 were equivalent to sourcing 10.5% of our customers’ energy requirements from renewable generation. We also met RECs compliance under the Small-scale Renewable Energy Scheme for Small-scale Technology Certificates, equivalent to sourcing 11.1% of our customers’ energy requirements.

Through the Solar Bonus Scheme, we credited customers more than $117 million (down slightly from $118 million in 2013-14) for the 3.48TWh of renewable energy their systems exported back into the grid for use by other customers.

We also purchase additional Renewable Energy Certificates (RECs), to meet our liability under the Australian Government’s renewable energy targets. Our Large-scale Generation Certificate compliance requirements for 2014-15 were equivalent to sourcing 10.5% of our customers’ energy requirements from renewable generation. We also met RECs compliance under the Small-scale Renewable Energy Scheme for Small-scale Technology Certificates, equivalent to sourcing 11.1% of our customers’ energy requirements.

We continue to increase the use of renewable energy to supply our isolated network. As part of our diesel reduction strategy, these efforts are reducing costs and delivering environmental benefits. Not all of the energy generated contributes to our renewable energy liability.

Our network is increasingly operating as an open access platform for distributed energy resources, with power purchasing agreements renewed this year with the local sugar industry, and solar exports now contributing 38% to the renewable energy for the grid.
Our network is increasingly operating as an open access platform for distributed energy resources with over 1GW of capacity now connected. This year we have renewed our support for Queensland sugar industry’s generation of renewable energy, contributing $45.7 million in economic value to the industry. These, and other renewable energy sources, are now contributing over 11% of the electricity for our main grid.

- Solar
- Bagasse (sugar by-product)
- Hydro and wind

**11%** of the electricity on our main grid is from renewable sources

**110,000** solar energy systems are connected to the grid across regional Queensland

25% of detached houses now have solar, with the average system size now 3.7 kA
Ergon Energy is also supporting the EHP and Bundaberg Regional Council to reduce the impact of street lighting on the nesting and hatching of sea turtles. The Woongarra coast is home to the largest concentration of nesting marine turtles on the eastern Australian mainland. As turtles can be disturbed and disoriented by artificial light, we are working on various street lighting solutions to be trialled for their practical application.

Protecting our cultural heritage
Ergon Energy remains committed to protecting the diverse cultural heritage artefacts found in our region, and minimising the impact of our works program. This is supported by the development of a plan to raise awareness within the business of cultural heritage risks. In addition, all staff are required to undertake mandatory training in cultural heritage awareness. It is also being supported by improvements to our engagement with traditional land owners.

We are continuing work with the Queensland Government on the new online version of the Queensland Indigenous Registered Heritage dataset. This information will update our existing spatial data and allow employees across the business to access the latest information quickly and easily.

Minimising environmental incidents
Ergon Energy has a robust integrated management system (IMS) that ensures appropriate planning is undertaken to help prevent environmental incidents. The IMS also ensures effective monitoring of early trends in environmental issues and incidents for continuous improvement.

During the year we continued work on an innovative works program to address a number of environmental performance issues identified in the operation of Ergon Energy’s 33 remote power stations. While the majority of the work is well progressed, rectifying containment issues, addressing fuel bund repairs and improving bund waste-water treatment and storage practices on site, the full program of work will continue until 2018.

We have continued our proactive approach to managing risks associated with contaminated land including identifying sites with a higher contamination risk within our portfolio of sites. New processes and tools were introduced to allow more effective management of potential contaminated land issues encountered.

During 2014-15 Ergon Energy had no serious environmental incidents (Class 1) or breaches of the Environmental Protection Act 1994 (Qld). We did have one major environmental incident (Class 2), which involved a spill of 400-600 litres of hydrocarbon at a power station site during fuel transferring activities. We maintained our certification of AS/NZS ISO 14001 Environmental Management System.

ENVIRONMENTAL INCIDENTS

Fauna and flora related: 60%
Fuel and oil spills: 20%
Delivery and supervision of work impact: 5%
Excavation/other land disturbances: 4%
Other: 2%

Best practice use and recycling of materials
While the quantity of materials we use is directly related to the scale of our works programs, we undertake to maximise the life of plant and equipment to make the best use of these resources and our expenditure.

The impact and prolonged nature of this year’s storm season saw a jump in the use of our core network components; poles and pole top transformers. We purchased around 11,000 new poles (compared with 9,895 in 2013-14) and 3,120 transformers (compared with 2,269 in 2013-14).

We continue to own and manage a number of native forest properties in order to ensure a sustainable pole supply for our future infrastructure projects. We are also investigating the possibility of outsourcing a region-wide program for the recycling of poles removed from service.

We continued our waste oil recycling efforts – of the 423,000 litres of waste oil collected this year, almost 40% has been processed through licensed facilities for regeneration and re-use (70,000 litres more than last year).

We also recovered 893 tonnes of scrap metal including copper, aluminium, steel and brass (down slightly on the five-year average of 1,005 tonnes). A further 400 tonnes of scrap metal from old transformers was recycled (compared to the five year average of 826 tonnes).

We continue to look for better solutions regarding the disposal of our waste. A cost benefit analysis is underway to review recycling options for used mercury vapour bulbs.
Delivering economic value

A prudent and efficient service remains core to the achievement of our economic contribution to Queensland. This contribution manifests itself in limiting the charges we make for the use of the network, through other areas of our service, and in the commercial return we make to our shareholder, the Queensland Government, and ultimately tax payers.

Presented to the AER a proposal for 2015-20 that is about delivering peace of mind, choice and control, for the best possible price. We’re reducing what we charge for the use of our network in 2015-16, and then targeting to stabilise charges at 2014-15 levels out to 2020.

Our financial performance

Moving to a new regulatory control period

The five year regulatory control period for our network related services that ended with 2014-15 has been a period in which we have delivered significant economic outcomes for our customers, and our shareholders.

With changes to our demand profile in 2010-11 (p23), we took prudent steps to reduce our capital investment program and focus further on our efficiency and effectiveness as an organisation. This, along with our growing demand management capability (p24) supported a reduction of over 22% in our total expenditure, when compared to the AER’s approved allowances for 2010-15. As a result we were able to reduce what we charged customers for the period by $99 million (p51) and absorb the cost of Cyclone Yasi (2011), Oswald (2013) and Marcia (2015 p19), as well as position ourselves to deliver price relief going forward.

To ensure we manage the distribution network efficiently, Ergon Energy is regulated under a revenue cap by the AER. To assist them in determining our revenue allowance for 2015 to 2020, last October we provided our future investment plans as a Regulatory Proposal. Following an assessment of our plans the AER released their Preliminary Determination in April 2015, which we have since responded to.

Our revised plans remain about delivering peace of mind, choice and control, for the best possible price. After reducing charges for the use of our network in 2015-16, in line with our requirement to pass on the AER’s Preliminary Determination we are targeting to keep charges overall at 2014-15 levels for the remaining four years out to 2020.

In October 2015, following an assessment of this information, the AER will make their final determination.

An appropriate revenue allowance is both central to the economic sustainability of our business, and long-term price stability for customers. Developing and then revising the Regulatory Proposal has required a significant business-wide focus throughout the year, as well as ongoing customer and stakeholder engagement (p13). We have provided the AER with extensive information in order to support the expenditure plans proposed, including most recently benchmarking that places our efficiency up with the best in the industry when all relevant factors are taken into account.

Delivering on our financial targets

As a significant investment for the Queensland Government, Ergon Energy operates to a suite of agreed financial targets. 2014-15 saw strong results across all of these key measures.

Strong group results for tax payers

Ergon Energy Corporation Limited delivered a very strong consolidated Net Profit After Tax of $696 million significantly above the $591 million agreed in our SCI (p7) and an Earnings Before Interest and Tax result of $1,301 million (compared to the target of $1,187 million).

The result reflects a strong performance by the retail business (including a favourable energy market position), efforts over a number of years to deliver greater organisational efficiency and effectiveness, as well as improvements to our financing costs and depreciation. These results were achieved while delivering an $983 million capital investment program. p27

An above budget retail business performance

Our retail business, Ergon Energy Queensland Pty Ltd, delivered a Net Profit After Tax of $204 million significantly above the target of $95 million.

This result is largely due to the $84 million favourable movement in the market value of the hedges entered into to manage the future risk around price and volume in our electricity trading activities. This reverses the $123 million loss from unrealised revaluations in the previous financial year. In addition, the cost of sales has been reduced in line with significantly lower wholesale electricity prices.

Supporting the Government’s Debt Reduction Action Plan

In formulating the Queensland Government’s Debt Reduction Action Plan, our shareholding Ministers reviewed the appropriateness of Ergon Energy’s current dividend policy and capital structure. Due to our comparatively low gearing compared to the average of our industry peers, and revised outlook for capital expenditure requirements, they saw an opportunity to move towards more commercial gearing levels.

In line with this, Ergon Energy has declared a dividend of $1,925 million, consisting of 100% of our consolidated Net Profit After Tax of $696 million and an additional amount of $1,229 million to increase our net debt to regulated asset base ratio to approximately 70%, as directed by our shareholding Ministers (p51).

At the same time the Queensland Government made a $596 million Community Service Obligation (CSO) payment to Ergon Energy (p40). Contributing commercial value

Our subsidiary Ergon Energy Telecommunications Pty Ltd (trading as Nexium), continued to provide commercial value through the provision of wholesale and retail high-speed fibre-optic connectivity to the resource, transport, energy and government sectors. Highlights for the year included the implementation of a new high capacity route between Brisbane and Cairns (additional services to Queensland Health), a new service for Queensland Police and the connection of a number of private schools to high speed internet links. Nexium contributed $1.8 million in profit for 2014-15.

continued on page 42
Our Annual Financial Statements explained

This section explains the key line items from our financial statements and provides the definitions and trends for our financial performance ratios. This commentary is not intended to be comprehensive – for full disclosures please refer to the Annual Financial Statements for Ergon Energy Corporation Limited and its controlled Entities, available online at www.ergon.com.au/annualreport

A. WHERE DOES OUR REVENUE COME FROM?

Ergon Energy’s revenue for the financial year totalled $2,627 million, an increase of $187 million compared to the prior financial year.

Our revenue includes increases in retail electricity sales (to $2,036 million) and in distribution revenue from our non-retail customers (to $406 million); with a decline in customer contributions towards the electricity distribution network (to $70 million). The increase in retail electricity sales is primarily due to the increase in regulated retail prices, which are set each year by the QCA.

The revenue collected from customers for the use of our electricity distribution network (Network Charges) is regulated by the AER. These charges are billed to both our retail business and the retailers of customers, who 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?

Our operating expenses for the year totalled $620 million, down by $58 million. Operating costs have continued to decline with our efficiency and effectiveness efforts. Payroll costs were contained at $613 million (both allocated as operating expenses and capitalised) through efforts to right size the organisation, and we delivered $18 million in procurement savings, while still adhering to procurement policy and encouraging local sourcing.

Major expenses included electricity purchases totaling $529 million, and transmission charges paid to Powerlink Queensland, totalling $319 million. The Uniform Tariff Policy, and the associated Community Service Obligation (CSO) payment, ensures that most Queenslanders have access to the same cost of electricity, regardless of where they live. The CSO payment is the difference between the costs to supply energy in metropolitan Brisbane and surrounding districts, and the costs to supply regional Queensland customers. Effectively the payment allows Ergon Energy Queensland Pty Ltd to sell electricity to its customers for the same prices that are charged in the south-east. Hence, its reimbursement is treated as an offset to the network charges to customers, rather than as revenue for the retail business (as it was prior to 2013-14).


C. WHAT ASSETS DO WE OWN?

In 2014-15, our total asset base maintained value at $11,485 million. Property, plant and equipment are the major components of our asset base, at $10,183 million, which includes mostly regulated electricity network assets.

Ergon Energy devalued its property, plant and equipment assets as at 30 June 2015, resulting in a decrease of $40 million. The directors approved the valuations, following a review by management of the net present value of all asset categories. At the end of June 2015, $324 million was held as cash, consistent with normal business operations.

During the year, Ergon Energy changed its accounting policy to remove the recognition of under or over recovered regulated revenues and solar feed-in-tariff pass through revenue. This change reduced assets by the $557 million receivables recognised at 30 June 2014.

D. WHAT DO WE OWE (OUR LIABILITIES)?

Ergon Energy’s total liabilities increased to $9,669 million this year, this was both due to the normal funds drawn down used for our capital works programs and cash flow requirements, and changes that have come from the Queensland Government’s debt reduction plan (p39).

Our largest individual liability is the interest-bearing loan with Queensland Treasury Corporation of $5,273 million. Our debt-repayment plan, which has reduced the year’s net draw down of this loan, was supported by the reduction in our capital expenditure program (compared to our allowance), as well as other actions.

Our second largest liability is the $1,925 dividend declared to shareholding Ministers. Some of our other key liabilities include net deferred income tax liability of $1,687 million, current payables due to trade creditors ($337 million) and current employee benefits ($163 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 $983 million total capital investment program. The regulated component of our capital works program was within the five-year regulatory control period allowance – this $866 million investment, associated with our Standard Control Services, included providing new connections, increasing the capacity of the network and improving reliability. p27

F. WHAT RETURN DO WE GIVE TO OUR OWNERS?

On 30 June 2015, Ergon Energy declared a dividend of $1,925 million to be paid in 2015-16 to our shareholding Ministers, and through them to the Queensland Government, ultimately benefiting the people of Queensland and enabling a reduction in general government debt. The dividend consists of 100% of consolidated Net Profit After Tax and an additional amount to increase Ergon Energy’s net debt to regulated asset base ratio up to almost 70%.
## Financial Summary for Ergon Energy Corporation Limited (Consolidated)

### A. Our Revenue

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</thead>
<tbody>
<tr>
<td>Revenue and Other Income</td>
<td>2,627</td>
<td>2,440</td>
<td>2,839</td>
<td>2,511</td>
<td>2,411</td>
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### B. Our Expenditure

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<tbody>
<tr>
<td>Network Charges/ Electricity Purchases</td>
<td>(252)</td>
<td>(481)</td>
<td>(995)</td>
<td>(853)</td>
<td>(846)</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>(620)</td>
<td>(678)</td>
<td>(615)</td>
<td>(682)</td>
<td>(634)</td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td>(454)</td>
<td>(488)</td>
<td>(430)</td>
<td>(380)</td>
<td>(314)</td>
</tr>
<tr>
<td>Finance Charges</td>
<td>(310)</td>
<td>(372)</td>
<td>(369)</td>
<td>(321)</td>
<td>(294)</td>
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### p39 Our Profit

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<tbody>
<tr>
<td>Earnings Before Tax</td>
<td>991</td>
<td>421</td>
<td>430</td>
<td>275</td>
<td>323</td>
</tr>
<tr>
<td>Tax Expense</td>
<td>(295)</td>
<td>(126)</td>
<td>(122)</td>
<td>(82)</td>
<td>(91)</td>
</tr>
<tr>
<td>Net Profit After Tax</td>
<td>696</td>
<td>295</td>
<td>308</td>
<td>193</td>
<td>232</td>
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### C. Our Assets

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</thead>
<tbody>
<tr>
<td>Current Assets</td>
<td>1,043</td>
<td>897</td>
<td>928</td>
<td>1,048</td>
<td>1,012</td>
</tr>
<tr>
<td>Non-current Assets</td>
<td>10,442</td>
<td>10,034</td>
<td>10,130</td>
<td>9,306</td>
<td>8,877</td>
</tr>
<tr>
<td>Total Assets</td>
<td>11,485</td>
<td>10,931</td>
<td>11,058</td>
<td>10,354</td>
<td>9,889</td>
</tr>
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</table>

### D. Our Liabilities

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<tr>
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<tbody>
<tr>
<td>Current Liabilities</td>
<td>2,686</td>
<td>1,345</td>
<td>1,290</td>
<td>1,192</td>
<td>967</td>
</tr>
<tr>
<td>Non-current Liabilities</td>
<td>6,983</td>
<td>6,517</td>
<td>6,335</td>
<td>6,044</td>
<td>5,667</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>9,669</td>
<td>7,862</td>
<td>7,625</td>
<td>7,236</td>
<td>6,634</td>
</tr>
<tr>
<td>Net Assets</td>
<td>1,816</td>
<td>3,069</td>
<td>3,433</td>
<td>3,118</td>
<td>3,255</td>
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### E. Our Investment

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<tbody>
<tr>
<td>Total Capital Investment</td>
<td>983</td>
<td>812</td>
<td>872</td>
<td>870</td>
<td>831</td>
</tr>
</tbody>
</table>

### F. Dividends

<table>
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</thead>
<tbody>
<tr>
<td>Dividends Provided For</td>
<td>1,925</td>
<td>392</td>
<td>326</td>
<td>256</td>
<td>253</td>
</tr>
<tr>
<td>Dividends to Net Profit After Tax</td>
<td>277%</td>
<td>133%</td>
<td>106%</td>
<td>133%</td>
<td>109%</td>
</tr>
</tbody>
</table>

### Note:

Due to changes to our accounting policy for regulated revenue, all years prior to 2014-15 have been restated to ensure consistency.

### Financial Ratios

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<tbody>
<tr>
<td>Return on Average Assets</td>
<td>11.6%</td>
<td>7.2%</td>
<td>7.5%</td>
<td>5.9%</td>
<td>6.6%</td>
</tr>
<tr>
<td>Return on Average Equity</td>
<td>28.5%</td>
<td>9.1%</td>
<td>9.4%</td>
<td>6.1%</td>
<td>7.8%</td>
</tr>
<tr>
<td>Debt to Debt Plus Equity</td>
<td>277%</td>
<td>133%</td>
<td>106%</td>
<td>133%</td>
<td>109%</td>
</tr>
<tr>
<td>EBITDA to Interest Cover (times)</td>
<td>74.4%</td>
<td>62.5%</td>
<td>59.2%</td>
<td>60.6%</td>
<td>57.0%</td>
</tr>
<tr>
<td>Return on Capital Invested</td>
<td>5.2x</td>
<td>3.3x</td>
<td>3.2x</td>
<td>2.9x</td>
<td>3.1x</td>
</tr>
</tbody>
</table>
Our Energy Solutions team also continued to realise sound commercial returns as a provider of electrical and data infrastructure and associated services. The team has developed a reputation in the utilities sector as a forward thinking business partner with their innovative and cost effective solutions – positioning them well in the rapidly evolving utilities market.

Our revenue has remained stable - the increases in revenue (largely due to an increase in the regulated retail price for electricity) were countered by a decline in customer contributions towards the electricity distribution network.

Our efficiency and effectiveness efforts have continued to deliver results, supporting a decline in our operating expenses.

Our profit result this year has been boosted by a favourable $84 million movement in the market value of the hedges entered into to manage the future risk in our electricity trading activities (compared to a $123 million loss the previous year) and by interest, depreciation and operational savings.

The value of Ergon Energy’s total asset was maintained. The value of property, plant and equipment was again devalued following the annual review of the network’s net present value.

The above-budget profit result saw the return on average assets increase to 11.3%, and the return on average equity increase to 26.4% – both above the targets set in our Statement of Corporate Intent (p7).

In line with the Queensland Government’s Fiscal Strategy and Debt Reduction Action Plan, Ergon Energy has moved towards more commercial gearing levels with the $1,992 dividend declared lifting our liabilities.

Note: Due to changes to our accounting policy for regulated revenue, all years prior to 2014-15 have been restated to ensure consistency.
Our corporate governance statement

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/who-we-are/our-company/corporate-governance

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. p3

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 under its Distribution Authority and the Electricity Act 1994 (Qld).

Board Charters

The responsibilities of the Ergon Energy Corporation Limited Board are outlined in the Board Charter (summarised p46). 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 Powers. 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.

Board committees

To assist with the discharge of directors’ duties, the Board has four committees to consider, and respond to specific governance and organisational performance matters or risks, many of which are linked intrinsically to regional Queensland sustainability challenges (such as electricity affordability, future infrastructure investment, community and other people-related issues).

The membership of each committee and the committee charters, along with their key focus areas during 2014-15, are summarised in the table on page 46. The Directors’ Report, online in the Annual Financial Statements, provides the committee meeting attendance. The subsidiary company boards also utilise sub-committees, such as the Ergon Energy Queensland Pty Ltd Board Risk Management Committee.

Executive Leadership Team

The Executive Leadership Team comprises the Chief Executive and seven other executives, including the Chief Executive of SPARQ Solutions. The team is based in two locations, Townsville and Brisbane.

With Gordon Taylor and Mal Leech leaving the business late in the financial year, Graeme Finlayson is currently acting in the role of Executive Strategy Revenue and Transformation, and Belinda Watton and Bev Rose have taken acting responsibility for the different accountabilities within the role of Executive General Manager, People and Shared Services. Given decisions pending by the shareholding Ministers’ around the details of the government’s proposal to merge Queensland’s network service providers, the permanent appointment of these positions will not be made at this stage.

Mike Hutchens was appointed to the position of Chief Financial Officer in July 2015, after acting in the role since April 2014.

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 Leadership Team.

Investment review functions

For the development and prioritisation of investment programs, the Board and the Executive Leadership Team are supported by various internal approval processes, including the Investment Review Committee (IRC) and the Network Investment Review Committee (NIRC), and a range of assessment tools.

The IRC is Ergon Energy’s peak investment governance committee providing strategic oversight and stewardship of Ergon Energy’s entire capital and operating investment portfolio. The committee ensures the appropriate balance, within the overall enterprise investment portfolio, between network asset-related investments, customer service improvement, product and asset research and development and business transformation.

The Board delegates part of its oversight responsibilities to the NIRC, as its sub-committee, for advice on issues identified through engineering due diligence and technical review associated with our network asset-related capital investment, and for the prioritisation of this investment. The NIRC scrutinises all elements of our network investment to ensure individual components adequately address risk management, purpose and performance outcomes, sustainability, and efficiency.

During the year, our governance processes were central to prioritising our investment programs within our Regulatory Proposal. p39
Our governance framework

Queensland Government Shareholding Ministers
Hon. Curtis Pitt, Treasurer, Minister for Employment and Industrial Relations and Minister for Aboriginal and Torres Strait Islander Partnerships
Hon. Mark Bailey, Minister for Main Roads, Road Safety and Ports and Minister for Energy and Water Supply

Boards of the Ergon Energy Group
Ergon Energy Corporation Limited
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
- Strategy, Revenue & Transformation
- People & Shared Services
- Customer Service (Distribution)
- Network Optimisation (incl Nexium Telecommunications)
- Retail
- Finance & Corporate Services

SPARQ Solutions (Office of the Chief Information Officer)
Internal Audit, Business Risk & Compliance
The Board of Directors

GARY HUMPHRYS
CA GAICD
CHAIRMAN
Independent Non-Executive Director
First appointed October 2009 Term in office 6 years
Gary Humphrys brings more than 35 years of experience in the energy and mining industries to Ergon Energy’s Board. A chartered accountant, he has held senior executive roles in both the private and public sectors across a range of disciplines, including finance and accounting, treasury, taxation, information and technology, procurement, risk management and audit. In recent years, Gary held board and related committee roles in the water, energy, mining, health and superannuation industries. He is currently a director of St Vincent’s Health Australia Ltd, Electricity Supply Industry Superannuation (Gld) Ltd and HESTA Superannuation.

JOHN GARDNER
FAIM FAICD Grad Dip (Mgmt)
Harvard
DEPUTY CHAIRMAN
Independent Non-Executive Director
First appointed December 2012 Term in office 2 years
John has an extensive background in both private and public sectors, covering banking, finance, governance, technology, utilities, business services and economic development, in the Northern Territory, Queensland and Victoria. As well as executive and senior technical appointments in Australia, he has completed overseas assignments in Canada and the USA, where he studied at Harvard University. John is currently involved in corporate governance and public sector consulting. His previous state and federal board and committee roles have been in treasury, superannuation, utility services, gas supply and research related areas. He is a founding Life Member and former non-executive Director of the Charles Darwin University Foundation.

JOHN LOVE
GAICD
INDEPENDENT NON-EXECUTIVE DIRECTOR
First appointed December 2012 Term in office 2 years
John Love is a licensed electrical contractor with extensive experience in 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. He sits on the Queensland Government’s Electrical License Committee. He is also involved, as business advisor to Autres Pty Ltd, in pharmaceutical development and is active in humanitarian organisations locally and overseas.

GARY STANFORD
MApFin DipAppFin BCom GAICD
INDEPENDENT NON-EXECUTIVE DIRECTOR
First appointed in December 2014 Term in office 10 months
Gary Stanford has had a wealth of management experience in the energy industry gained through numerous senior and executive level roles in Boral Ltd, Origin Energy Ltd and, more recently, Alinta Energy Sales Pty Ltd. Over his career he has held responsibilities in wholesale energy trading, gas and electricity contracts, retail pricing, risk management, acquisitions, government relations and stakeholder communications. He has also previously been on the board of a number of energy companies, including Retail Energy Market Company Pty Ltd (REMco) and South East Australia Gas Pty Ltd (Seagas).
Focus of the Board and the Board Committees

### Establishment and People Committee

**Current members:**
- J Gardner
- G Humphrys
- J Love
- A Dolphin
- G Stanford

**Members during year:**
- M Hall-Brown
- J Gardner
- J Love
- R McNally
- H Stanton

**Focus of the Board and to her roles on various Board committees.**

- **Malcolm Hall-Brown** brought his role as Chairman of Ergon Energy’s Board and to her role as Chair of the Establishment and People Committee. He was first appointed in October 2011 and resigned in September 2014.

- **Rowena McNally**, as an experienced company director, brought her background in litigation, intellectual property and corporate law to the considerations of both the Board and to her roles on various Board committees. Rowena was first appointed in November 2011 and resigned in September 2014.

- **Helen Stanton** brought her expertise in strategy, risk and governance, gained through a career in the mining industry, and more recently as a consultant, to Ergon Energy’s Board and to her role as Chair of the Operational Risk Committee. Helen was first appointed July 2005 and resigned in September 2014.

### Operational Risk Committee

**Current members:**
- J Love
- R McNally
- J Gardner

**Members during year:**
- A Dolphin
- M Hall-Brown
- J Love
- R McNally

**Focus of the Board and to her roles on various Board committees.**

- **Malcolm Hall-Brown** brought his role as Chairman of Ergon Energy’s Board and to her role as Chair of the Establishment and People Committee. He was first appointed in October 2011 and resigned in September 2014.

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### Regulatory Committee

**Current members:**
- J Gardner
- G Humphrys
- G Stanford

**Members during year:**
- M Hall-Brown
- G Humphrys
- H Stanton

**Focus of the Board and to her roles on various Board committees.**

- **Malcolm Hall-Brown** brought his role as Chairman of Ergon Energy’s Board and to her role as Chair of the Establishment and People Committee. He was first appointed in October 2011 and resigned in September 2014.

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### SUMMARY OF CHARTER

**Ergon Energy Corporation Limited Board**

**Current members:**
- J Gardner
- G Humphrys
- J Love
- A Dolphin
- G Stanford

**Members during year:**
- M Hall-Brown
- G Humphrys
- J Gardner

**Focus of the Board and to her roles on various Board committees.**

- **Malcolm Hall-Brown** brought his role as Chairman of Ergon Energy’s Board and to her role as Chair of the Establishment and People Committee. He was first appointed in October 2011 and resigned in September 2014.

- **Rowena McNally**, as an experienced company director, brought her background in litigation, intellectual property and corporate law to the considerations of both the Board and to her roles on various Board committees. Rowena was first appointed in November 2011 and resigned in September 2014.

- **Helen Stanton** brought her expertise in strategy, risk and governance, gained through a career in the mining industry, and more recently as a consultant, to Ergon Energy’s Board and to her role as Chair of the Operational Risk Committee. Helen was first appointed July 2005 and resigned in September 2014.

### Audit and Financial Risk Committee

**Current members:**
- J Gardner
- G Humphrys
- G Stanford

**Members during year:**
- M Hall-Brown
- A Dolphin
- J Gardner

**Focus of the Board and to her roles on various Board committees.**

- **Malcolm Hall-Brown** brought his role as Chairman of Ergon Energy’s Board and to her role as Chair of the Establishment and People Committee. He was first appointed in October 2011 and resigned in September 2014.

- **Rowena McNally**, as an experienced company director, brought her background in litigation, intellectual property and corporate law to the considerations of both the Board and to her roles on various Board committees. Rowena was first appointed in November 2011 and resigned in September 2014.

- **Helen Stanton** brought her expertise in strategy, risk and governance, gained through a career in the mining industry, and more recently as a consultant, to Ergon Energy’s Board and to her role as Chair of the Operational Risk Committee. Helen was first appointed July 2005 and resigned in September 2014.

### CHANGES TO THE BOARD DURING 2014-15

Gary Humphrys, previously a director on the Board, was appointed as the Chairman of the Board in April 2015.

The following directors resigned during the 2014-15 reporting period. Their full profiles are provided in the Directors’ Report available online.

- **R McNally**, as an experienced company director, brought her background in litigation, intellectual property and corporate law to the considerations of both the Board and to her roles on various Board committees. Rowena was first appointed in November 2011 and resigned in September 2014.
Our Executive Leadership Team

Ian McLeod is responsible for the business’ 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.

David Edmunds is responsible for the safe, efficient and effective utilisation of Ergon Energy’s electricity distribution and associated communications networks and, where necessary, the delivery of new major infrastructure projects or other non-traditional solutions. He brings experience in both the corporate and public sector to the executive, including executive management, engineering, operations, and contracting, as well as proven leadership capabilities. David has held senior roles in the electricity and gas industries of New Zealand, as well as in local government.

Peter Billing is responsible for the customer service elements of our distribution business and for the safe, efficient operation and maintenance of the network. He is also responsible for supply to our isolated communities, and the commercial delivery of modular infrastructure and generation solutions. He brings a wealth of industry, leadership and change management experience to the executive, from trade roles to management. Peter was directly involved in the deregulation of the electricity industry in South Australia in the 1990s. He is on the board of Energy Skills Queensland.

Roslyn Baker is responsible for Ergon Energy’s franchise retail business and oversees retail strategy, energy procurement, retail corporate services, retail operations and customer service. She has 18 years’ experience in managing transformational change across a diverse range of industries. During her career, Roslyn has held senior management and board positions within the education, dairy and petroleum sectors. She currently holds a position on the Committee for Regional Development Australia (Townsville and North West Queensland) and is Chair of the Risk Management Committee for the Board of Ergon Energy Queensland Pty Ltd.
This role is responsible for developing corporate strategy, regulatory affairs and our organisational transformation initiatives. Graeme’s focus prior to and since moving to act in this role in June 2015 has been to drive the development of our expenditure proposals for consideration by the AER, to secure the organisation’s revenue for 2015-20. Previously Graeme was Ergon Energy’s General Counsel and Company Secretary. Prior to joining the organisation in 2008, he held directorships, executive positions, and senior in-house commercial legal roles in a range of private and public organisations, including Queensland Rail and the Gold Coast City Council.

Mike Hutchens is responsible for managing the financial and commercial aspects of the business, including strategic procurements, as well as the business’ legal counsel, and risk and assurance program. Mike has significant accomplishments in financial and general management and has worked for a diverse range of businesses, including publicly listed multinational corporations, predominantly in the mining industry, as well as large professional services firms.

This role is responsible for ‘people-relations’ and the shared services functions of the organisation. Since the departure of Mal Leech in June 2015, the responsibilities of this role have been shared in an acting capacity by Belinda Watton and Bev Rose.

Belinda brings to her responsibilities (for human resources, customer and external stakeholder engagement and employee communications) her experience from executive roles in various public, private and not for profit organisations. Belinda’s expertise in human resource solutions includes organisational, leadership and talent development, developing and leading high performing teams, as well as industrial relations and remuneration management. She also has expertise in corporate communications and stakeholder relations.

Bev Rose is responsible for the management and delivery of Ergon Energy’s shared services functions, incorporating health, safety and environment, property services including facilities management and property construction, and administration services. Bev has gained her extensive experience and management expertise in senior roles throughout her career in finance, corporate and shared services in a diverse range of businesses in the corporate and public sector.

Peter Effeneey is the Chief Executive Officer of SPARQ Solutions Pty Ltd, Ergon Energy’s Information and Communications Technology (ICT) joint venture with Energex. As the Chief Information Officer, his responsibility is to ensure Ergon Energy’s ICT strategy, architecture and investment and SPARQ Solutions’ ICT services are aligned with the business’ 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.
Principle 2 – Structure the Board to add value

Independence of directors
Ergon Energy Corporation Limited’s Board consists of four non-executive directors. p45
All 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 Government 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.

Assessing Board performance
Ergon Energy’s governance framework requires that the Board reviews its own performance, and that of the Board committees, on a regular basis, to ensure they are working effectively. The focus of the directors has been on the success of the Board in setting the corporate direction and monitoring achievement of strategic objectives, as well as on ensuring the effectiveness of committee roles, key relationships and governance processes.

The Board has operated effectively, and managed the uncertainty associated with the change in government and considerations underway by the shareholder Ministers into their proposal to merge the Queensland Government-owned transmission and distribution companies and into the future operations of the retailer.

In light of the ongoing uncertainty, and the fact the membership of the Board was reduced as the terms of directorships expired, the Board did not undergo an external review of its performance during the year.

The effectiveness of the Board of Ergon Energy Pty Ltd, our retail business, is also being internally monitored.

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 annual review. 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 – Act ethically and responsibly
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 Boards follow normal procedures for the disclosure of directors’ standing interests and material personal interests, and how to deal with them. 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, three allegations were received, but after investigation only two were substantiated and required disciplinary action.

The Senior Internal Auditor is also the liaison officer for referring any suspicions of corrupt conduct to the Crime and Corruption Commission, 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 Corruption Conduct Policy, Employees’ Code of Conduct Policy, Employees’ Code of Conduct Standards Procedure and Reportable Conduct Guidelines support the commission’s legislative power to investigate suspicions of corrupt conduct.
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.

Principle 4 – Safeguard integrity in corporate 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 2014-15 is provided on page 46.

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.

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.

ANNUAL STRATEGIC PLANNING AND REPORTING CYCLE

- **Strategic Plan**: Articulates our stakeholders’ expectations, the challenges, and our longer-term response.
- **Corporate Plan**: Outlines our priorities and performance measures for the next five years.
- **Statement of Corporate Intent**: Our performance agreement with our shareholding Ministers. A Forecast Report is published, as a summary of the SCI, then the actual SCI is tabled in Parliament with the corresponding Annual Report.
- **Quarterly Reports**: Performance across our key result areas is reported to our shareholding Ministers.
- **Annual Report**: Tabled in parliament and used to publicly communicate our performance and future challenges.
- **Network Vision**: A public document that provides visibility of our network investment plans and network constraints.
- **Asset Management Plans**: Details our demand management program and its objectives.
- **Demand Management Plan**: Presented to the Queensland Government and published online.
- **Demand Management Outcomes Report**:
Privacy and right to information

Ergon Energy has an obligation to protect the personal information of individuals collected and used during its operations, in accordance with the Privacy Act 1988 (Cth). To prevent misuse, interference, loss, unauthorised access, modification or disclosure, strict data security systems and procedures are in place around the collection, access, use, disclosure and storage of personal information.

Ergon Energy manages applications for access to documents in accordance with the Right to Information Act 2009 (Qld) and the Information Privacy Act 2009 (Qld). Also, in accordance with the Right to Information Act 2009 (Qld), Ergon Energy publishes on its website disclosure log access decisions, which are considered to be of significant interest to the wider public and do not contain personal information. The process for individuals to apply for information and summary information of documents released is found at www.ergon.com.au/about-us/contact-us/right-to-information

Principle 6 – Respect the rights of security holders

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

Government shareholder communications

The Chairman has regular meetings with shareholder 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 shareholder expectations.

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’ government and regulatory relationships, and to responding to reporting requests.

The content of Ergon Energy’s annual reporting suite is one of many reports 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 shareholder Ministers provide that they may, in the public interest, notify Ergon Energy of a public sector policy that is to apply to the corporation. In addition, under that Act the shareholder Ministers may request information, and issue directions including directions to amend the SCI and directions to pay a specified dividend. Directions can also be given under the Electricity Act 1994 (Qld).

In September 2014, we received a direction under the Electricity Act 1994 (Qld) to provide information to help investigate alternative ways of funding the future expansion of our distribution infrastructure. In November 2014, we received a direction to provide information to help investigate additional alternative funding options.

Directions dated 30 April 2015 were also given pursuant to the Electricity Act 1994 (Qld) for Ergon Energy to provide all necessary information and assistance in relation to the Electricity Mergers Working Group’s program of work in relation to the potential consolidation of electricity network businesses.

In June 2015, a direction was issued pursuant to the Government Owned Corporations Act 1993 (Qld) (section 131) for Ergon Energy to pay a dividend comprising 100% of profits for 2014-15, and an additional amount to increase Ergon Energy’s net debt to regulated asset base ratio to not more than 70%. This arrangement will be closely monitored to ensure our ongoing financial position supports our ability to service borrowings/pay creditors.

The earlier directions relevant to the financial results of the corporation in 2014-15 include:

- a direction given in May 2013, under the Electricity Act 1994 (Qld), to implement new wholesale electricity supply arrangements for Ergon Energy’s retail electricity load.
- a direction, given in February 2012, not to seek revenue associated with the expected reduction in capital expenditure, arising from the implementation of the recommendations of the Electricity Network Capital Review, by excluding it from our annual network pricing proposal. Over the period up to the end of 2014-15, this revenue would have been approximately $99 million.

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 shareholder Ministers, customers, the community and other 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 perform a role in assisting the directors in fulfilling their oversight responsibilities in relation to business risks.

To give effect to its risk management and compliance commitments, Ergon Energy has established policies on these and other areas (eg. 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 3806.2:2006.

Ergon Energy also has a Standard for Corporate Risk Management, Corporate Risk Management Guidelines 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 tables, used in conjunction, provide uniform risk management criteria to support consistent risk-based assessments. The standard, guidelines and tables are reviewed annually to ensure they remain appropriate to the needs of the business.
Risk management activities and compliance

During 2014-15, the following risk management and compliance activities were undertaken by Ergon Energy:

- **Organisational Resilience Framework**: The company’s organisational resilience framework was reviewed and updated to reflect an increased focus on standards relating to organisational resilience and crisis management.
- **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 2014-15 Insurance Program was undertaken to ensure cost-effective coverage of the organisation’s insurable risks. As part of this work, the Board approved the purchase of a network security and privacy insurance policy to mitigate the financial consequences of ‘cyber attacks’ and other unauthorised access of Ergon Energy’s corporate Information, Communications and Technology (ICT) and operational technology networks.
- **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, broadening our understanding of the level of risk Ergon Energy is prepared to accept in pursuing its corporate objectives. Risk assurance maps were also used to show the assurance activities performed in relation to key corporate risks and also to assist with the three-year internal audit plan.

The key compliance matters for 2014-15, which are discussed elsewhere in the report, include network service standards (p16); Guaranteed Service Levels (p17); network planning (p23); safety performance (p33); renewable energy targets (p36); and environmental incidents (p38).

Further, Ergon Energy Queensland Pty Ltd complied with the risk appetite of the Board, as detailed in the energy commodity risk management policy.

**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 provide external assurance of the performance statements made in this report.

Ergon Energy’s annual accounts and financial statements are audited by the Auditor-General of Queensland.

The scope of our internal audit function covers all of Ergon Energy’s operations, either directly or through the co-sourced internal audit provider 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 major projects, process control systems, vegetation management, retail credit management, data analytics, contractor management, executive-at-risk payment process, travel group’s corporate card use, depot administrative processes, management information system, purchasing, contract tender process, consultants and professional services contractors and the single incident management framework. These reviews focused on documenting and testing key management controls.

The Group Manager Risk, Assurance and Investment 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. Executive compensation, including at-risk payments, is disclosed in the Annual Financial Statements, along with the performance payments made to other employees (Note 26).

Non-executive directors are remunerated separately from the executive. Directors’ remuneration, as a board or committee member, is set by the Queensland Government. Reimbursement is made for expenditure incurred in performing their roles as directors of the company. Non-executive directors of the company do not participate in any variable reward or at-risk plan and are not eligible for retirement or other benefits other than for statutory superannuation. Executive directors do not receive additional payment for their role as director of any of our subsidiary companies.

The Board’s Establishment and People Committee assists in developing a strategic, long-term and sustainable approach on issues relating to people working for Ergon Energy. p46

Details of remuneration to non-executive directors and executives, and at-risk payments are reported in the Annual Financial Statements (available online), consistent with the requirements of Australian Accounting Standard AASB 124.
Additional information

Entertainment and hospitality

In furthering Ergon Energy’s business interests, and working to achieve its corporate goals, from time to time entertainment and hospitality is provided to employees, clients, customers and community groups. Reasonable limits have been observed during 2014-15 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 2014-15, the following entertainment and hospitality expenses over $5,000 were:

<table>
<thead>
<tr>
<th>Event</th>
<th>Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Employee Christmas Party – Rockhampton</td>
<td>$7,784</td>
</tr>
<tr>
<td>Far North Employee Christmas Party – Cairns</td>
<td>$6,804</td>
</tr>
<tr>
<td>Brisbane Employee Christmas Party – Brisbane</td>
<td>$6,552</td>
</tr>
<tr>
<td>North Employee Christmas Party – Townsville</td>
<td>$5,292</td>
</tr>
</tbody>
</table>

Our network statistics

| Total Customers Served                           | 733,261 |
| Network Area Serviced                           | 1.7 million km² |
| Employees                                       | 4,447    |
| Power Stations (grid connected & isolated)      | 34       |
| Bulk Supply Points                              | 30       |
| Zone Substations                                | 362      |
| Major Power Transformers (33kV to 132kV)       | 610      |
| Distribution Transformers                       | 100,000  |
| Power Poles                                     | 1 million |
| Overhead Powerline                              |          |
| - Sub-transmission                              | 18,400km |
| - High Voltage Distribution                     | 118,300km|
| - Low Voltage Distribution                      | 20-25,000km|
| Underground Power Cable                         | 8,900km  |

* Estimate of length only.

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

<table>
<thead>
<tr>
<th>Reliability</th>
<th>Electricity related</th>
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<tbody>
<tr>
<td>SAIDI</td>
<td>V</td>
</tr>
<tr>
<td></td>
<td>volt: the unit of potential or electrical pressure</td>
</tr>
<tr>
<td>SAFI</td>
<td>VA</td>
</tr>
<tr>
<td></td>
<td>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</td>
</tr>
<tr>
<td>Customer Minutes</td>
<td>kWVA</td>
</tr>
<tr>
<td></td>
<td>kilovolt ampere: one kVA equals 1,000VA</td>
</tr>
<tr>
<td>Safety</td>
<td>MVA</td>
</tr>
<tr>
<td></td>
<td>megavolt ampere: one MVA equals 1,000kVA</td>
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<tr>
<td></td>
<td>kW</td>
</tr>
<tr>
<td></td>
<td>kilowatt: one kW equals 1,000 watts</td>
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<tr>
<td></td>
<td>MW</td>
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<tr>
<td></td>
<td>megawatt: one MW equals 1,000 kilowatts</td>
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<td>kWh</td>
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<td></td>
<td>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</td>
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<tr>
<td></td>
<td>MWh</td>
</tr>
<tr>
<td></td>
<td>megawatt hour: one MWh equals 1,000 kilowatt hours</td>
</tr>
<tr>
<td></td>
<td>GWh</td>
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<tr>
<td></td>
<td>gigawatt hour: one GWh equals 1,000 megawatt hours or one million kilowatt hours</td>
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<tr>
<td></td>
<td>HV</td>
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<td></td>
<td>high voltage: alternating current above 1,000V</td>
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<tr>
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<td>LV</td>
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<td></td>
<td>low voltage: alternating current above 32V and not exceeding 1,000V</td>
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<tr>
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<td>GJ</td>
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<tr>
<td></td>
<td>gigajoule: a measure of energy, one million joules</td>
</tr>
</tbody>
</table>
Key service centres

Cairns
109 Lake Street
CAIRNS QLD 4870

Townsville (Registered Office)
420 Flinders 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 Ann Street
FORTITUDE VALLEY QLD 4006

Annual Stakeholder Report 2014-15

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

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

ergon.com.au