

FORECAST REPORT

Released 29 July 2011

INTRODUCTION

The 2010/11 summer storm season saw record rains and flooding throughout Queensland and severe tropical cyclones from Central to North Queensland. Our network was resilient but Category 5 severe tropical Cyclone Yasi caused significant network damage and left over 220,000 customers without supply. While we responded rapidly and efficiently to restore supply to our customers, the legacy of the storm season will continue to impact on our communities and our ability to achieve works program and service targets through the coming year.

The 2011/12 year also brings with it a new set of challenges. New legislation such as the National Energy Customer Framework and the new harmonised Occupational Health and Safety legislation will see significant changes. We will keep listening to our customers, delivering greater value through infrastructure to support the growing Queensland mining and gas industry. We will also continue to improve network efficiency through our work in the areas of energy forecasting, conservation and demand management. In accordance with the direction received from shareholding Ministers under section 115 and of the *Government Owned Corporations Act 1993, (the GOC Act)*, Ergon Energy will not make pass through application to the Australian Energy Regulator in respect of the cost incurred in relation to natural disasters in the 2010/11 year including Cyclone Yasi.

On 19 May 2011 the Australian Competition Tribunal, in response to an application made by Ergon Energy, Energex and ETSA Utilities, decided that the level of regulated revenue should be higher as a result of the value for gamma of 0.25 being applied to the current distribution determination period. However, in accordance with the direction received from shareholding Ministers under section 108(4) of the *GOC Act*, Ergon Energy will not seek to recover this additional revenue and shareholding Ministers have indicated that they accept the lower rate of return in 2011/12 as a result of the direction due to the benefits that will flow to electricity customers.

2011/12 FORECAST		EXPLANATION
Earnings Before Interest and Tax (EBIT), consolidated*	\$754.7million	The forecast EBIT for 2011/12 reflects the 2010-2015 Distribution Determination from the AER, excluding the Gamma impact from the Merits Review.
Duration Index SAIDI	Urban SAIDI ≤ 148 Short Rural SAIDI ≤ 418 Long Rural SAIDI ≤ 948	The SAIDI forecasts for 2011/12 are the Minimum Service Standards for SAIDI set in the Electricity Industry Code. SAIDI is the system average interruption duration index, and indicates the total minutes, on average, that customers are without electricity.
Frequency Index SAIFI	Urban SAIFI ≤ 1.96 Short Rural SAIFI ≤ 3.9 Long Rural SAIFI ≤ 7.3	The SAIFI forecasts for 2011/12 are the Minimum Service Standards for SAIFI set in the Electricity Industry Code. SAIFI is the system average interruption frequency index and indicates the average number of occasions each customer is interrupted.

STRATEGIC PRIORITIES FOR 2011/12

Ergon Energy's long term strategic focus is to deliver value for its shareholders and customers by providing a cost efficient and dependable electricity service, while improving asset management practices and safety performance.

Over 2011/12 Ergon Energy will work to achieve further advances in network reliability, and to improve works delivery performance. The evaluation and introduction of new technologies and practices that improve network performance and reduce peak demand will continue; positioning Ergon Energy to effectively meet customer supply expectations while minimising environmental impacts into the future.

Ergon Energy will continue its ongoing dedication on the community safety program and will work closely with the community to ensure they are aware of the risks associated with electricity and help ensure they interact safely with our network assets. Internally, Ergon Energy will continue to actively promote and support a safe work environment, that delivers high quality performance and leadership at all levels within Ergon Energy to provide long term benefits for all employees.

Successfully achieving these strategic priorities is an important step towards delivering a more sustainable and affordable electricity service for regional Queensland.

MARKET ENVIRONMENT 2011/12

Customers electricity demands are expected to continue to grow over 2011/12. There has, however, been a small decline in the forecast rates of growth and Ergon Energy is analysing the root causes for the current and likely impacts on future network augmentation.

MAJOR PROJECTS FOR 2011/12

Network projects will focus on improvements across security, quality, reliability and availability of supply as set out in the Ergon Energy Network Management Plan see:

<http://www.ergon.com.au/community--and--our-network/network-management-and-projects/network-management-plan>

Ergon Energy's 2011/12 demand management program will see progress on a number of initiatives and trials that will test options for reducing or mitigating the growth of peak demand on the network. For more information on demand management see:

<http://www.ergon.com.au/energy-conservation/what-are-we-doing/demand-management/electricity-demand-trials>

* The financial information provided in this report is unaudited. This report has been prepared based on information available as at 30 May 2011 and has been prepared for general information purposes. Representations in this report are forecasts only, are subject to change and should not be relied upon.

