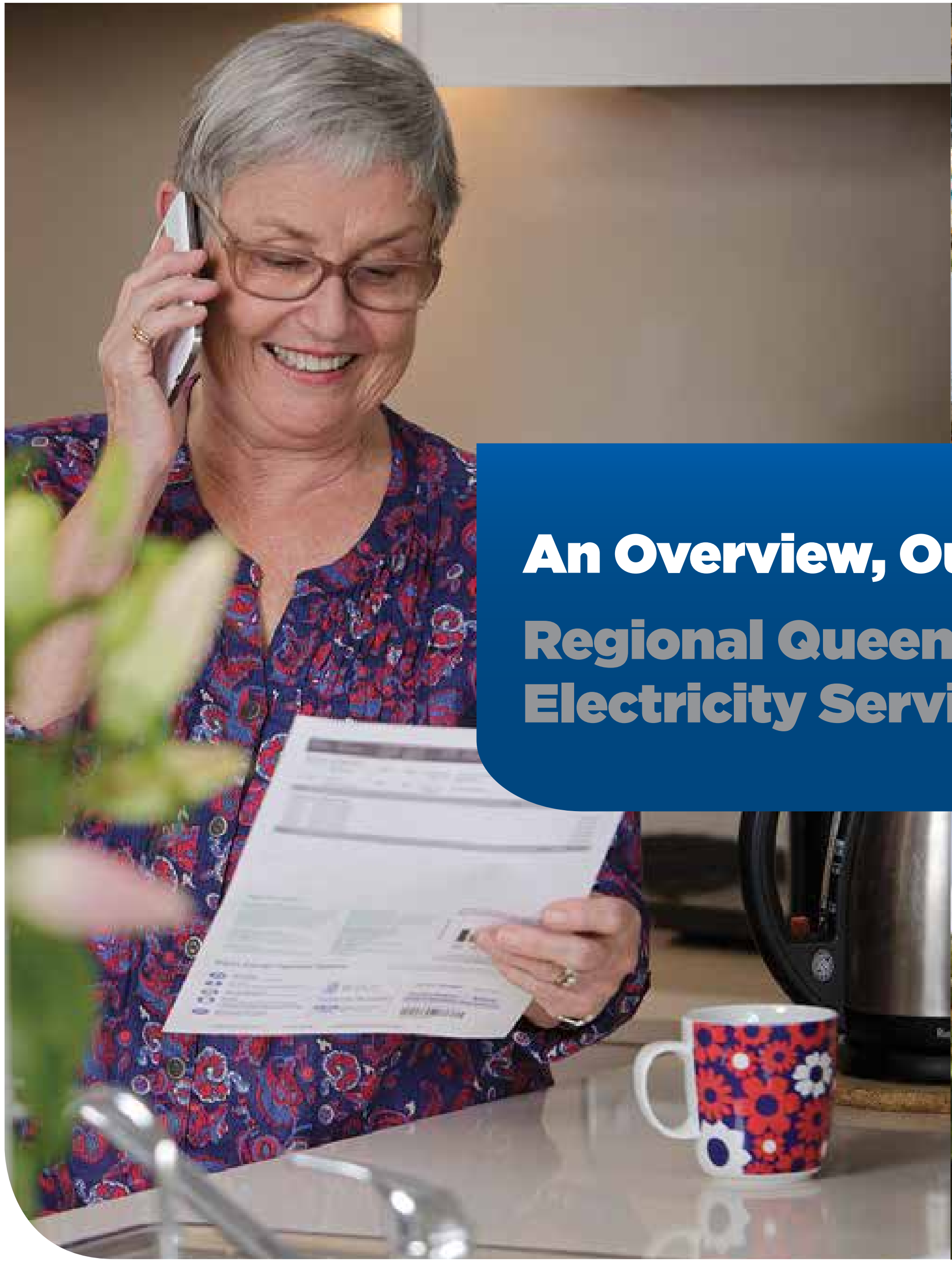


An Overview, Our Revised Plans

Regional Queensland's Future Electricity Service

To ensure we manage the distribution network efficiently, Ergon Energy is regulated under the National Electricity Rules by the Australian Energy Regulator (AER). It is the AER's role to set the amount of money we're allowed to collect for the use of our electricity network. They do this through a revenue cap. These network charges make up approximately half of a typical customer's retail electricity bill.

To assist the AER in determining our revenue allowance for 2015 to 2020, we provided our future investment plans as a Regulatory Proposal in October 2014. Following an assessment of our plans the AER released a Preliminary Determination at the end of April 2015, with the outcome now being passed on through prices.

We are required to respond to the Preliminary Determination, to advise the AER if any of their decisions were incorrect, and make revisions to our Regulatory Proposal for consideration. In October this year, following an assessment of this information, the AER will make a final determination of our overall revenue allowance. What we charge for the use of the network will then be updated accordingly for the period from 2016 to 2020.

We have engaged with our customers to help inform the development of our proposal and are confident our revised plans, again with the AER's support, will enable us to deliver the best outcome for regional Queensland into the future.

"Compared to what we spent during the last five years, we're effectively cutting our overall expenditure, for the next five years, by a billion dollars."

Thank you again for your time in considering Ergon Energy's future investment plans.

In October 2014, Ergon Energy put to the Australian Energy Regulator (AER) an investment proposal for 2015-20 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 (connecting solar and other technologies), all for the best possible price.

Eight months on, we are now in the final stages of our revenue determination process. We're putting forward what is largely an updated version of our original proposal for the AER's consideration as they move to finalise their determination on our overall revenue allowance for the next five years.

Our revised proposal means more savings for customers

We have used stakeholder feedback and the AER's Preliminary Determination to recheck the key elements of our proposal. We have also reviewed our external operating environment, as well as a range of other factors, for any material changes since we lodged our original proposal, including the financial markets.

This review process has seen us continue to challenge our thinking and explore opportunities to improve the delivery of our service commitments. It has seen us adjust our expenditure forecasts, where appropriate, and has increased our confidence in our ability to realise the efficiencies already built into our proposal.

Compared to what we spent during the last five years, we're effectively cutting our overall expenditure, for the next five years, by a billion dollars. This is after we already achieved a $1.7 billion reduction against the current period's AER allowances, and achieved 135MVA in demand management reductions.

Improvements in the cost of capital, since October last year, have also been important in resetting our revenue requirements. The lowering of out-turn interest rates (compared to what we previously assumed), in particular, has allowed us to further reduce what we are now proposing to charge for the use of the network.

We have been able to keep our annual revenue requirement in our plans lower than what we charged customers in 2014-15 right out until 2020. This is the part of the bill we are responsible for as a distributor.

As I have said before, we have done a lot already to achieve this outcome. As the growth in demand on the network experienced in earlier years fell away, we took prudent steps to reduce our capital investment program and focus on our efficiency and effectiveness as an organisation.

However, the AER want us to cut our costs further.

We're asking the Regulator to reconsider their position

In its Preliminary Determination the AER did not accept the revenue requirement we put forward. Instead, they determined a total revenue requirement of $6.0 billion, a reduction of 26.9% on the $8.1 billion we proposed last October.

The most significant reduction came from their position on the cost of capital. We have updated and lowered our proposal to reflect current financing conditions. However, we have not made the equivalent changes to the rate of return as the AER made in April 2015. Like most other network businesses across Australia, and as indicated in our 2014 proposal, we believe the AER has set these parameters too low and should reconsider their position.

In addition, the AER's Preliminary Determination reduced our allowed expenditure a further 26%, on top of the cuts we'd already made to our forward expenditure program. They also ruled that this should come into effect immediately, from July 2015, without a period of transition.

The allowance does not allow us to recover the cost of meeting our service commitments, and statutory safety and reliability standards. To meet it would require detrimental changes to the way we do business, potentially risking our ability to meet customer expectations, or burdening customers in a future period with 'catch up' costs.

We do not concede that our operating costs can be reduced, on top of the forecast reductions we have already built in, by the additional 10.5% or $190 million the AER have stated. In the capital investment area we again do not agree with the AER. While the AER have written to us accepting that they made errors in the amount of reductions made, we still believe the level of cuts that remains creates unnecessary risk.

We strongly believe our submission is prudent and efficient, and fully justified. I must also stress we know we need to continue to adapt and respond. However, I believe this can be best achieved through the efficiency and performance regulatory incentive framework in place, rather than through a revenue allowance as this creates additional risk for our customers and our business.

At this point, I would like to once again thank our stakeholders who have engaged with us as we have moved through the revenue determination process. To us it is about getting the balance right, and we can only do that by understanding what the community expects from us today and into the future.

We will now be engaging with the regulator, as they make their final determination, to do all that we can to gain their support for our proposal, so that we can continue to deliver for regional Queensland, and put downward pressure on prices for our customers.

In the meantime, we continue to stand by our proposal as being in the best long term interests of our customers, striking the right balance between service, safety, reliability and costs.

Ian McLeod

Chief Executive

Our service commitments to regional Queensland

We are seeking the funds required to deliver the service commitments we refreshed in consultation with our customers in 2014. They have continued to inform our investment plans, as we have revised our Regulatory Proposal for the AER's approval.

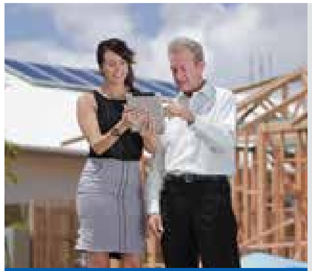
PEACE OF MIND

1. **Our goal is for our safety performance to stand with the best in our industry... to be Always Safe.**
2. **We'll maintain recent overall improvements in power supply reliability... and continue to improve the experience of customers who are suffering outages well outside our standards.**

   Over the last five years the performance of the network has improved significantly – the average frequency of outages has been reduced by 34% and the duration by 41%.

   Our commitment means our customers living in our urban centres will experience on average less than two outages per year, with an average time without supply of 2.5 hours per year.

   For the majority of our customers, who live throughout rural Queensland, we'll aim to keep power outages on average down to four per year, and the average time without supply to seven hours per year. For our more remote areas, we'll aim to keep power outages on average to 7.4 per year, with the average time without supply to 16 hours per year.
3. **We'll be there after the storm, prepared and with the resources to respond to whatever Mother Nature delivers.**
4. **We'll meet our guaranteed services commitments. If we don't, we'll pay you.**



CHOICE AND CONTROL

5. **We're looking to the future – and evolving the network to best support customer choice in economic electricity supply solutions.**

   Around 100,000 customers across our network are already choosing solar as part of their electricity supply solution, and support for this and other emerging technology is continuing. We are increasingly seeing our role as a provider of the essential infrastructure that connects buyers and sellers of energy services, and allows all participants – customers, generators, or those storing energy and managing demand – to gain value through the network.
6. **We'll make it easier for you to contact us, whether by phone, Facebook, or Twitter, and provide you with the information you need, when and how you need it.**
7. **We'll play our part in powering the economy by making it easier to connect to the network.**

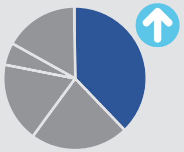
FOR THE BEST POSSIBLE PRICE

8. **After reducing charges for the use of our network in 2015-16, we're targeting to keep charges overall at 2014-15 levels for the remaining four years out to 2020.**

Where we plan to invest

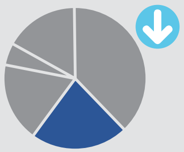
We have reviewed our five-year investment plans to ensure we are building, maintaining and operating the network, and delivering on our service commitments for the best possible price. In doing so we have been able to reduce our expenditure overall to $5.1 billion, a reduction of $1 billion on 2010-15. We are now seeking an allowance for $3.3 billion in capital investment (down 3.4%) and $1.8 billion for our day-to-day operating expenditure (down 2.3%).

OUR CAPITAL INVESTMENT...



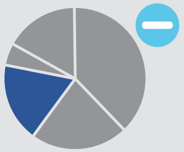
RENEWING THE NETWORK

While in our revised proposal we have brought input costs down across all of our capital expenditure forecasts, we have added additional investment to our asset refurbishment and replacement plans to address newly identified powerline clearance issues. This $36 million direct investment is critical to maintaining the safety of the network.



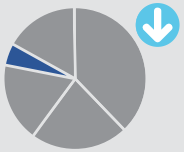
MEETING GROWTH IN DEMAND (CORPORATION INITIATED AUGMENTATION)

We have updated our demand forecasts, and reviewed our project plans. With demand overall remaining stable, much of our investment will be in the 'poles and wires' closer to homes and businesses to ensure we comply to the new security of supply requirements and continue to support the ongoing take up of solar and other technologies.



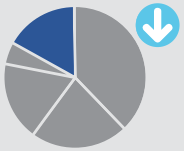
CONNECTING NEW CUSTOMERS (CUSTOMER INITIATED CAPITAL WORKS)

Our forecasts for new connections were supported by the AER. We will continue to monitor customer choices to connect and build our confidence in our forecasts.



RELIABILITY AND OTHER TARGETED IMPROVEMENTS

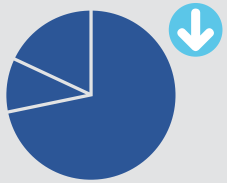
The AER supported our reduction to reliability investment plans targeting where the network is not meeting our customers' expectations. In order to respond to changing customer choices, we remain committed to our plans to invest progressively in 'smart' technologies that will allow us to better manage the network.



OTHER NON-NETWORK ASSETS

This investment is critical to maintaining our regional presence and response capability day-to-day and in times of natural disaster. We have reviewed our fleet management approach in line with new benchmarking, however, remain committed to our original investment plans for property, equipment and tools.

OUR OPERATING COSTS...



We have reviewed our operating costs, and have been able to put forward further savings in our revised proposal. These have largely come from a reduction in our future input costs, notably through the forecast external labour index.

Our overall operating expenditure forecasts, including the specific items here, remain prudent and efficient.

INSPECTIONS, MAINTENANCE AND RESPONSE

We stand by our routine asset inspection and maintenance programs. Maintaining our vegetation clearing standards around powerlines, and our outage/emergency response capability also remain a priority, both from a safety and reliability perspective.

DAILY OPERATIONS OF THE NETWORK

This expenditure forecast is for monitoring and controlling the network, and other systems, 24 hours a day, 7 days a week. Our investment in operational technologies will help us manage these costs into the future.

CUSTOMER SERVICE AND OTHER OPERATING COSTS

These range from managing service requests, from our customer contact centre to our service order dispatch teams, to other non-network activities.

In our revised proposal we have added an allowance to transition to an environment of increasing retail competition, and the associated transaction capability required. We are continuing to advocate for an operating expenditure allowance for alternative non-network solutions to better manage demand on the network, and for moving to a new cyclone insurance cover.

For the best possible price

Addressing rising electricity prices has been at the core of our decision making in developing and revising our Regulatory Proposal. As a result, we're reducing what we charge for the use of our network in 2015-16, and then stabilising charges at 2014-15 levels for the remaining four years of the regulatory control period.

What our revised position means for prices

Our price commitment is a dramatic turnaround from what was experienced from 2007 to now.

What we charge for the use of the network has dropped in 2015-16, the first year of the five year regulatory control period, in line with our requirement to pass on the AER's Preliminary Determination. After that we are targeting to stabilise what we charge at 2014-15 levels right out to 2020, as per our original commitment to deliver for the best possible price.

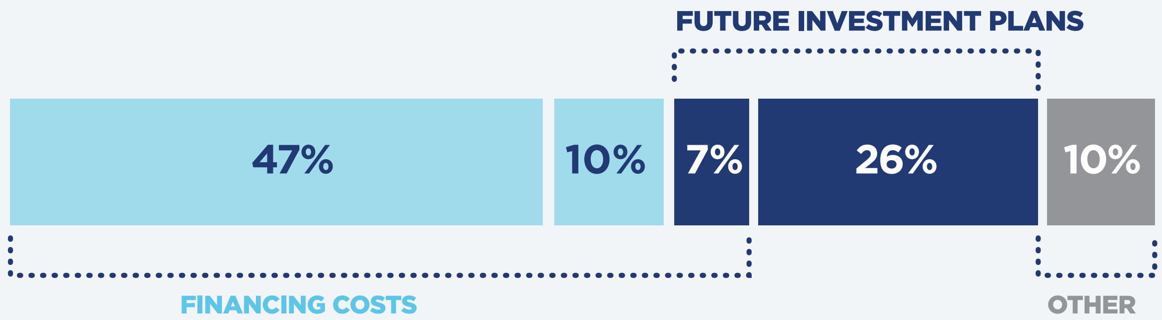
This price path has been achieved despite the challenge we have had accommodating the AER's Preliminary Determination. We remain in disagreement around a number of matters across the different components of the building blocks of our revenue requirement.

Please note: the actual price impact on individual customers will vary based on energy consumption and tariff class, as well as the approach the Queensland Competition Authority takes in setting regulated retail prices through the period, and the impact of our network tariff reforms.

Doing what we can to take the pressure off prices

Our efforts over recent years have placed us in the position where we are confident we can deliver this price outcome for our customers. Our revised Regulatory Proposal will see our customers benefiting from company-wide initiatives to reduce expenditure in the 2010-15 regulatory control period and our commitment to drive expenditure even lower in the next period.

THE BUILDING BLOCKS OF OUR REVENUE REQUIREMENT



47% Return on capital (existing assets)
10% Return of capital (depreciation/existing assets)
7% Financing new capital investment
26% Operating expenditure
10% Other costs

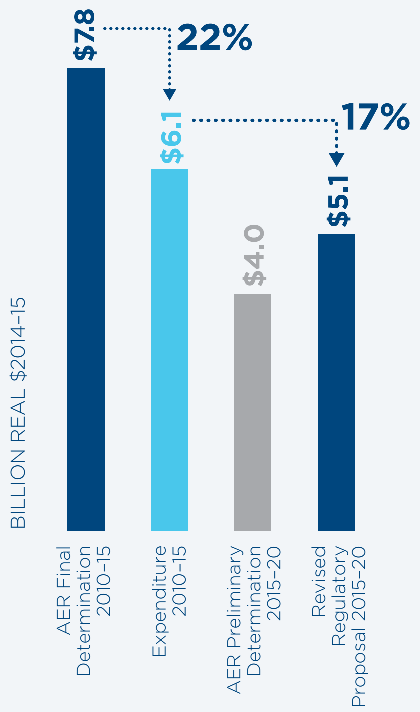
Our financing costs associated with the $10.1 billion already invested in our regulated network account for around 57% of the revenue requirement detailed in our revised proposal. Our future investment plans account for 33% (the additional financing costs associated with the new capital investment we have planned for 2015-20 and the expenditure required for operating and maintaining the network and running the business).

As a result of changes to our capital program and a company-wide efficiency drive, we were able to demonstrate in our October proposal a $1.7 billion reduction in our total expenditure for the 2010-15 period compared to the level approved by the AER. And in our revised proposal for 2015-20 we are now planning to reduce our expenditure programs by $1 billion, which is a greater reduction than what was proposed in October.

Delivering on our own proposal will be challenging. However, we believe it is overall what our customers are asking for.

To deliver we are looking to technology-based capabilities that will support greater efficiencies moving forward, like the award winning asset and vegetation monitoring capability, ROAMES.

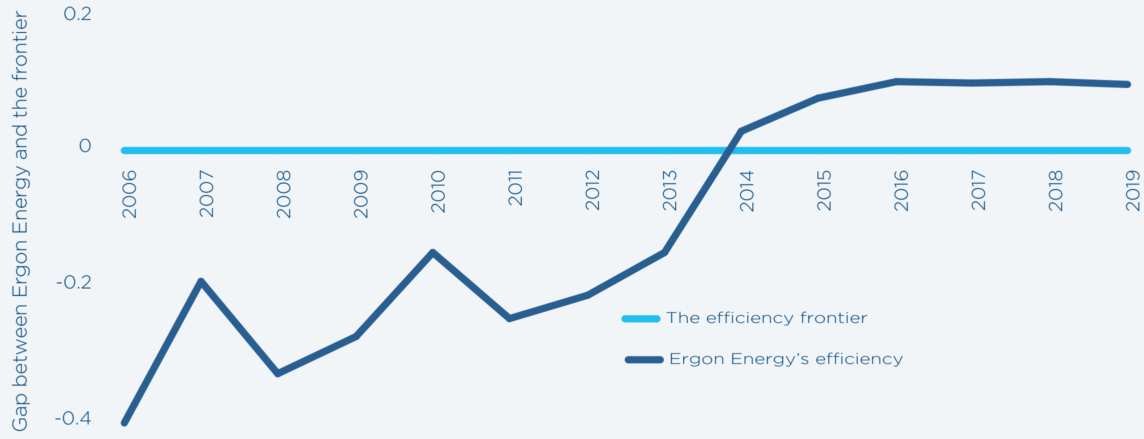
WE HAVE FURTHER REDUCED OUR TOTAL EXPENDITURE SAVING $1 BILLION



In October we announced, as a result of changes to our capital program and a company-wide efficiency drive, a 22% reduction against the level of expenditure approved by the AER for 2010-15. We are now challenging ourselves in our revised Regulatory Proposal to reduce our expenditure even further, by another 17% in 2015-20.

Forecast capital expenditure based on net Standard Control Services capital expenditure and reflects changes in the classification of services and the regulatory treatment of capital contributions.

BENCHMARKING OF LATEST REGULATORY PROPOSALS SHOWS ERGON ENERGY ABOVE THE EFFICIENCY FRONTIER



While the AER have used benchmarking to demonstrate why our expenditure should be cut, the performance metrics here places us up with the best in the industry, surpassing the efficiency frontier, when all of the relevant factors in this productivity index are taken into account. The graph clearly shows the impacts of different investment cycles on the perceived efficiency of the different distributors across Australia. This comparison uses the operational costs set out in our proposal, peer industry proposals, and the NSW distributor's final determinations.

Huegin Consulting June 2015.

To help us find the path forward, and assess our customers' willingness to see us change the way we operate we undertook supplementary customer research in June 2015, to build on our insights. It found our customers, while still seeking price relief, are concerned about Ergon Energy dramatically changing the way it does business to achieve greater price reductions than currently proposed in our part of the bill.*

We also remain concerned with the way the AER is using benchmarking to drive its forecasting, as there are serious limitations that need to be taken into account when comparing our performance against businesses who operate in a very different network footprint.

* Customers' Investment Priorities Update Report, Colmar Brunton June 2015

In addition to keeping our expenditure down, and capitalising on previous demand initiatives, we have also been restructuring the way we charge for the use of our distribution network to provide individual customers greater choice and control, and help ensure we can continue to meet everyone's needs into the future for the best possible price.

We embarked on our reform journey over two years ago very much aware of the need to deliver fairer and more equitable pricing signals. This process is ongoing, with a number of significant changes coming in with the new regulatory control period in July 2015. By looking at what drives our costs and by aligning our pricing signals, we're now able to offer real savings when the network is not being used to its full capacity.

Changed financial market conditions also support price reduction

The positive 'price' outcome illustrated here is supported by a reduction in the cost of capital, both since our revenue allowance was last determined in 2010, and in the intervening months since our October Regulatory Proposal.

Like any business we need to make a fair return on what has been invested to ensure the business is sustainable. We have determined this by referencing forward looking market rates of financing similar businesses.

This is by far the biggest component of our revenue requirement. It is also the area that the AER made the most significant revenue cuts in their Preliminary Determination.

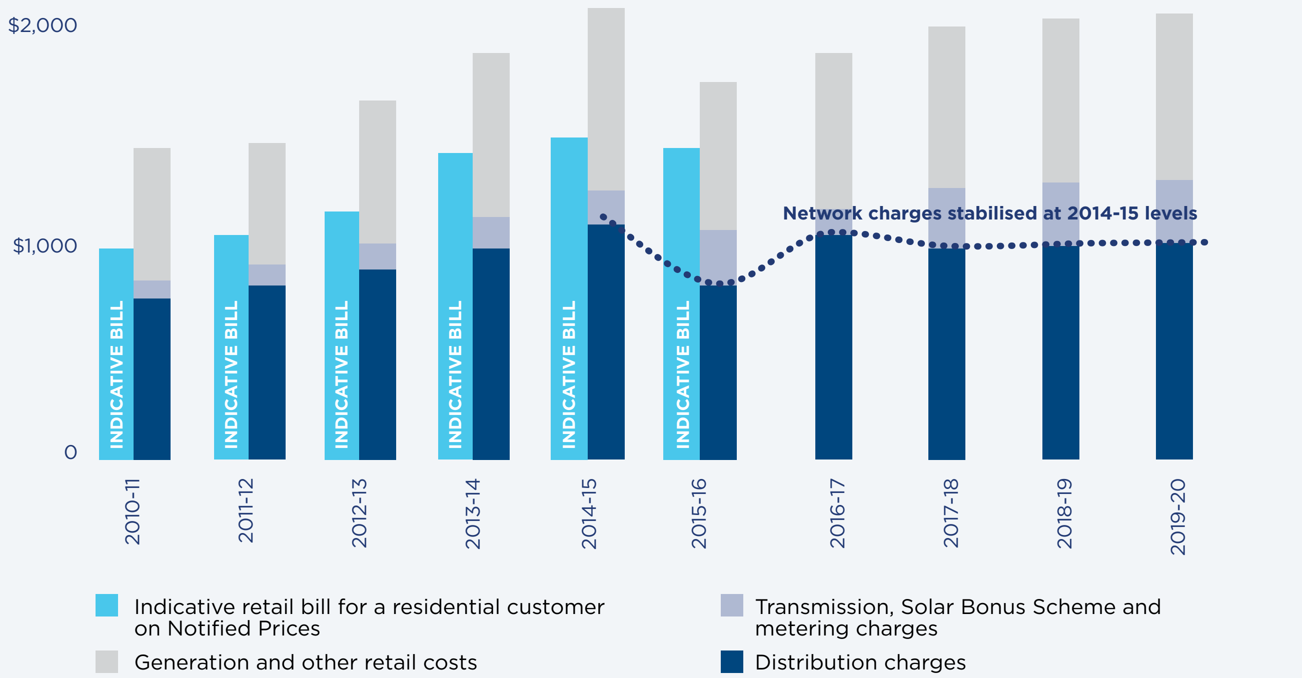
In our revised proposal we have reduced our rate of return to take into account changes to financial market conditions. We have also revised our approach to the cost of debt to reflect the AER's updated position.

However, our approach to estimating the expected return on equity continues to differ from the AER's, as we have considered additional, relevant evidence in line with recent changes to the National Electricity Rules. This has seen us put forward a reduced weighted average cost of capital, 7.41%, although not the AER's 5.85%. This rate will be updated annually through the period.

In our revised proposal we have also updated the value of our Regulated Asset Base in line with changes to capital expenditure, inflation and the rate of return. However, again, this is not up to the level determined by the AER. We also have concerns over the approach the AER adopted around depreciation and the Efficiency Benefits Sharing Scheme.

PLAYING OUR ROLE IN STABILISING PRICES AS A DISTRIBUTOR

Residential customer using 4,091kWh a year



What do our revenue forecasts mean for our customers?

This graph shows the Distribution Use of System charges passed on to a household's retailer stabilising at 2014-15 levels for the last four years of the regulatory control period out to 2020, after we pass on the AER's Preliminary Determination through our 2015-16 rates.

Each indicative price stack shows in nominal dollars the different charges that are allocated to an average electricity bill for a residential customer on a market retail contract. Note this indicative price path does not exactly replicate our revenue path due to assumptions in our pricing model for this tariff class.

Please note: the majority of residential customers in regional Queensland benefit from the Queensland Government's notified retail tariffs, which are determined by the Queensland Competition Authority. This means the actual retail bill is subsidised in line with the Queensland Government's Uniform Tariff Policy. The historical INDICATIVE BILL in the graph shows the retail bill for this customer on these notified prices. For further information on how regulated retail tariffs are determined go to www.dews.qld.gov.au/energy-water-home/electricity/prices

Other matters in our revised proposal

In revising our proposal we have considered a number of key matters including: the corrections required in the AER's Preliminary Determination; the treatment of metering; the transition of solar charges to the new arrangements; updated demand forecasts; and our street lighting strategy.

The AER has agreed to correct capital reduction

While reviewing the AER's Preliminary Determination, an error was identified in the way the AER calculated our allowed cost escalations. This error was responsible for $600 million of the overall reduction the AER made to our capital expenditure program.

In May 2015, once advised, the AER agreed to correct this error in their October 2015 substitute determination. This will see an adjustment made to our revenue allowance in the remaining years.

It should be noted that, even after the correction, which will take the AER's proposed reduction on our capital expenditure programs from 36% to 18%, we continue to have concerns that the level of expenditure being allowed for creates additional risk around our ability to meet our service commitments into the future.

We have also flagged to the AER issues associated with the revenue cap formula and quoted services formula, their treatment of gifted and contributed assets associated with large customer connections going forward, and a number of smaller additional errors on our side and theirs.

We're concerned about the burden of upfront metering charges

The way in which Ergon Energy charges customers for the cost of metering services is changing in line with the AER's decision to move to a user pays system for metering services from July 2015. The reforms are intended to 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 separate charges to cover the cost of reading, maintaining and operating each meter. The charges will depend on the type and number of meters that a customer has so this will impact customers differently. Previously, these costs were spread across all customers and wrapped up into the other charges that make up a retail bill.

We remain concerned that the AER has not adequately consulted, or considered the customer impact of these upfront capital charges and continue to see an exit fee as the most equitable for customers. However, as these changes are now being implemented, as required through the Preliminary Determination, we have largely updated our revised proposal to reflect the AER's reforms only with alternative fee structures for consideration.

Other changes to our Alternative Control Services will also see 'user pay' charges introduced for services associated with new network connections.

We're asking the AER to reconsider the impact of solar costs on prices

The Queensland Government's Solar Bonus Scheme rewards customers for feeding solar energy into the grid. Going forward, changes to the National Electricity Rules will see the significant costs associated with the Solar Bonus Scheme dealt with differently, under new jurisdictional scheme arrangements.

To deal with this change, we proposed to continue to recover these costs in a similar way to the existing regulatory arrangements where there is a lag in recovering our charges.

In 2015-16 we proposed to recover from customers the payments we actually made under the Solar Bonus Scheme in 2013-14. In 2016-17 we would recover payments we actually made in 2014-15 and so on. The AER rejected this approach in favour of a 'double up' of the old and new Solar Bonus Scheme payments. This means in 2015-16, we're charging customers for the payments we actually made under the Solar Bonus Scheme in 2013-14 and we're charging customers for the payments we expect to make in 2015-16. The AER's Preliminary Determination states these costs as being 16% of our charges in 2015-16. The AER then wants us to collect over $230 million from customers in 2016-17.

We continue to propose that the recovery of the new jurisdictional scheme amount should be delayed by two years, as shown in the price graph, to avoid a double up for customers in a single year of both the lag that already exists in the collection of feed-in-tariff costs and the new costs incurred to be collected under the jurisdictional scheme arrangements.

We think our approach delivers the best outcome for customers and stakeholders by way of immediate price relief, and provides the most stable price path going forward.

Our confidence remains in our demand forecasts

Since our October proposal we have reviewed our demand forecasts, with the benefit of the outcome of the 2014-15 summer and more up to date econometric and demographic forecasts. We have also demonstrated that our forecasts are in line with the Australian Energy Market Operator's forecasts for regional Queensland.

While Queensland's economy has declined, post the boom in resource investment, growth is still expected as LNG exports ramp up and industries outside of mining, like tourism, and the housing market improve.

System wide forecasting is important to guide the level of investment needed to avoid the potential for network limitations that could impact security of supply, and ultimately reliability performance. However, at the low growth scenario we are planning for, it should be noted that this investment only accounts for a relatively small percentage of our capital works program.

We are also increasingly using non-traditional alternatives, rather than system augmentation, to respond. At the substation level, we are now also applying a more risk-based approach than the previous deterministic network planning criteria.

The growing area for our augmentation investment is at the distribution level, the 'poles and wires'. Throughout the network we are investing to address localised demand, specifically to deal with voltage-driven constraints and conductor clearance issues. This area will be of increasing importance as the Queensland Government's policy around solar energy is rolled out.

An energy efficient future for community street lighting

Ergon Energy manages over 150,000 street lights, which are regulated as an Alternative Control Service. In our revised proposal, the charges associated with our public lighting services have been reduced in 2015-16, as per the AER's Preliminary Determination, then adjusted in 2016-17 in line with our actual costs and maintained for the final three years of the period on a price path linked to the Consumer Price Index.

It is important to note that the Queensland Government has decided that our retailer, Ergon Energy Queensland Pty Ltd can only pass on 10% of these charges for 2015-16. The difference is paid by the government's Community Service Obligation payment. A decision has not been made on the remaining years of the regulatory control period.

The AER has approved Ergon Energy's street lighting strategy, including the roll out of our LED light transition plan. This will see us invest $1 million each year to assist in better understanding the benefits of LED technology, as well as support councils who want to transition more quickly to LED technology.

Informing our plans, our engagement program

To ensure our investment proposals were aligned with the long-term interests of our customers, our Regulatory Proposal preparation included a coordinated, multi-channel customer/community engagement program.

This engagement has continued since the submission of our Regulatory Proposal, most recently allowing us to explore our customers' views on the AER's Preliminary Determination and reassess the level of support for our overall proposal and investment priorities, and to explore the path we could potentially take in realising greater efficiencies going forward.

This included consumer advocacy group and community leader engagement; with two face-to-face sessions hosted and a webinar held to help broaden our regional stakeholder engagement.

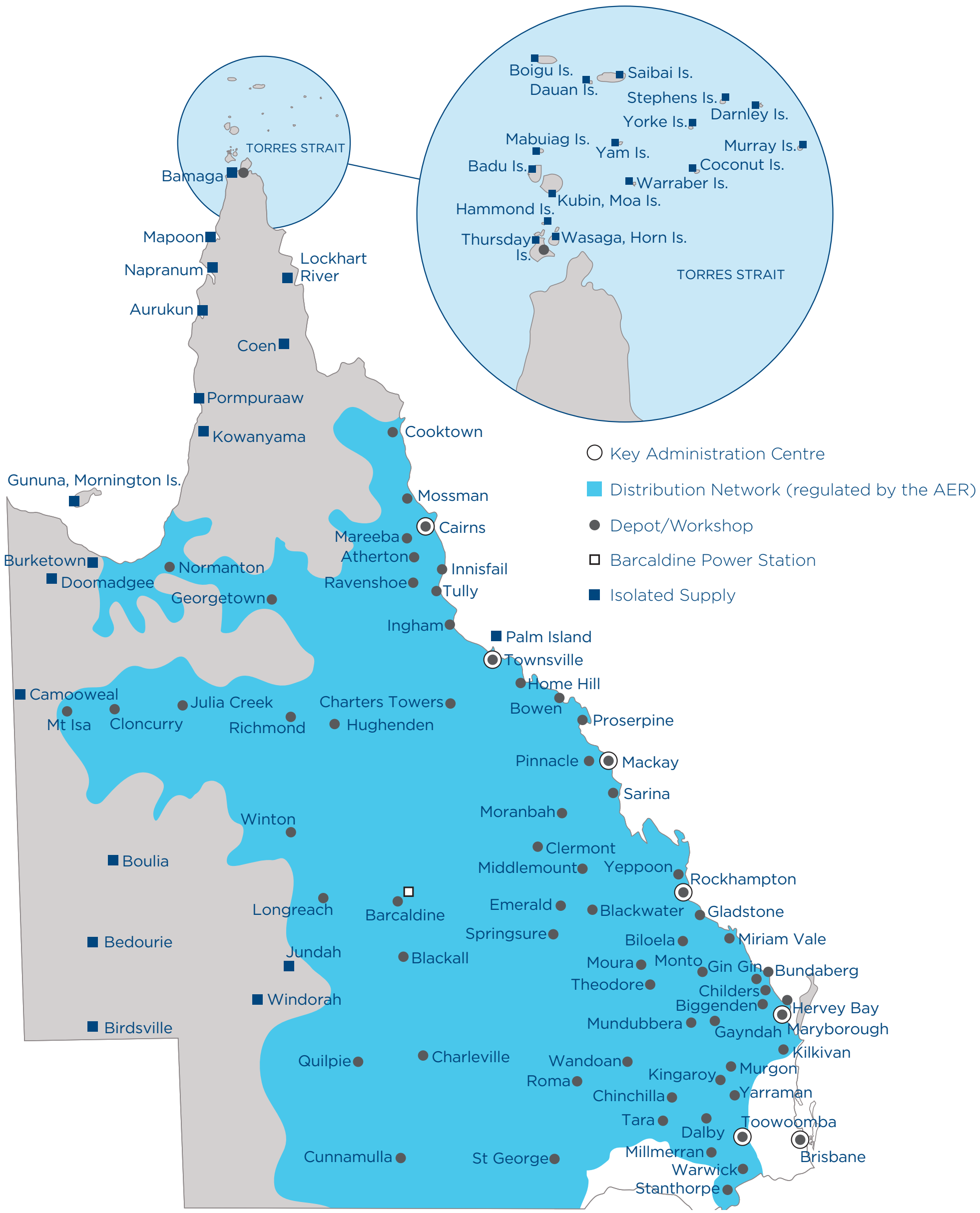
Those active in the face to face sessions continued to question how further reductions could be achieved, generally expecting greater price relief for those they represent than the revenue determination process itself has been able to deliver.

These conversations were in line with the submissions made to the AER regarding our initial proposal, with stakeholders wanting us to accept a lower rate of return than what we are proposing in order to reduce prices.

We also undertook supplementary quantitative residential customer research in June. The research found our customers more broadly remain supportive of our proposal (67% highly supportive) in line with earlier validation research. Of those that did not support it, some were seeking greater price relief, some were concerned about Ergon Energy changing the way it does business to achieve greater price reductions. These concerns were mostly around our disaster response capability, our outage and customer enquiry response times, local reliability standards, the maintenance of regional depots, and support for apprenticeship programs.

Customers' Investment Priorities Update Report, Colmar Brunton June 2015.

Our service area



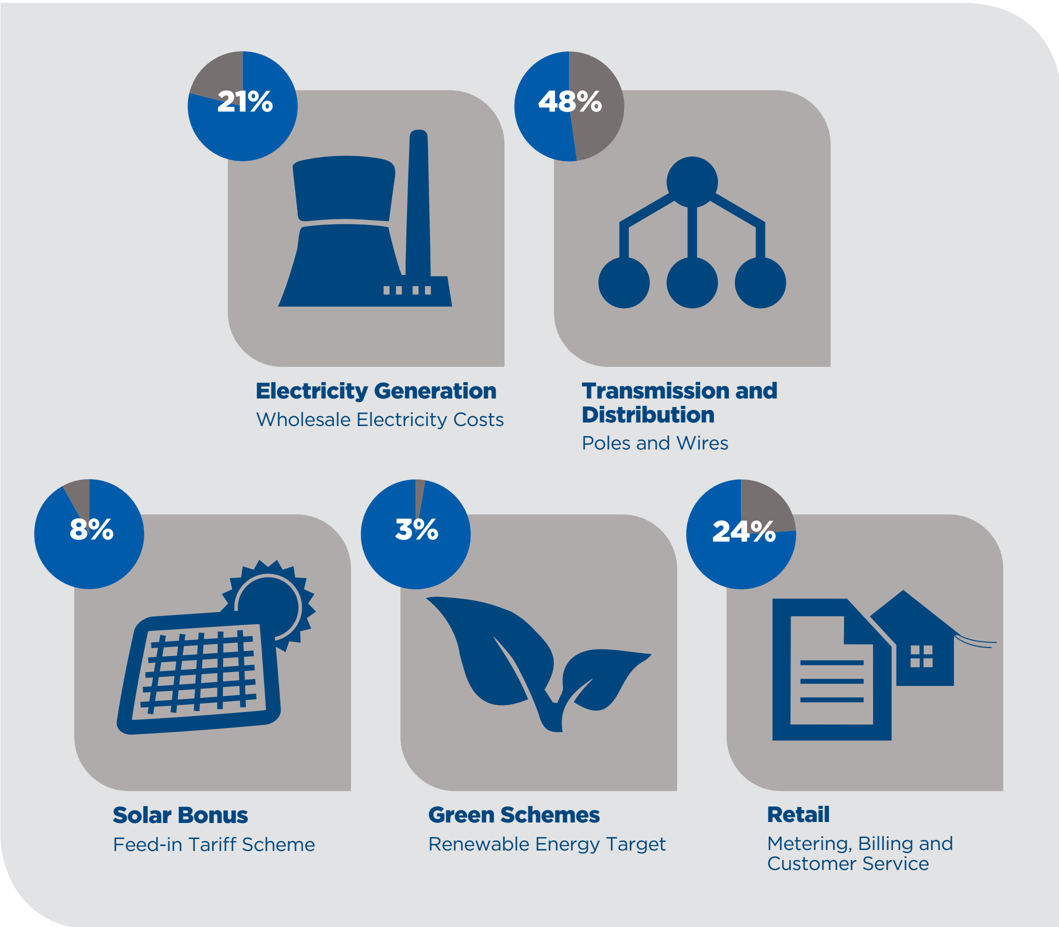
Ergon Energy supplies electricity across a service area of more than one million square kilometres – across 97% of the state of Queensland.

Our electricity distribution network – a regulated asset base valued at over $10 billion – has 371 major substations, over 160,000 kilometres of powerlines and around one million power poles.

To ensure we can deliver when we are needed, we monitor the network and respond 24 hours a day, 7 days a week. To do this we have 69 operational depots, two control centres and a central communications system centre, as well as two customer contact centre sites.

What makes up the electricity price?

The cost of transporting electricity (both distribution and transmission) makes up the largest part of a retail electricity bill. This document is referring to distribution costs. The other costs are shown here. The Queensland Government's Solar Bonus Scheme is also discussed in our revised Regulatory Proposal.



Cost components and percentages are based on Queensland Competition Authority publication of 2014-15 residential electricity prices www.dews.qld.gov.au/energy-water-home/electricity/prices/tariffs-explained

For more information on our Regulatory Proposal go to:

www.ergon.com.au/futureinvestment

We welcome your feedback on our plans through futureinvestment@ergon.com.au

You can also submit feedback to the Australian Energy Regulator.

Ergon Energy Corporation Limited
ABN 50 087 646 062

ergon.com.au