

STATEMENT OF  
CORPORATE INTENT  
2010/11

May 2010

everything in our power



NOTE: This version of the Statement of Corporate Intent for 2010/11 has been revised to remove the commercially sensitive information before tabling in Parliament.

## Table of Contents

<b>PART ONE: CORPORATE OBJECTIVES AND STRATEGIES.....</b>	<b>4</b>
1.1 CORE BUSINESS .....	4
1.2 CORPORATE OBJECTIVES.....	5
1.3 CORPORATE STRATEGIES .....	5
1.4 CORPORATE PERFORMANCE OUTCOMES .....	8
1.5 OPERATIONAL OBJECTIVES.....	10
1.6 PERFORMANCE DRIVERS.....	10
<b>PART TWO: MANDATORY MATTERS .....</b>	<b>15</b>
2.1 FINANCIAL TARGETS .....	15
2.2 NON-FINANCIAL PERFORMANCE TARGETS.....	16
2.3 ASSUMPTIONS.....	17
2.4 COMMUNITY SERVICE OBLIGATIONS (CSOs).....	18
2.5 EMPLOYMENT AND INDUSTRIAL RELATIONS PLAN.....	19
<b>PART THREE: ADDITIONAL MATTERS .....</b>	<b>20</b>
3.1 FINANCIALS.....	20
3.1.1 Financials: Ergon Energy Group .....	20
3.1.2 Financials: Selected Subsidiaries .....	24
3.1.3 Financial Contributions: Selected Subsidiaries .....	27
3.1.4 Financial Contributions: Major Business Divisions .....	27
3.2 MAIN UNDERTAKINGS AND BUSINESSES.....	27
3.3 CAPITAL EXPENDITURE PROGRAMME.....	27
3.3.1 Repairs, Maintenance and Renewals.....	27
3.3.2 Business Development .....	28
3.3.3 Assets Under Construction .....	29
3.3.4 Approved Capital Expenditure Not Yet Undertaken (Proposed Capital Expenditure).....	29
3.3.5 Proposed Capital Expenditure expected to be approved in 2010/11 .....	29
3.4 MAJOR INITIATIVES BEING UNDERTAKEN BY ERGON ENERGY.....	33
3.5 SPONSORSHIP, ADVERTISING, CORPORATE ENTERTAINMENT, DONATIONS AND OTHER ARRANGEMENTS .....	38
3.6 OTHER.....	39
3.6.1 Prudent Financial Information .....	39
3.6.2 Capital Structure .....	39
3.6.3 Weighted Average Cost of Capital (WACC).....	40
3.6.4 Dividend Policy .....	41
3.6.5 Corporate Governance .....	41
3.6.6 Risk Management .....	41
3.6.7 Compliance with Government Policies.....	42
<b>PART FOUR: PERFORMANCE AGREEMENT .....</b>	<b>43</b>
<b>PART FIVE: ATTACHMENTS .....</b>	<b>44</b>
ATTACHMENT 1 – DEFINITIONS OF FINANCIAL AND NON-FINANCIAL TARGETS.....	44
ATTACHMENT 2 –EMPLOYMENT AND INDUSTRIAL RELATIONS PLANS 2010/11 .....	45
ATTACHMENT 3 – SPONSORSHIP, ADVERTISING, CORPORATE ENTERTAINMENT, DONATIONS AND OTHER ARRANGEMENTS.....	76
ATTACHMENT 4 – WACC CALCULATIONS .....	82
ATTACHMENT 5 – CORPORATE GOVERNANCE GUIDELINES FOR GOVERNMENT OWNED CORPORATIONS .....	83
ATTACHMENT 6 – COMPLIANCE WITH GOVERNMENT POLICIES.....	84
ATTACHMENT 7 – MINIMUM EMPLOYMENT, INDUSTRIAL RELATIONS AND JOB SECURITY PRINCIPLES FOR GOVERNMENT OWNED CORPORATION (GOC) EMPLOYEES .....	86

## **PART ONE: CORPORATE OBJECTIVES AND STRATEGIES**

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This Statement of Corporate Intent outlines the strategies that will be implemented in 2010/11, the first year of the five year strategic direction described in the Ergon Energy Corporate Plan.

### **1.1 CORE BUSINESS**

Ergon Energy's purpose is to enhance the economic and lifestyle aspirations of our customers through sustainable energy solutions. Ergon Energy's core businesses are to operate as a regional electricity distribution entity and as a non-competitive electricity retailer within its franchise area of regional Queensland (as defined in the Electricity Act (1994)).

The main operating companies within the Ergon Energy Group and their activities are:

- Ergon Energy Corporation Limited (EECL). As a distribution entity, the principal function is to operate, maintain (including repair and replace), develop and protect its electricity supply network to ensure the adequate, economic and safe supply of electricity to its geographic customers.
- Ergon Energy Queensland Pty Ltd (EEQ), a 100% subsidiary to EECL, acts as the non-competitive retailer serving over 670,000 customers in the supply area.
- EECL is also a 100% shareholder in Ergon Energy Telecommunications Pty Ltd (EET). EET trading as Nexium Telecommunications is a licensed carrier offering wholesale high-speed data capacity in regional Queensland.
- EECL is a 50% shareholder in SPARQ Pty Ltd (SPARQ). SPARQ is a company jointly owned with Energex that offers IT and telecommunication support functions.

The Ergon Energy Group has total assets valued at over \$8 billion and services customers across 97% of Queensland - around 1.7 million square kilometres - with an electricity network consisting of around 150,000 kilometres of powerlines and one million power poles, along with associated infrastructure such as major substations and power transformers. Ergon Energy also owns and operates 33 stand-alone power stations that provide supply to isolated communities across Queensland that are not connected to the main electricity grid.

Included within the Group, Ergon Energy has telecommunication assets of approximately \$1 million through its 100% shareholding in Ergon Energy Telecommunications Pty Ltd, and assets (which are predominantly financial instruments) of approximately \$741 million through its subsidiary Ergon Energy Queensland Pty Ltd, the non-competitive retailer servicing most of the supply area. Ergon Energy is also a 50% shareholder in SPARQ Pty Ltd whose total assets are approximately \$256.9 million.

## 1.2 CORPORATE OBJECTIVES

The overarching objectives for Ergon Energy are to increase shareholder value and to be efficient in the delivery of its community service obligations. The year 2010/11 is the start of a new five year regulatory control period for Ergon Energy. Within this period, Ergon Energy will deliver shareholder value by operating within the Distribution Determination set by the Australian Energy Regulator (AER), and will achieve its regulated financial targets in a sustainable manner. To this end, Ergon Energy has established six strategic areas which describe our strategy for the period 2010/11 to 2014/15. These are:

- **Customer Driven:** *Increasing customer value by providing a more cost efficient and dependable electricity service that meets identified customer needs and expectations.*
- **A Leader in Safety:** *Improving our safety performance and targeting zero injuries for our employees and contractors. Ensuring the safety of our communities by assisting them to interact safely with our assets.*
- **Leverage Climate Change:** *Add value by maximising the opportunities associated with climate change to offer our customers choices and options that will allow us to better manage the demands on our network.*
- **Asset Management Excellence:** *Introducing new technologies that improve network performance and meet customer performance expectations while minimising environmental impacts.*
- **Processes and Systems:** *Improving operational efficiency through managing costs in a prudent manner and using innovation and technology to find safer, more effective and more efficient ways of undertaking our work.*
- **People:** *Ensuring our people have the knowledge, skills and leadership they require to carry out their work effectively and efficiently.*

## 1.3 CORPORATE STRATEGIES

This Statement of Corporate Intent (SCI) addresses the priorities for the 2010/11 year. Within the Ergon Energy overall strategic planning framework this year is the first year of a new five year horizon. It is important to see how the 2010/11 year fits into the overall context of the long term strategic plan.

Our strategic planning framework is based on the three horizons methodology. For Ergon Energy these three horizons can be identified with regulatory control periods: Horizon One being the current regulatory control period (up to 2009/10), Horizon Two corresponding to the next regulatory control period (2010/11 to 2014/15), and Horizon Three the following period (2015/16 to 2019/20).

This new horizon will see an even greater focus on our customers. Ergon Energy will build customer value by better understanding and anticipating customer needs and will work closely with customers to provide them with an electricity service that is cost efficient and dependable. We will also achieve greater levels of choice for our customers beyond the regulated service.

Ergon Energy will work with its customers and other stakeholders in regard to climate change to achieve the dual objectives of reducing greenhouse gas emissions and decreasing the cost of electricity by reducing the growth in peak demand.

Achieving excellence in asset management and further developing our network through the use of smart technologies will enable us to better provide a cost efficient and dependable service for our customers. It will also assist Ergon Energy to mitigate and adapt to climate change impacts on the network by extending our ability to remotely control the network.

### **Efficiency Savings Targets**

Ergon Energy continues to have a strong focus on delivering reliable, efficient and cost effective services to our customers while building shareholder value. In line with its commitment to operate within the Distribution Determination set by the AER, Ergon Energy is committed to achieving the efficiency savings targets set by the Treasurer.

In the 2009/10 SCI, Ergon Energy indicated that due to a number of external factors, including the global financial crisis, it did not expect to be able to deliver the additional profit requested. However, over 2009/10 Ergon Energy sought opportunities to improve efficiency and productivity and to improve its forecast profit. These included the organisational design review (ODR), the depot 3PR project and the vegetation management program. Ergon Energy also focussed attention on reducing its overall level of costs. This has resulted in operational efficiencies over the 2009/10 year of approximately \$18million. However, spending on forced maintenance during 2009/10 was higher than anticipated, due to flooding and the impact of Cyclone Ului on the network. Taken overall, actual EBIT for 2009/10 is expected to be higher than forecast in the 2009/10 SCI at \$455.5 million. Consequently Ergon Energy now expects to deliver the majority of the efficiency target requested at the EBIT level. This forecast is however, subject to downside risk as it does not include contingency amounts for events outside of Ergon Energy's control. These include for example, long term energy purchases (LEPs) and renewable energy certificates (RECs).

For the 2010/11 year Ergon Energy will continue to further improve efficiency and productivity in its operations consistent with the parameters of the final Distribution Determination. These are expected to include savings from the impact of the Joint Workings program with Energex and the operational efficiency savings made in 2009/10 (ODR, Depot 3PR and vegetation management) which are expected to be carried over into the 2010/11 year. As a result, Ergon Energy is forecasting that it will meet the efficiency target for the 2010/11 year.

**Key Strategic Actions for the 10/11 year:**

	<b>Strategic Priorities</b>	<b>Key Actions for 2010/11</b>
Our <b>strategic priorities</b> ....	<p><b>Customer Driven</b></p> <p><b>A Leader in Safety</b></p> <p><b>Leverage Climate Change</b></p> <p><b>Asset Management Excellence</b></p>	<ul style="list-style-type: none"> <li>• Close Customer Centric Relationship suite (Customer self-service)</li> <li>• Build Smart Grid Platform (Ubiquitous communications, SCADA rollout and Distribution Management System,</li> <li>• Develop Smart Grid business case (Smart Grid trial, Solar Cities)</li> <li>• Review and update Safety Management Plan</li> </ul>
...are enabled by our <b>processes, systems and people</b>	<p><b>Processes and Systems</b></p> <p><b>People</b></p>	<ul style="list-style-type: none"> <li>• Improve Asset Management Capability (ROAMES, Joint asset management, Integrate Collaborative Research Centre Capabilities)</li> <li>• Smart Corporate Working Capability (Executive Strategy Management System, Collaboration Capability, Workflow review and support, Bureaucracy busting)</li> <li>• Smart Field Working Capability (Green, flexible and productive Workforce, Field Force Automation, OTE Capability)</li> </ul>

## 1.4 CORPORATE PERFORMANCE OUTCOMES

We are seeking the following performance outcomes for 2010/11:

<b>Table 1.4 Strategy Area and Key Performance Indicators</b>			
<b>Strategy: Customer - Driven</b>			
<b>Critical Success Factor</b>	<b>Key Performance Indicators</b>	<b>KPI Measure</b>	<b>Target</b>
Cost Efficient, Dependable and Smart	Meet reasonable customer expectations for service delivery and choice while delivering economic and social benefits to the community.	We will benchmark our performance with our peers across the customer dimensions of: Electricity Supply; Customer Interaction Experience; Corporate Social Responsibility and Cost/Affordability	Better than peer average as measured by "Value to Customer" survey.
<b>Strategy: Safety</b>			
<b>Critical Success Factor</b>	<b>Key Performance Indicators</b>	<b>KPI Measure</b>	<b>Target</b>
A Leader in Safety	Target zero injuries within our workplace and wider community.	We will measure our performance against the AIFR safety metric and reduce injury levels in line with longer term trend targets.	See table 2.2
<b>Strategy: Climate Change</b>			
<b>Critical Success Factor</b>	<b>Key Performance Indicators</b>	<b>KPI Measure</b>	<b>Target</b>
Leverage Climate Change	Leverage climate change as both a social responsibility and as a business strengthening opportunity.	We will continue to reduce our carbon emissions in the areas of fleet, property and travel to meet State Government and Corporate set targets. We will secure regulatory and external funding to advance Energy Conservation, Efficiency and Demand Management Initiatives.	
<b>Strategy: Asset Management</b>			
<b>Critical Success Factor</b>	<b>Key Performance Indicators</b>	<b>KPI Measure</b>	<b>Target</b>
Asset Management Excellence	Deliver for our customers a secure, reliable and quality electricity supply that effectively balances both commercial and customer perspectives without sacrificing safety.	Our network will perform at or below the Minimum Services Standards set for SAIDI and SAIFI in the Electricity Industry Code	See table 2.2

Contd...



**Table 1.4 contd Strategy Area and Key Performance Indicators**

<b>Strategy: Processes &amp; Systems</b>			
<b>Critical Success Factor</b>	<b>Key Performance Indicators</b>	<b>KPI Measure</b>	<b>Target</b>
Operational Excellence	Be a high performing and commercially focused organisation delivering economic value within a sound corporate governance framework.	We will manage to our operational and capital investment expenditure within the aggregate five year allowances used by the Australian Energy Regulator in our final 2010-15 revenue determination.	See table 2.1
		The aggregated operating and capital works programs will be delivered on time and within budget.	See table 2.2
	Deliver best practice environmental outcomes.	We will maintain our Environmental and Safety Certifications; AS/NZS ISO14001 Environment Standard and AS4801/ISO 18001 Safety Standards.	n/a
<b>Strategy: People</b>			
<b>Critical Success Factor</b>	<b>Key Performance Indicators</b>	<b>KPI Measure</b>	<b>Target</b>
Embed High Performance Culture	Be a preferred employer in regional Queensland with a high performance, professional, values-based culture.	We will further improve productivity and efficiency through successful implementation of the new organisational structure.	Improved employee productivity, performance and culture (entropy).

**Notes:**

1. The Value to Customer measure is a research tool that measures the value delivered to residential customers, primarily customers of Ergon Energy but also, for comparative purposes, customers of several similar suppliers. The survey is carried out every six months and for each survey approximately 700 customers are interviewed. The end result of the survey is a measure out of ten for the value provided to the customer by Ergon Energy; taking into account the customer outcomes such as reliability, supply quality, availability, customer service, and energy advice, considering the price paid. Supporting elements identify drivers of value and benchmark against like organisations.
2. This covers emissions from fleet, air travel and property energy usage only.
3. Ergon Energy maintains certification to AS/NZS ISO14001 Environment Standard and AS4801/ISO 18001 Safety Standards.

## 1.5 OPERATIONAL OBJECTIVES

For 2010/11, Ergon Energy's operational objectives are to:

- **Meet reasonable customer expectations** for service delivery and choice while delivering economic and social benefits to the community.
- **Be a high performing and commercially focused organisation** delivering economic value within a sound corporate governance framework.
- **Improve network performance** across security, quality, reliability and availability of supply, balancing both commercial and customer perspectives without sacrificing safety.
- **Deliver the works program on time and on budget** through innovation, technology, standardisation, design and packaging.
- **Further improve productivity and efficiency** through successful implementation of the new organisational structure.
- **Target zero injuries** within our workplace and wider community.
- **Be a preferred employer in regional Queensland** with a high performance, professional, values-based culture.
- **Deliver best practice environmental outcomes.**
- **Leverage climate change** as both a business strengthening opportunity and as a social responsibility.

## 1.6 PERFORMANCE DRIVERS

### Economic

From an economic perspective the key drivers for the business include:

- The worst effects of the global financial crisis on Australia appear to have past, and during 2010/11 economic growth in Queensland is likely to rebound to around 3.5% largely due to strong prospects in the resources sector.

### Regulatory and Governance

From the perspective of regulation and governance the key drivers for the business include:

- Efficiently managing the Queensland Government's Community Service Obligations payments
- Effectively implementing the outcomes of the Queensland Competition Authority (QCA) Review of Electricity Pricing and Tariff Structures

The AER made its final Distribution Determination on Ergon Energy's allowable revenue for the 2010-2015 regulatory control period on 6 May 2010. Based on its forecasts, the AER has allowed \$5.6 billion for capital investment and \$1.9 billion for operating expenditure as shown in the following table:

AER Final Distribution Determination (\$m Nominal)						
	2010–11	2011–12	2012–13	2013–14	2014–15	Total
<b>Capital Expenditure Total</b>	1,046.8	1,025.0	1,061.3	1,157.5	1,269.4	5,559.9
<b>Operating Expenditure Total</b>	360.2	387.2	396.7	400.7	397.1	1,941.9
<b>Building Blocks</b>						
Return on Assets	694.7	782.4	867.7	956.2	1,052.8	4,353.8
Depreciation	145.0	146.9	150.3	164.1	144.6	750.9
Operating Expenditure	360.2	387.2	396.7	400.7	397.1	1,941.9
Tax Allowance	9.6	27.4	29.6	34.4	33.4	134.4
<b>Building Block and Revenue Adjustments</b>						
Accelerated depreciation	10.5					10.5
Capital contributions	(111.8)	(115.8)	(120.4)	(130.7)	(141.5)	(620.2)
Revenue from shared assets	(3.2)	(3.3)	(3.4)	(3.4)	(3.5)	(16.8)
<b>Annual revenue requirements (unsmoothed)</b>	<b>1,105.0</b>	<b>1,224.8</b>	<b>1,320.5</b>	<b>1,421.3</b>	<b>1,482.7</b>	<b>6,554.3</b>
<b>Annual revenue requirements (smoothed i.e. after P<sup>0</sup> &amp; X-factors applied)</b>	<b>1,123.1</b>	<b>1,210.1</b>	<b>1,303.9</b>	<b>1,404.9</b>	<b>1,513.8</b>	<b>6,555.8</b>
Forecast CPI (%)	2.52	2.52	2.52	2.52	2.52	
<b>PO and X Factors</b>	<b>-29.61%</b>	<b>-5.10%</b>	<b>-5.10%</b>	<b>-5.10%</b>	<b>-5.10%</b>	

Over the 2010-2015 regulatory control period Ergon Energy will maintain a focus on peak demand reduction and making business decisions that are prudent and efficient; it will manage its business within the parameters set by the Distribution Determination.

The QCA undertook a review of Electricity Pricing and Tariff Structures in 2009. The Queensland Government is still considering the QCA's recommendations. As such the extent of any restructure of regulated tariffs will depend on the Government's decision. Any restructure of retail tariffs will likely require Ergon Energy to implement systems and process changes as well as educate staff and customers.

## Customers and Community

In regard to our customers and community the key drivers for the business are:

- Meeting customer expectations that Ergon Energy will operate in a manner that assists all customers to have a cost efficient electricity supply that meets their needs.
- Meeting community expectations that Ergon Energy will operate in a transparent manner, with sound corporate governance and be a good corporate citizen.
- The level of Customer Initiated Capital Works (CICW) is expected to continue to recover over 2010/11. Growth is expected to vary between regions and to be driven by three main factors: continued strength in the resources sector; recovery in building approvals led by population growth; the current undersupply of housing; improving availability of project finance; and the impact of government stimulus spending on infrastructure such as schools and public housing.

Ergon Energy as the electricity retailer to the franchise customers in the Mount Isa region is participating in an energy user group. This user group was formed after the release of the Sims report last year. The group's only objective is to secure lowest

cost electricity for customers in the Mount Isa region. There are several ways to deliver electricity to Mount Isa, including using the local generation with gas as a fuel source, or constructing a transmission line from the east coast to Mount Isa.

During the 2010/11 year the user group expects to see firm commercial proposals for both a generation solution and a transmission solution. Each member of the group will then determine the best solution for their particular needs. If these collectively point to a transmission solution then construction would also start in the 2010/11 year.

### **Assets and Network Performance**

From an asset and network performance perspective the key drivers for the business are:

- Continuing to improve network performance across security, quality, reliability and availability of supply while effectively balancing both commercial and customer priorities.
- Efficiently incorporating new technologies that will improve the management and control of the network, including communications technologies and Supervisory Control and Data Acquisition (SCADA), helping enable a more timely response to reduce the duration of outages and delivering shareholder and customer value.
- Monitoring the impact of innovation in the worldwide energy industry and effectively judging which new developments could boost customer and shareholder value and incorporating these into the business.

### **Operational**

From an operational perspective the key drivers for the business are:

- Managing the business effectively and efficiently within the AER Distribution Determination while meeting network management plan commitments and customer expectations.
- Continuing to realize benefits from the new organizational structure through a continued focus on improving operational efficiency and cost reduction in a manner that delivers additional benefits to our customers, shareholders and communities.
- Continuing our long-running collaborative relationship with Energex, through the Joint Workings program, to reduce duplication of investment and increase efficiency. Recognising the common operations of Ergon Energy and Energex Limited, a continued focus is being given to identifying potential opportunities for further joint workings to build on the benefits derived from previous joint initiatives.

In accordance with the request from the Queensland government, Ergon Energy will not start the proposed smart meter pilot program in 2010/11.

## **Safety**

From a safety perspective the key drivers are:

- Continuing to focus on improving both safety leadership and behavioral safety to provide long term safety benefits for all employees, to target zero injuries and be the safest electricity distribution entity in Australia.
- Continuing to improve community electrical safety through implementing targeted behavioral programs.

## **People**

For our people the key focus areas are:

- Continuing to put in place the foundations of a high performing culture with world class safety standards and development and training programs that develop our people to their full potential whilst maintaining our preferred employer status.
- Ensuring our employees have the skills they need in a changing industry and that knowledge is retained as proportionately more employees transition into retirement.

## **Environmental**

From the perspectives of both our physical environment and the challenges posed by climate change the key drivers for the business are:

- Being environmentally responsible – effectively mitigating the environmental impact of our business activities, particularly in the areas of vegetation management, line construction, infrastructure development and hazardous substance management.

Ergon Energy is committed to providing a safe and reliable supply of electricity across its entire network and has therefore assessed its asset inspection and maintenance program, including vegetation management, and considered the need for additional measures due to the climatic conditions of the Far North.

An additional asset inspection measure, a pole top inspection, will take place in areas where rain fall exceeds 1500mm per annum on poles over 15 years of age. The usual ground based inspection cycle (four year cycle) will continue and an additional pole top inspection cycle (four year cycle) will follow two years after. This effectively ensures that every pole in the Far North region is inspected every two years, as opposed to every four years in areas of lesser rainfall.

In recognition of the higher than normal growth rates of vegetation in the Far North region, inspection and maintenance works within urban areas are undertaken on an annual basis, an activity unique to the Far North region of Ergon Energy's territory. Ergon Energy has made a number of changes to its vegetation management program in recent times including a newly developed Vegetation Strategy and five year Works Plan, a program to complete the vegetation rural backlog by end of 2012, and the use of a risk management methodology which better reflects the biodiversity of different regions.

Results for Far North for the period 31st January 2009 to 31 January 2010 show impressive improvements:

- Increased performance on backlog cleared spans by 120% (3,426 additional spans).
- Total spans cleared equates to a performance improvement of 44% (19,478 additional spans)
- Cost per span has reduced from \$120 to \$87, a saving of \$34 per span.

Ergon Energy will seek to leverage the climate change responses of all our stakeholders, including customers, shareholding Ministers, governments, councils and employees, for mutual benefit. By combining our efforts and seeking to understand our stakeholders' climate change issues, we believe we will achieve more and build stronger relationships in the process.

Despite the postponement of an Emissions Trading Scheme in Australia, Ergon Energy's commitment to achieving emissions mitigation targets, adapting its network to climate change and seeking out opportunities which will arise in a carbon-constrained world has not diminished.

The degree to which our customers expect Ergon Energy to assist them to reduce their electricity use is unprecedented. Ergon Energy's challenge is to use that desire to take action to deliver the greatest value to the business and customers, by constraining demand at peak times, and to customers, by constraining short-term and mid-term electricity costs, leading to lower electricity cost escalation.

Ergon Energy has met the initial requirements of the Federal Government's National Greenhouse and Energy Reporting scheme in 2009 and continues to enhance its reporting capability. The Renewable Energy Target is a catalyst for greater penetration of renewable energy generators in our distribution area, bringing with it a series of technical and other challenges.

Ergon Energy has aligned its emissions reduction and offset targets in the areas of its vehicle fleet, electricity use and air travel with those of the Queensland Government. It is also working towards a target of having a diesel-free isolated generation portfolio by 2050. Ergon Energy continues to partner with governments and councils on projects, such as *Townsville: Queensland Solar City*, which deliver greenhouse gas emissions reductions and other mutual benefits.

## PART TWO: MANDATORY MATTERS

### 2.1 FINANCIAL TARGETS

Quarter 2010/11					Budget 2010/11	Actual 2008/09	SCI 2009/10	Est. Actual 2009/10
Sep	Dec	Mar	Jun					
				<b>Performance Targets</b>				
				<b>EBITDA (\$M)</b>				
232.3	230.3	295.2	229.4	Group excluding EEQ	987.2	656.2	658.0	689.5
13.9	15.3	16.0	17.4	EEQ	62.6	29.5	40.3	53.4
				<b>EBIT (\$M)</b>				
170.9	170.3	234.3	168.0	Consolidated	743.6	407.9	414.3	455.5
				<b>NPAT (\$M)</b>				
67.2	64.6	108.1	60.8	Consolidated	300.7	129.3	94.7	148.1
				<b>Return on Assets (%)</b>				
-	-	-	-	Consolidated	8.2%	5.1%	4.9%	5.5%
-	-	-	-	Regulated	8.9%	5.3%	4.8%	5.4%
-	-	-	-	Group excluding EEQ	8.2%	5.3%	4.7%	5.2%
				<b>Return on Equity (%)</b>				
-	-	-	-	Consolidated	11.1%	5.1%	3.5%	5.7%
				<b>Performance Indicators</b>				
				<b>Cost Recovery Ratio</b>				
2.7	2.7	2.6	2.7	Consolidated	2.7	2.0	2.3	2.0
				<b>Operating Sales Margin (%)</b>				
29.4%	26.9%	32.8%	25.6%	Consolidated	28.8%	17.4%	19.6%	18.5%
				<b>Profit Margin (%)</b>				
12.7%	11.2%	16.3%	10.3%	Consolidated	12.8%	6.0%	4.8%	6.9%
				<b>Gearing Ratio (%) (excluding reserves)</b>				
73.7%	73.9%	72.6%	75.2%	Consolidated	75.19%	73.4%	75.0%	74.4%
				<b>Gearing Ratio (%) (including reserves)</b>				
59.6%	60.4%	59.5%	61.2%	Consolidated	61.2%	59.1%	60.6%	60.0%
				<b>Debt to Regulated Asset Base (RAB) (%)</b>				
49.9%	52.8%	52.8%	53.8%	Consolidated	53.8%	57.2%	60.3%	55.7%
				<b>Current Ratio (times)</b>				
1.1	1.3	1.3	1.0	Consolidated	1.0099	1.3323	1.2313	1.1381
				<b>Quick Ratio</b>				
1.0	1.2	1.1	0.9	Consolidated	0.8979	1.1728	1.1000	1.0067
				<b>Interest Cover (EBIT times)</b>				
2.3	2.2	2.9	2.1	Consolidated	2.4	1.8	1.5	1.9
				<b>Interest Cover (EBITDA times)</b>				
3.3	3.1	3.9	3.0	Consolidated	3.344	3.069	2.489	3.081
				<b>Funds from Operation (FFO) interest cover (times)</b>				
3.2	2.8	4.1	3.0	Consolidated	3.3	3.0	2.4	2.9
				<b>Fixed Asset Turnover</b>				
-	-	-	-	Consolidated	0.3	0.2	0.2	0.3
				<b>Capital Ratio</b>				
0.7	0.7	0.7	0.7	Consolidated	0.7	0.7	0.7	0.7

**2.2 NON-FINANCIAL PERFORMANCE TARGETS**

Performance Indicator	Budget (SCI Target) 2010/11	Actual 2008/09	Estimated Actual 2009/10	Budget (SCI Target) 2009/10
<b>Supply Reliability :</b>				
Urban SAIDI	≤149	217	250.26	≤150
Short Rural SAIDI	≤424	609	557.58	≤430
Long Rural SAIDI	≤964	1108	1090.16	≤980
Urban SAIFI	≤1.98	2.33	2.46	≤2
Short Rural SAIFI	≤3.95	4.93	4.7	≤4
Long Rural SAIFI	≤ 7.4	7.73	7.93	≤7.5
<b>Guaranteed Service Levels:</b>				
GSL Incidents – Reliability – Number of Claims Accepted and Paid	6,423 <sup>1</sup>	575	82	n/a
GSL Incidents – Reliability – Amount Paid (\$)	\$667,880 <sup>1</sup>	\$46,000	\$6,573	n/a
GSL Incidents – Other - Number of Claims Accepted and Paid	21,097 <sup>1</sup>	687	701	n/a
GSL Incidents – Other - Amount Paid (\$)	\$796,793 <sup>1</sup>	\$37,930	\$41,505	n/a
<b>Operational Performance:<sup>2</sup></b>				
Opex per Route Kilometre	\$2,410	n/a	\$1,460	n/a
Actual Opex with Regulatory Allowance(%) <sup>3</sup>	n/a	n/a	n/a	n/a
Actual Capex with Regulatory Allowance(%) <sup>3</sup>	n/a	n/a	n/a	n/a
Network Maintenance Costs/RAB	3.2%	n/a	2.6%	n/a
<b>Environment:</b>				
Environment – EPA breaches (number of Class 1)	0	0	0	0
<b>Safety:</b>				
AIFR – Employees & Contractors	13.74	11.8	17.33	9.44
LTIFR – Employees	7.58	n/a	8.78	3.32
LTIDR – Employees <sup>4</sup>	60.0	n/a	100.4	n/a
LTIFR – Contractors	1	n/a	1.11	n/a
<b>People:<sup>5</sup></b>				
Staff Turnover (annualised)	n/a	6.6%	6.16%	7.80%
Net FTE Staff Numbers	n/a	n/a	4,520.38	n/a
<b>For capital projects &gt; \$75M (regulated) &amp; &gt; \$60M (unregulated):</b>				
<b>Cost performance index per project:</b>				
Reinforcement of Supply to North Mackay	n/a	n/a	0.83	n/a
Increase Capacity Dalrymple Bay / Hay Point	n/a	n/a	0.96	n/a
Ubinet	≤ 1	n/a	n/a	n/a
<b>Scheduled performance index per project:</b>				
Reinforcement of Supply to North Mackay	n/a	n/a	0.83	n/a
Increase Capacity Dalrymple Bay / Hay Point	n/a	n/a	0.96	n/a
Ubinet	On time	n/a	n/a	n/a
<b>Other:</b>				
Timely compliance with government and shareholder data submission and reporting requirements	100%	100%	100%	100%

Contd...



**Notes to Table 2.2:**

1. The variance between 2009/10 and the 2010/11 SCI targets are due to recent changes in the legislation governing Guaranteed Service Levels. The 2010/11 target is based on applying the new legislative requirements to the 2009 results with an allowance for customer growth and the new regulatory requirements.
2. The 2009/10 estimated actual numbers are the figures as at 31 March 2010. The 2010/11 budget figures are taken from the final AER Distribution Determination.
3. Ergon Energy will manage its Opex and Capex expenditure during the 5 year regulatory period within the parameters of the Australian Electricity Regulator's final determination.
4. Defined as: (Total Days Lost x 1,000,000)/ Exposure Hours.
5. Ergon Energy does not forecast these measures, so no targets are provided. 2009/10 figures are year to date as at April 2010.

## 2.3 ASSUMPTIONS

ASSUMPTIONS	Budget 2010/11	Actual 2008/09	Budget 2009/10	Estimated Actual 2009/10
Economic Indices :				
- Consumer Price Index (CPI) <sup>1</sup>	2.52%	1.5%	2.9%	2.9%
- Wages Growth	3.5%+ 1%	3.5% + 1%	3.5%+ 1%	3.5%+ 1%
- Long Term Interest Rates <sup>2</sup>	7.48%	6.47%	6.81%	6.45%
- Dividend Payout Ratio <sup>3</sup>	80%	80%	80%	80%
Distribution – Regulated Electricity				
- Maximum Demand (MW) <sup>4</sup>	2,778	2,418	2,836	2,704
- Number of Customers <sup>5</sup>	684,469	655,810	677,091	674,113
- Tariff Escalation <sup>6</sup>	13.83%	5.38%	13.63%	15.67%
- Load Growth <sup>7</sup>	2.73%	4.5%	17.9%	11.8%

**Notes to Table 2.3:**

1. CPI actual is from the Australian Bureau of Statistics.
2. The interest rate assumption assumes interest rates and credit margins will remain at their current level. The interest rate components reflect a lower risk free rate but a higher Competitive Neutrality Fee rate for the next regulatory period.
3. The dividend is calculated as 80% of consolidated profit after tax adjusted for unrealised net movement from the revaluation of financial instruments.
4. Maximum Demand – is taken from the final AER Distribution Determination.
5. 2010/11 budget number is taken from the Ergon Energy revised submission to the AER, table 1-5, dated January 2010.
6. These figures reflect the change in prices from a customer perspective. The 2010/11 budget number is the QCA draft decision on the Benchmark Retail Cost Index for 2010/11 issued December 2009. The QCA is expected to make its final decision in May 2010.
7. Load Growth is defined as the percentage change in the maximum demand.

## 2.4 COMMUNITY SERVICE OBLIGATIONS (CSOs)

Legislation allows for GOCs to undertake Community Service Obligations (CSOs) where the Government requires them to provide a service or undertake an activity which would not be provided or undertaken on a commercial basis. Ergon Energy provides two CSOs as follows:

1. Tariffs applying to non-market customers are set by the Queensland Competition Authority (QCA) under a delegation from the Minister for Natural Resources, Mines and Energy, and Minister for Trade under the Electricity Act (1994) and are uniform throughout the State for a given type of customer. This gives rise to CSO payments in two ways:
  - The Queensland Government has committed to a Uniform Tariff Policy that provides for parity of pricing for all non-market electricity consumers, regardless of their geographic location in the State. For customers outside of the south east corner of the State, the cost of supply of electricity generally exceeds the price paid under the uniform tariff arrangement; and
  - More remote customers require proportionally more transmission and distribution infrastructure to supply them and therefore incur higher network use of system charges than the State-wide average charges allowed for in the standard tariffs.

To compensate for these effects, the State pays a CSO to Ergon Energy, which is expected to amount to around \$343 million in 2010/11. The Deed which currently governs this CSO arrangement expires on June 30 2010 and a review is being undertaken to identify the terms of replacement arrangements.

2. Pensioners are entitled as per Government policy to a rebate on their electricity bills of \$0.59 per day (exclusive of GST) which is expected to total approximately \$35 million in 2010/11. The rebate scheme is administered by Ergon Energy as a CSO and is funded by the Department of Community Services and Housing.

Ergon Energy is committed to working with the government to minimise the cost to government arising from CSO payments while achieving the best outcomes for our customers and shareholders.

## **2.5 EMPLOYMENT AND INDUSTRIAL RELATIONS PLAN**

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

## PART THREE: ADDITIONAL MATTERS

### 3.1 FINANCIALS <sup>1</sup>

#### 3.1.1 Financials: Ergon Energy Group

Quarter 2010/11				Income Statement Ergon Energy Group	Budget 2010/11 \$'000s	Actual 2008/09 \$'000s	SCI 2009/10 \$'000s	Est. Actual 2009/10 \$'000s
Sept \$'000s	Dec \$'000s	Mar \$'000s	Jun \$'000s					
				<b>ENERGY RELATED REVENUE</b>				
387,458	413,899	480,175	446,848	Energy Sales	1,728,380	1,279,301	1,423,437	1,462,600
13,702	41,294	(10,428)	(38,623)	Unbilled Energy Sales	5,945	6,389	16,955	43,997
89	89	89	89	Guarantee Deficiencies	355	779	1,052	383
62,419	53,563	117,490	109,142	CSO Revenue	342,615	446,217	311,616	241,855
-	-	-	-	Trading Contract Revenue	-	137,077	-	134,084
1,833	1,604	1,601	1,821	Renewable Energy Revenue	6,859	41,002	170	38,035
-	-	-	-	Mark to Market Revenue	-	-	-	120,431
1,388	1,544	1,640	1,376	Meter Cards Revenue	5,948	4,600	5,402	5,300
43,187	45,793	51,534	46,827	DUOS	187,341	129,481	151,665	140,512
3,112	3,112	3,112	3,112	Diesel Fuel Rebate	12,450	10,701	12,000	11,000
-	-	-	-	Mark to Market Net Sales	-	-	-	-
513,187	560,897	645,214	570,595	<b>TOTAL ENERGY RELATED REVENUE</b>	<b>2,289,893</b>	<b>2,055,546</b>	<b>1,922,297</b>	<b>2,198,197</b>
				<b>COST OF SALES</b>				
119,013	141,709	168,924	141,692	Energy Purchases	571,338	342,339	600,400	431,808
221	28	134	225	Energy Brokerage Fees	608	257	-	137
-	-	-	-	Hedge Costs Realised	-	438,496	-	247,510
-	-	-	-	Hedge Costs Unrealised	-	-	-	(2,867)
1,467	1,283	1,281	1,457	Certificate Compliance Expenses	5,487	23,240	-	18,551
-	-	-	-	Renewable Energy Expense	-	384	-	399
-	-	-	-	Contestable Charges Recoverable	-	22	-	(12)
63,849	68,094	77,534	69,826	Transmission Charges	279,303	193,971	239,251	239,251
699	811	699	674	Market Charges	2,883	3,240	7,453	3,582
699	859	1,021	813	Ancillary Charges	3,393	3,719	84	3,725
21	21	21	21	Metering Charges Non-Recoverable	85	679	-	(1,498)
472	496	634	402	Tariff Rebate	2,005	2,064	-	2,482
-	-	-	-	Embedded Energy	-	27,921	-	32,900
13,018	11,108	14,941	12,968	Isolated Energy	52,034	24,574	-	25,760
199,459	224,409	265,189	228,079	<b>TOTAL COST OF SALES</b>	<b>917,136</b>	<b>1,060,906</b>	<b>847,188</b>	<b>1,119,867</b>
313,728	336,488	380,024	342,516	<b>ELECTRICITY GROSS MARGIN</b>	<b>1,372,757</b>	<b>994,640</b>	<b>1,075,109</b>	<b>1,078,330</b>
				<b>OTHER PRODUCT REVENUE</b>				
22,747	23,443	23,265	24,147	Sales Revenue	93,601	105,289	98,178	94,971
3,561	3,567	3,546	3,554	Non-Energy Purchases	14,228	5,849	15,414	4,927
19,186	19,875	19,719	20,593	<b>NON ENERGY RELATED GROSS MARGIN</b>	<b>79,373</b>	<b>99,439</b>	<b>82,764</b>	<b>90,044</b>
				<b>MISCELLANEOUS REVENUE</b>				
3,975	4,451	4,039	7,880	InterDistrict Interest	20,345	20,955	8,788	17,059
-	-	-	-	Interest	-	(0)	-	-
-	-	-	-	InterDistrict Dividends	-	-	-	-
-	-	-	-	Dividend Income	-	-	-	-
2,925	2,920	2,800	2,653	Government Grants - Solar cities	11,298	2,072	2,631	4,879
575	575	575	575	Government Grants - Demand Management	2,300	800	2,198	3,946
158	158	158	158	Rent	631	1,412	1,068	1,300
15	15	15	15	Bad Debts Recovered	60	220	-	204
750	750	750	750	Gain on Sale of Assets	3,000	6,512	3,000	7,683
27,950	27,950	27,950	27,950	Capital Contributions	111,800	65,703	44,900	44,900
328	328	328	328	Prescribed Services	1,313	457	-	171
210	210	210	210	Excluded Services	840	3,580	420	1,951
-	-	-	-	Interdistrict Excluded Services	-	(1,975)	-	-
756	756	756	756	Corporate Service Fees	3,022	2,721	2,536	2,100
-	-	-	-	Insurance Claims	-	113	-	-
-	-	-	-	InterDistrict SLA Revenue	-	2,020	-	-
-	-	-	-	SLA Revenue	-	-	-	827
120	120	120	120	CAC Revenue	482	533	248	807
-	-	-	-	FV Gains on Financial Instruments	-	(23,544)	-	-
1,083	1,682	2,364	1,038	Other Revenue	6,168	13,201	4,046	8,490
38,845	39,915	40,066	42,433	<b>TOTAL MISCELLANEOUS REVENUE</b>	<b>161,259</b>	<b>94,780</b>	<b>69,835</b>	<b>94,317</b>
371,760	396,279	439,809	405,542	<b>GROSS MARGIN &amp; OTHER REVENUE</b>	<b>1,613,389</b>	<b>1,188,860</b>	<b>1,227,708</b>	<b>1,262,691</b>
				<b>TOTAL OPERATING EXPENSES</b>	<b>563,588</b>	<b>503,154</b>	<b>529,414</b>	<b>519,775</b>
				<b>OTHER OPERATING EXPENDITURE</b>				
72,693	74,370	76,763	78,461	Depreciation	302,287	268,488	276,488	272,711
2,571	901	239	239	Amortisation	3,949	9,292	7,501	14,661
75,263	75,271	77,001	78,700	<b>TOTAL OTHER OPERATING EXPENDITURE</b>	<b>306,236</b>	<b>277,780</b>	<b>283,989</b>	<b>287,372</b>
170,943	170,321	234,253	168,048	<b>EARNINGS BEFORE INTEREST &amp; TAXES (EBIT)</b>	<b>743,565</b>	<b>407,926</b>	<b>414,305</b>	<b>455,544</b>
74,889	78,056	79,801	81,222	Finance Charges	313,969	223,403	280,500	241,157
96,053	92,265	154,452	86,826	<b>EARNINGS BEFORE TAXES (EBT)</b>	<b>429,596</b>	<b>184,523</b>	<b>133,804</b>	<b>214,386</b>
28,816	27,680	46,336	26,048	Income Tax	128,879	55,212	39,141	66,316
67,237	64,586	108,116	60,778	<b>NET PROFIT AFTER TAXES (NPAT)</b>	<b>300,717</b>	<b>129,311</b>	<b>94,663</b>	<b>148,071</b>
8,491	75,729	140,314	248,430	<b>OPENING RETAINED EARNINGS</b>	<b>436,637</b>	<b>390,742</b>	<b>474,139</b>	<b>403,420</b>
75,729	140,314	248,430	309,208	<b>TOTAL AVAILABLE FOR APPROPRIATION</b>	<b>737,354</b>	<b>520,053</b>	<b>568,802</b>	<b>551,490</b>
-	-	-	240,574	<b>TOTAL DIVIDENDS</b>	<b>240,574</b>	<b>116,633</b>	<b>75,730</b>	<b>114,854</b>
75,729	140,314	248,430	68,635	<b>CLOSING RETAINED EARNINGS</b>	<b>496,780</b>	<b>403,420</b>	<b>493,072</b>	<b>436,637</b>

<sup>1</sup>These financial statements do not make any allowance for the proposed taxation changes that have been recently announced by the Federal Government.

**Ergon Energy Group – Transactions with Owners as Owners**

**Equity Injections/(Withdrawals) (\$M)**

	<b>Budget 2010/11 \$'000s</b>	<b>Actual 2008/09 \$'000s</b>	<b>SCI 2009/10 \$'000s</b>	<b>Est. Actual 2009/10 \$'000s</b>
Equity Injections	-	-	0	0
Equity Withdrawals	-	-	-	-
<b>Net Equity</b>	-	-	0	0

**Dividends, Tax Equivalent Payments (TEPs) and Community Service Obligations (CSOs) (\$M)**

	<b>Budget 2010/11 \$'000s</b>	<b>Actual 2008/09 \$'000s</b>	<b>SCI 2009/10 \$'000s</b>	<b>Est. Actual 2009/10 \$'000s</b>
Dividends Provided for	240,574	116,633	75,730	114,854
CSO's	342,615	446,217	311,616	241,855
Tax Provided for	128,879	55,212	39,141	66,316

ERGON ENERGY CORPORATION LIMITED STATEMENT OF CORPORATE INTENT 2010/11

Quarter 2010/11				Balance Sheet Ergon Energy Group	Budget 2010/11 \$'000s	Actual 2008/09 \$'000s	SCI 2009/10 \$'000s	Est. Actual 2009/10 \$'000s
Sept \$'000s	Dec \$'000s	Mar \$'000s	Jun \$'000s					
176,711	204,373	236,849	215,051	Cash & Cash Equivalents	215,051	367,409	194,103	209,274
395,401	463,532	444,547	422,231	Current Receivables	422,231	368,520	415,051	375,818
99,872	100,121	100,536	100,623	Inventories	100,623	103,506	104,400	99,623
368,117	368,117	368,117	368,117	Financial Assets Current	368,117	156,442	83,069	368,117
-	-	-	-	Intangibles Current	-	-	-	-
24,801	24,807	24,817	24,819	Other Current Assets	24,819	17,870	31,146	24,795
1,064,903	1,160,950	1,174,867	1,130,841	<b>CURRENT ASSETS</b>	1,130,841	1,013,747	827,769	1,077,627
56,078	55,329	54,410	53,747	Long Term Receivables	53,747	68,916	121,804	57,152
0	0	0	0	Non-Current Investments	0	-	1	0
1,383	1,383	1,383	1,383	Non-Current Inventories	1,383	1,383	0	1,383
0	0	0	0	Financial Assets Non-Current	0	-	0	0
7,724,462	7,888,521	8,157,019	8,246,611	Property, Plant & Equipment	8,246,611	6,900,680	7,888,845	7,558,727
-	-	-	-	Deferred Tax Equivalent Assets	-	-	-	-
3,397	2,695	2,297	2,218	Intangible Non-Current	2,218	9,517	43,356	5,667
0	0	0	0	Superannuation Surplus	0	0	18,420	0
7,785,320	7,947,928	8,215,110	8,303,959	<b>NON-CURRENT ASSETS</b>	8,303,959	6,980,495	8,072,426	7,622,929
8,850,223	9,108,877	9,389,976	9,434,800	<b>ASSETS</b>	9,434,800	7,994,242	8,900,195	8,700,556
328,726	358,210	341,893	347,121	Current Payables	347,121	236,420	305,711	297,590
20,553	20,086	19,293	19,132	Interest Bearing Liabilities Current	19,132	16,933	7,321	20,753
288,488	292,150	284,948	285,680	Financial Liabilities Current	285,680	162,521	99,000	291,006
22,534	23,137	19,942	23,962	Current Provisions	23,962	31,360	23,833	18,191
126,135	137,533	139,085	144,229	Employee Benefits Current	144,229	132,446	24,662	135,986
114,854	(0)	(0)	240,574	Dividends	240,574	116,633	75,730	114,854
63,198	67,802	75,364	59,019	Other Current Liabilities	59,019	64,600	136,018	68,454
964,488	898,919	880,526	1,119,717	<b>CURRENT LIABILITIES</b>	1,119,717	760,912	672,276	946,834
59,047	55,083	48,475	47,200	Employee Benefits Non-Current	47,200	78,882	113,897	63,012
0	0	0	0	Payables Non-Current	0	723	0	0
-	-	-	-	Tax Related Intercompany Payable	-	-	-	-
4,019,110	4,255,170	4,331,270	4,331,290	Interest Bearing Liabilities Non-Current	4,331,290	3,689,884	4,330,413	3,979,050
1,008,762	1,036,441	1,105,509	1,119,762	Financial Liabilities Non-Current	(0)	-	(0)	(0)
75,119	75,124	75,133	75,134	Deferred Tax Equivalent Liabilities	1,119,762	864,307	982,993	979,945
-	-	-	-	Non-Current Provisions	75,134	46,959	7,020	75,113
618	476	238	191	Superannuation Deficit	-	-	-	-
-	-	-	-	Other Non Current Liabilities	191	1,331	(0)	761
5,162,655	5,422,293	5,560,625	5,573,576	<b>NON-CURRENT LIABILITIES</b>	5,573,576	4,682,087	5,434,323	5,097,881
6,127,143	6,321,213	6,441,152	6,693,293	<b>LIABILITIES</b>	6,693,293	5,442,999	6,106,599	6,044,714
2,294,582	2,294,582	2,294,582	2,294,582	Share Capital	2,294,582	2,294,582	2,294,582	2,294,582
(1,352,190)	(1,352,190)	(1,352,190)	(1,352,190)	Unissued Capital	(1,352,190)	(1,352,190)	(1,352,190)	(1,352,190)
942,392	942,392	942,392	942,392	<b>Contributed Equity</b>	942,392	942,392	942,392	942,392
1,287,385	1,287,385	1,287,385	1,312,906	Asset Revaluation	1,312,906	1,216,003	1,368,737	1,287,385
0	0	0	0	General Reserves	0	-	0	0
0	0	0	0	Hedging Reserves	0	-	0	0
(10,572)	(10,572)	(10,572)	(10,572)	Government Contribution Reserve	(10,572)	(10,572)	(10,605)	(10,572)
1,276,813	1,276,813	1,276,813	1,302,334	<b>Reserves</b>	1,302,334	1,205,431	1,358,132	1,276,813
529,305	529,305	529,305	529,305	Retained Profits	529,305	483,410	503,714	496,088
67,237	131,823	292,983	60,143	Current Year Profit	60,143	12,678	18,933	33,217
(92,668)	(92,668)	(92,668)	(92,668)	Ret Earn DB Super Surplus/Deficit	(92,668)	(92,668)	(29,574)	(92,668)
503,874	568,459	729,619	496,780	<b>Retained Earnings</b>	496,780	403,420	493,072	436,637
2,723,079	2,787,665	2,948,824	2,741,506	<b>EQUITY</b>	2,741,506	2,551,243	2,793,596	2,655,842

Quarter 2010/11				Cash Flow Ergon Energy Group	Budget 2010/11 \$'000s	Actual 2008/09 \$'000s	SCI 2009/10 \$'000s	Est. Actual 2009/10 \$'000s
Sept \$'000s	Dec \$'000s	Mar \$'000s	Jun \$'000s					
529,020	546,707	584,671	538,467	<b>CASH FLOWS FROM TRADING ACTIVITIES</b>				
(383,315)	(410,222)	(406,318)	(440,213)	Receipts from Customers	2,198,864	2,119,524	1,625,468	2,145,583
3,975	4,451	4,039	7,880	Payments to Suppliers & Employees	(1,640,068)	(1,958,999)	(1,311,084)	(1,757,232)
(74,889)	(78,056)	(79,801)	(81,222)	Interest Received	20,345	21,164	8,788	17,059
27,950	27,950	27,950	27,950	Interest and Other Costs of Financing	(313,969)	(211,677)	(280,500)	(241,157)
62,419	53,563	117,490	109,142	Capital Contributions	111,800	0	44,900	44,900
-	-	-	-	Community Service Obligations	342,615	446,217	311,616	241,855
-	-	-	-	Dividends Received	-	0	-	-
-	-	-	-	Other Operating Receipts	-	-	-	-
-	-	-	-	Other Operating Payments	-	-	-	-
-	-	-	-	Tax Paid	-	0	(0)	-
165,159	144,393	248,031	162,003	<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	719,586	416,228	399,188	451,009
				<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
750	750	750	750	Gain on Sale of Assets	3,000	13,706	3,000	7,683
(238,428)	(238,428)	(238,428)	(238,428)	Loss on Sale of Assets	-	-	-	-
(300)	(200)	0	0	Land and Property Plant & Equipment	(953,712)	(834,393)	(993,610)	(784,926)
-	-	-	-	Intangibles - Software	(500)	(2,199)	(23,893)	(5,300)
-	-	-	-	Investment Property	-	(1)	-	-
-	-	-	-	Other Investments	-	-	-	-
(237,978)	(237,878)	(237,678)	(237,678)	<b>NET CASH USED IN INVESTING ACTIVITIES</b>	(951,212)	(822,887)	(1,014,503)	(782,543)
				<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
40,000	236,000	-	76,000	Proceeds from Borrowings	352,000	692,000	540,000	290,000
0	0	-	0	Repay Borrowings	-	(5,492)	-	-
257	0	-	-	Repayable Deposits	257	0	31	31
0	(114,854)	-	-	Dividends Paid	(114,854)	(110,778)	(93,636)	(116,633)
-	-	-	-	Issue of Shares	-	-	-	-
40,257	121,146	-	76,000	<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	237,403	575,730	446,395	173,397
(32,562)	27,661	10,353	325	<b>NET INCREASE/(DECREASE) IN CASH HELD</b>	5,777	169,072	(168,921)	(158,137)
209,273	176,711	204,372	214,725	<b>CASH HELD BEGINNING OF PERIOD</b>	209,273	198,335	363,024	367,410
176,711	204,372	214,725	215,050	<b>CASH HELD AT END OF PERIOD</b>	215,051	367,407	194,103	209,273

### 3.1.2 Financials: Selected Subsidiaries

Quarter 2010/11				Income Statement Ergon Energy Corporation Limited	Budget 2010/11 \$'000s	Actual 2008/09 \$'000s	SCI 2009/10 \$'000s	Est. Actual 2009/10 \$'000s
Sept \$'000s	Dec \$'000s	Mar \$'000s	Jun \$'000s					
				<b>ENERGY RELATED REVENUE</b>				
-	-	-	-	Energy Sales	-	-	-	-
-	-	-	-	Unbilled Energy Sales	-	-	-	-
-	-	-	-	Guarantee Deficiencies	-	-	-	-
-	-	-	-	CSO Revenue	-	-	-	-
-	-	-	-	Trading Contract Revenue	-	-	-	-
-	-	-	-	Renewable Energy Revenue	-	37	-	24
-	-	-	-	Mark to Market Revenue	-	-	-	-
-	-	-	-	Meter Cards Revenue	-	-	-	-
-	-	-	-	Contestable Charges Recovered	-	-	-	-
43,187	45,793	51,534	46,827	DUOS	187,341	129,481	151,665	140,512
281,349	300,057	341,656	307,687	InterDistrict DUOS	1,230,749	874,509	970,635	989,294
-	-	-	-	Solar Bonus	-	-	-	-
-	-	-	-	InterDistrict Solar Bonus	-	(125)	-	-
-	-	-	-	GUOS	-	-	-	-
23,299	27,742	33,070	27,739	InterDistrict GUOS	111,849	95,664	96,956	87,956
-	-	-	-	InterDistrict TUOS Contribution Acknow Rebate	-	-	-	-
-	-	-	-	TUOS Contribution Acknow Rebate	-	-	-	-
-	-	-	-	DUOS Contribution Acknow Rebate	-	-	-	-
-	-	-	-	InterDistrict Hedge Revenue	-	-	-	-
3,112	3,112	3,112	3,114	Diesel Fuel Rebate	12,450	10,701	12,000	11,000
-	-	-	-	Mark to Market Net Sales	-	-	-	-
350,947	376,703	429,372	385,367	<b>TOTAL ENERGY RELATED REVENUE</b>	1,542,389	1,110,266	1,231,256	1,228,786
				<b>COST OF SALES</b>				
-	-	-	-	Energy Purchases	-	-	-	-
-	-	-	-	InterDistrict Energy Purchases	-	-	-	-
-	-	-	-	Energy Purchases Mark to Market	-	-	-	-
-	-	-	-	Energy Brokerage Fees	-	-	-	-
-	-	-	-	Futures Contracts Fees	-	-	-	-
-	-	-	-	Hedge Costs Realised	-	-	-	-
-	-	-	-	Hedge Costs Unrealised	-	-	-	-
-	-	-	-	Residual Settlement	-	-	-	-
-	-	-	-	Certificate Compliance Expenses	-	-	-	-
-	-	-	-	Renewable Energy Expense	-	-	-	-
-	-	-	-	Contestable Charges Recoverable	-	-	-	-
-	-	-	-	InterDistrict Contestable Charges Recoverable	-	-	-	-
-	-	-	-	Network Charges Non-Rec	-	-	-	-
63,849	68,094	77,534	69,826	Transmission Charges	279,303	193,971	239,251	239,251
-	-	-	-	Market Charges	-	-	-	-
-	-	-	-	Ancillary Charges	-	-	-	-
60	60	60	60	InterDistrict Meter Charges Non-Recoverable	240	154	-	193
-	-	-	-	Metering Charges Non-Recoverable	-	-	-	-
-	-	-	-	Interest on Pool Settlement	-	-	-	-
-	-	-	-	Tariff Rebate	-	-	-	-
-	-	-	-	Embedded Energy	-	-	-	-
-	-	-	-	Isolated Energy	-	-	-	-
63,909	68,154	77,594	69,886	<b>TOTAL COST OF SALES</b>	279,543	194,124	239,251	239,444
287,038	308,549	351,777	315,481	<b>ELECTRICITY GROSS MARGIN</b>	1,262,846	916,141	992,005	989,342
				<b>OTHER PRODUCT REVENUE</b>				
21,863	22,747	22,294	23,211	Sales Revenue	90,115	99,082	92,974	91,199
-	-	-	-	Interest/District Sales	-	729	300	-
-	-	-	-	InterDistrict Non-Energy Purchases	-	-	-	-
2,184	2,184	2,184	2,184	Non-Energy Purchases	8,736	-	11,400	5
19,679	20,563	20,110	21,027	<b>NON ENERGY RELATED GROSS MARGIN</b>	81,379	99,811	81,874	91,194
				<b>MISCELLANEOUS REVENUE</b>				
-	-	-	-	InterDistrict Interest	-	-	-	-
3,209	3,777	3,801	4,019	Interest	14,807	14,797	5,946	13,925
-	-	-	-	InterDistrict Dividends	43,825	29,199	26,801	39,261
-	-	-	-	Dividend Income	-	-	-	-
2,925	2,920	2,800	2,653	Government Grants - Solar Cities	11,298	2,072	2,631	4,879
575	575	575	575	Government Grants - Demand Management	2,300	800	2,198	3,946
158	158	158	158	Rent	631	1,412	1,068	1,300
-	-	-	-	Bad Debts Recovered	-	61	-	-
750	750	750	750	Gain on Sale of Assets	3,000	6,497	3,000	7,658
27,950	27,950	27,950	27,950	Capital Contributions	111,800	65,703	44,900	44,900
328	328	328	328	Prescribed Services	1,313	457	-	171
-	-	-	-	Excluded Services	-	3,054	-	1,100
-	-	-	-	Interdistrict Excluded Services	-	-	4,615	-
-	-	-	-	Gain on Foreign Exchange	-	-	-	-
756	756	756	756	Corporate Service Fees	3,022	2,721	2,536	2,100
-	-	-	-	Discounts Received	-	0	-	-
-	-	-	-	Insurance Claims	-	113	-	-
-	-	-	-	Commissions	-	-	-	-
300	300	300	300	InterDistrict SLA Revenue	1,199	2,020	-	37,561
11,183	11,193	11,180	11,191	Interdistrict SLA Revenue EEQ	44,747	35,184	38,388	-
495	495	495	495	Interdistrict SLA Revenue EETL	1,980	1,512	1,751	-
-	-	-	-	SLA Revenue	-	-	-	827
-	-	-	-	Revaluation Reserve Gain Clearing (Supply)	-	-	-	-
-	-	-	-	Revaluation Reserve Gain Clearing (Other)	-	-	-	-
-	-	-	-	CAC Revenue	-	-	-	-
-	-	-	-	SparQ Revenue	-	-	-	-
-	-	-	-	FV Gains on Financial Instruments	-	-	-	-
709	709	709	709	Other Revenue	2,835	2,861	480	3,768
49,338	49,910	49,801	93,708	<b>TOTAL MISCELLANEOUS REVENUE</b>	242,757	168,462	134,313	161,395
356,055	379,022	421,689	430,216	<b>GROSS MARGIN &amp; OTHER REVENUE</b>	1,586,982	1,184,415	1,208,192	1,241,931
124,391	149,389	127,103	157,641	Opex	558,525	501,668	525,989	515,464
124,391	149,389	127,103	157,641	Opex - Additional Items	-	-	-	-
124,391	149,389	127,103	157,641	<b>TOTAL OPERATING EXPENSES</b>	558,525	501,668	525,989	515,464
				<b>OTHER OPERATING EXPENDITURE</b>				
72,591	74,231	76,586	78,247	Depreciation	301,656	256,101	276,430	272,619
-	-	-	-	Depreciation - Additional Items	-	-	-	-
2,345	675	12	12	Amortisation	3,045	8,216	5,955	13,891
-	-	-	-	Decrements Valuation	-	-	-	-
74,936	74,906	76,599	78,260	<b>TOTAL OTHER OPERATING EXPENDITURE</b>	304,701	264,317	282,384	286,510
156,729	154,727	217,986	194,315	<b>EARNINGS BEFORE INTEREST &amp; TAXES (EBIT)</b>	723,757	418,430	399,819	439,957
74,633	77,799	79,545	80,966	Finance Charges	312,943	216,916	277,500	242,396
-	-	-	-	Finance Charges - Additional Items	-	-	-	-
-	-	-	-	InterDistrict Finance Charges	-	284	-	-
82,096	76,928	138,442	113,349	<b>EARNINGS BEFORE TAXES (EBT)</b>	410,814	199,230	122,318	197,560
24,629	23,078	41,532	20,857	Income Tax	110,097	50,332	27,655	49,490
57,467	53,849	96,909	92,491	<b>NET PROFIT AFTER TAXES (NPAT)</b>	300,717	148,898	94,663	148,070
322,891	380,358	434,207	531,116	<b>OPENING RETAINED EARNINGS</b>	322,891	257,410	343,913	289,674
380,358	434,207	531,116	623,608	<b>TOTAL AVAILABLE FOR APPROPRIATION</b>	623,608	406,307	438,576	437,745
-	-	-	-	InterDistrict Dividends Provided For	-	-	-	-
-	-	-	240,574	Dividends Provided For	240,574	116,633	75,730	114,854
-	-	-	-	Share/Associates Profit/Loss	-	-	-	-
-	-	-	-	<b>TOTAL DIVIDENDS</b>	240,574	116,633	75,730	114,854
380,358	434,207	531,116	383,034	<b>CLOSING RETAINED EARNINGS</b>	383,034	289,674	362,846	322,891



Quarter 2010/11				Balance Sheet Ergon Energy Corporation Limited	Budget 2010/11 \$'000s	Actual 2008/09 \$'000s	SCI 2009/10 \$'000s	Est. Actual 2009/10 \$'000s
Sept \$'000s	Dec \$'000s	Mar \$'000s	Jun \$'000s					
115,435	191,325	155,168	148,263	Cash & Cash Equivalents	148,263	327,541	97,122	158,931
239,505	217,079	226,436	262,580	Current Receivables	262,580	192,234	188,656	237,911
99,872	100,121	100,370	100,623	Inventories	100,623	103,506	104,400	99,623
60	66	72	78	Other Current Assets	78	24	2,372	54
454,872	508,590	482,045	511,544	<b>CURRENT ASSETS</b>	511,544	623,305	392,550	496,519
86,660	85,911	86,121	103,111	Long Term Receivables	103,111	82,672	153,128	87,734
2,498	2,498	2,498	2,498	Non-Current Investments	2,498	2,498	2,499	2,498
1,383	1,383	1,383	1,383	Non-Current Inventories	1,383	1,383	0	1,383
7,720,043	7,882,991	8,043,582	8,238,971	Property, Plant & Equipment	8,238,971	6,899,253	7,888,130	7,555,456
971	496	483	471	Intangible Non-Current	471	7,092	39,651	3,016
0	0	0	0	Superannuation Surplus	0	0	18,420	0
7,811,556	7,973,279	8,134,068	8,346,434	<b>NON-CURRENT ASSETS</b>	8,346,434	6,992,898	8,101,828	7,650,088
8,266,428	8,481,869	8,616,113	8,857,978	<b>ASSETS</b>	8,857,978	7,616,204	8,494,378	8,146,606
202,031	207,385	209,112	210,884	Current Payables	210,884	176,103	172,328	189,217
5,923	5,456	4,983	4,502	Interest Bearing Liabilities Current	4,502	1,836	7,321	6,123
21,917	22,436	22,749	23,095	Current Provisions	23,095	30,617	23,176	17,657
126,135	137,533	131,006	144,229	Employee Benefits Current	144,229	132,446	24,662	135,986
114,854	0	0	240,574	Dividends	240,574	116,633	75,730	114,854
58,679	58,682	58,684	58,687	Other Current Liabilities	58,687	64,313	135,618	68,122
529,538	431,492	426,534	681,970	<b>CURRENT LIABILITIES</b>	681,970	521,949	438,835	531,958
59,047	55,083	51,118	47,200	Employee Benefits Non-Current	47,200	78,882	113,897	63,012
(0)	(0)	(0)	(0)	Payables Non-Current	-	723	-	-
262	262	262	262	Tax Related Intercompany Payable	262	262	262	262
4,019,110	4,255,170	4,255,230	4,331,290	Interest Bearing Liabilities Non-Current	4,331,290	3,689,884	4,310,713	3,979,050
975,775	1,003,454	1,049,790	1,086,775	Deferred Tax Equivalent Liabilities	1,086,775	831,320	952,919	946,959
73,052	73,057	73,062	73,067	Non-Current Provisions	73,067	44,892	4,920	73,046
618	476	333	191	Other Non-Current Liabilities	191	1,331	(0)	761
5,127,864	5,387,502	5,429,795	5,538,785	<b>NON-CURRENT LIABILITIES</b>	5,538,785	4,647,295	5,382,711	5,063,090
5,657,402	5,818,994	5,856,329	6,220,755	<b>LIABILITIES</b>	6,220,755	5,169,244	5,821,546	5,595,048
2,294,582	2,294,582	2,294,582	2,294,582	Share Capital	2,294,582	2,294,582	2,294,582	2,294,582
(1,352,190)	(1,352,190)	(1,352,190)	(1,352,190)	Unissued Capital	(1,352,190)	(1,352,190)	(1,352,190)	(1,352,190)
942,392	942,392	942,392	942,392	<b>Contributed Equity</b>	942,392	942,392	942,392	942,392
1,287,385	1,287,385	1,287,385	1,312,906	Asset Revaluation	1,312,906	1,216,003	1,368,737	1,287,385
(1,110)	(1,110)	(1,110)	(1,110)	Government Contribution Reserve	(1,110)	(1,110)	(1,143)	(1,110)
1,286,275	1,286,275	1,286,275	1,311,796	<b>Reserves</b>	1,311,796	1,214,893	1,367,594	1,286,275
415,657	415,657	415,657	415,657	Retained Profits	415,657	350,176	373,585	382,440
57,467	111,316	208,226	60,143	Current Year Profit	60,143	32,264	18,933	33,217
(92,766)	(92,766)	(92,766)	(92,766)	Ret Earn DB Super Surplus/Deficit	(92,766)	(92,766)	(29,672)	(92,766)
380,358	434,207	531,116	383,034	<b>Retained Earnings</b>	383,034	289,674	362,846	322,891
2,609,025	2,662,875	2,759,784	2,637,223	<b>EQUITY</b>	2,637,223	2,446,959	2,672,832	2,551,558

ERGON ENERGY CORPORATION LIMITED STATEMENT OF CORPORATE INTENT 2010/11

Quarter 2010/11				Cash Flow Ergon Energy Corporation Limited	Budget 2010/11 \$'000s	Actual 2008/09 \$'000s	SCI 2009/10 \$'000s	Est. Actual 2009/10 \$'000s
Sept \$'000s	Dec \$'000s	Mar \$'000s	Jun \$'000s					
				<b>CASH FLOWS FROM TRADING ACTIVITIES</b>				
373,002	383,827	443,376	416,961	Receipts from Customers	1,617,166	1,389,284	1,322,325	1,449,862
(176,553)	(185,645)	(195,312)	(214,441)	Payments to Suppliers & Employees	(771,951)	(744,722)	(725,805)	(854,928)
3,209	3,777	3,801	4,019	Interest Received	14,807	15,005	5,946	13,925
(74,633)	(77,799)	(79,545)	(80,966)	Interest and Other Costs of Financing	(312,943)	(208,231)	(277,500)	(242,396)
27,950	27,950	27,950	27,950	Capital Contributions	111,800	0	44,900	44,900
-	-	-	-	Community Service Obligations	-	-	-	-
-	39,261	-	-	Dividends Received	39,261	29,621	18,520	29,199
-	-	-	-	Other Operating Receipts	-	-	-	-
-	-	-	-	Other Operating Payments	-	-	-	-
-	-	-	-	Tax Paid	-	0	-	-
152,975	191,371	200,271	153,523	<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	698,140	480,957	388,386	440,561
				<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
750	750	750	750	Gain on Sale of Assets	3,000	13,691	3,000	7,658
(237,178)	(237,178)	(237,178)	(237,178)	Loss on Sale of Assets	-	-	-	-
(300)	(200)	0	0	Land and Property Plant & Equipment	(948,712)	(833,259)	(993,610)	(784,926)
-	-	-	-	Intangibles - Software	(500)	(1,977)	(20,893)	(5,300)
-	-	-	-	Investment Property	-	-	-	-
-	-	-	-	Other Investments	-	3,182	-	-
(236,728)	(236,628)	(236,428)	(236,428)	<b>NET CASH USED IN INVESTING ACTIVITIES</b>	(946,212)	(818,362)	(1,011,503)	(782,568)
				<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
40,000	236,000	-	76,000	Proceeds from Borrowings	352,000	692,000	540,000	290,000
-	-	-	-	Repay Borrowings	-	(14,738)	-	-
257	-	-	0	Repayable Deposits	257	-	31	31
-	(114,854)	-	-	Dividends Paid	(114,854)	(110,778)	(93,636)	(116,633)
-	-	-	-	Issue of Shares	-	-	-	-
40,257	121,146	-	76,000	<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	237,403	566,484	446,395	173,397
(43,496)	75,889	(36,157)	(6,905)	<b>NET INCREASE/(DECREASE) IN CASH HELD</b>	(10,669)	229,079	(176,722)	(168,610)
158,931	115,435	191,324	155,167	<b>CASH HELD BEGINNING OF PERIOD</b>	158,931	98,463	273,844	327,541
115,435	191,324	155,167	148,263	<b>CASH HELD AT END OF PERIOD</b>	148,263	327,541	97,122	158,931

### 3.1.3 Financial Contributions: Selected Subsidiaries

### 3.1.4 Financial Contributions: Major Business Divisions

## 3.2 MAIN UNDERTAKINGS AND BUSINESSES

For the 2010/11 year Ergon Energy intends to acquire and dispose of the following main undertakings detailed below.

The following main undertakings may be acquired by Ergon Energy in 2010/11:  
N/A

The following main undertakings may be disposed of by Ergon Energy in 2010/11:  
N/A

## 3.3 CAPITAL EXPENDITURE PROGRAMME

### 3.3.1 Repairs, Maintenance and Renewals

#### Repairs, Maintenance and Renewals

Description	Total	Budgeted Cost 2010/11 \$000	Purpose & Objective	Project Status	Expected completion Date
Regulated Opex	n/a	332,469	Maintenance on the regulated Asset Base	Ongoing	n/a
Non Regulated Opex	n/a	596	Maintenance on Non-Regulated Assets including mine site equipment	Ongoing	n/a
Isolated Generation Opex	n/a	86,581	Maintenance on Isolated diesel generator assets	Ongoing	n/a

### 3.3.2 Business Development

The following growth areas are currently being investigated and, as any opportunities are progressed, shareholding Ministers will be kept informed:

- Energy conservation and demand management for large customers. This will provide opportunities for Ergon Energy in the management of its maximum demand and help the customer meet its Clean Energy obligations.
- Remote and network support generation that can be used by both the regulated business as system support and the retail business in managing its exposure to the volatile energy market.

### **3.3.3 Assets Under Construction**

All assets under construction are work in progress (WIP) in the ordinary course of business. Ergon Energy undertakes a large number of small projects that may not be completed by the end of the financial year.

### **3.3.4 Approved Capital Expenditure Not Yet Undertaken (Proposed Capital Expenditure)**

See table in section 3.3.5 on next page.

### 3.3.5 Proposed Capital Expenditure expected to be approved in 2010/11

The table below details Ergon Energy's expected capital expenditure for 2010/11:

PROJECT	Description	Current Stage of Project	Completion Target (Quarter)	Cost of Project Pre 2009/10 \$'000s	Est. Actual 2009/10 \$'000s	Budget 2010/11 \$'000s	Project Total \$'000s
<b>Reinforce Supply to Bowen Basin (Broadlea)</b>							
Broadlea-Coppabella Fdr - Construct 4km 66kV DCCP line	New Overhead Line	Concept	March 2012	0	0	1,194	4,891
Broadlea - Establish 132/66kV BSP. Establish new 132/66kV substation	New Substation	Concept	March 2012	2	1,755	10,508	42,002
<b>Total</b>				<b>2</b>	<b>1,755</b>	<b>11,702</b>	<b>46,893</b>
<b>Reinforcement of Supply to Airlie Beach (Jubilee 1)</b>							
MK Jub Pkt Sub 11kV Dist Works 5 New fders- 1x 300m OH, 4x1km 240 sqmm	Upgrade/Replace Overhead Line	Implementation	June 2010	6	1,500	500	2,006
Jubilee Pocket - Establish 66/11kV substation (06/07 Sp Bu ID 18005)	New Substation	Development	June 2010	17,036	2,857	0	19,893
<b>Total</b>				<b>17,041</b>	<b>4,357</b>	<b>500</b>	<b>21,898</b>
<b>Reinforcement of Supply to North Mackay</b>							
T141 Pioneer Valley -Install 2 x 66kV feeder bays to connect Glenella feeders	New Feeder Bay	Implementation	March 2010	2,324	227	0	2,551
Glenella future 66/11kV Sub - Site selection & preliminary works.	Site Acquisition	Implementation	June 2010	9,186	3,168	12	12,366
Glenella 66/33/11kV substation establishment(06/07 Sp Bu ID 16165)	New Substation	Implementation	September 2010	16,639	9,619	618	26,876
Glenella-T141 Pioneer Valley 66kV line(06/07 Sp Bu ID 6666)	New Overhead Line	Implementation	June 2010	12,014	14,090	454	26,558

PROJECT	Description	Current Stage of Project	Completion Target (Quarter)	Cost of Project Pre 2009/10 \$'000s	Est. Actual 2009/10 \$'000s	Budget 2010/11 \$'000s	Project Total \$'000s
North Mackay - Install 33kV switchboard(06/07 Sp Bu ID )	New Ancilliary Equipment	Closed		0	0	0	0
Glenella-North Mackay DCCP 66kV line - Route investigation(06/07 Sp Bu ID)	Line Route Acquisition	Implementation	March 2010	61	0	0	61
Nth Mackay Sub - 33kV System re-config	New Underground Line	Implementation	June 2010	0	918	1,000	1,918
Glenella-North Mackay DCCP 66kV line construction	New Overhead Line	Implementation	September 2010	6,014	10,952	603	17,570
<b>Total</b>				46,239	38,974	2,687	87,901
<b>Reinforcement of Supply to Nth Rocky (Berserker)</b>							
CA Berserker 66/11kV Zone Substation- 11kV Distribution Feeder Works	New Underground Line	Implementation	March 2010	169	2,275	0	2,444
Rockhampton - Northside shopping centre	New Substation	Implementation	March 2010	12,876	9,634	453	22,964
<b>Total</b>				13,045	11,909	453	25,407
<b>Reinforcement of supply to Townsville (Belgian) Total</b>							
Garbutt Install 2 x New 66kV Feeder bays	New Feeder Bay	Implementation	June 2010	1,215	773	0	1,988
Belgian Gardens S/S (66/11), 15-6 feeders out of new BEGA ZS.	New Overhead Line	Implementation	June 2010	1,194	3,596	1,498	6,288
Garbutt - Belgian Gns 66kV Line feeders	New Underground Line	Implementation	June 2010	6,525	7,000	1,581	15,106
Belgian Gardens- Establish 66/11kV Substation	New Substation	Implementation	June 2010	10,564	8,329	2,665	21,558
<b>Total</b>				19,499	19,698	5,743	44,940
<b>Reinforcement of Supply to Townsville (Ooonooba)</b>							
Ooonooba Sub - 66kV Line Ext	New Overhead Line	Closed		0	0	0	0
Ooonooba Sub Site and 66kV Line Routes Acquisition	Site Acquisition	Closed		413	0	0	413

PROJECT	Description	Current Stage of Project	Completion Target (Quarter)	Cost of Project Pre 2009/10 \$'000s	Est. Actual 2009/10 \$'000s	Budget 2010/11 \$'000s	Project Total \$'000s
Ooonooba Sub - 11 kV Feeders	New Substation	Implementation	March 2011	24	2,373	1,831	4,229
Ooonooba Sub - Develop 66/11 kV Zone SubInstall 2 x 32MVA TFs & 11kV switchboard	New Substation	Implementation	March 2011	8,286	4,426	11,235	23,947
<b>Total</b>				8,723	6,799	13,066	28,588
Ubinet (Phase One & Phase Two Trials)	Communication network to key infrastructure	Implementation	June 2015	35,664	28,000	70,000	185,811
BD - Abbott Point Coal Expansion / BowenDemand - 10MW	New Rural Customer	Implementation	June 2010	14,251	13,500	3,000	30,751
Birdsville - New Wet Geothermal Plant	Upgrade/Replace Powerstation	Development	September 2011	0	2,028	10,063	13,000
NQ BD Clare Substn Rebuild	Upgrade/Replace Substation	Implementation	March 2010	12,559	7,693	1,000	21,252
T083 Roma Substation Transformer Augmentation	Upgrade/Replace Transformer	Implementation	March 2012	3,126	15,100	15,000	39,954
Rasmussen 66/11kV Substation(NO) - Transformer Augmentation	Upgrade/Replace Transformer	Implementation	December 2010	2,461	4,643	1,500	8,604
Redevelop zone substation - MC1 Central Dalby	Upgrade/Replace Transformer	Implementation	December 2011	7,138	6,325	8,660	27,786
<b>Total</b>				75,198	77,289	109,223	327,158
<b>Other System Projects</b>	Other minor system projects budgeted	N/A	N/A	N/A	514,504	648,939	
<b>Other / Unspecified Non System Projects</b>	Other minor projects budgeted	N/A	N/A	N/A	114,941	161,898	
<b>Total Approved Projects</b>					790,226	954,212	
<b>Notes:</b>							
1. The above table includes proposed and approved capital works data. The major specified projects are approved with potential revisions including newly proposed sub-projects and adjustments. The unspecified system and non system projects represent approved and proposed projects with which details have not yet been finalised.							
2. Data above last updated May 2010.							



### 3.4 MAJOR INITIATIVES BEING UNDERTAKEN BY ERGON ENERGY

*[Key business development and reform initiatives being implemented, but not capital expenditure]*

Ergon Energy intends to undertake the following major initiatives in 2010/11:

- UbiNet
- Demand Management
- National Broadband Network
- Joint Workings with Energex
- Major Asset Construction: Community Impact Assessment And Engagement Model

#### **UbiNet**

The purpose of the UbiNet project is to provide a modern telecommunications network that will underpin the future information and data traffic that will be transported accurately and rapidly to and from electricity assets across Ergon Energy's network, to our depots and people and to and from customer premises to the network and vice versa. Future projects will rely on UbiNet to deliver enhanced monitoring and control of the Ergon Energy distribution network.

The overall timeframe for the project (phase one) is approximately three years from the project approval date of February 2009 with commissioning expected to be completed in February 2012. The major milestones for the project are as follows:

<b>Milestone</b>	<b>Scheduled Date</b>
Supply of equipment commenced	1 April 2010
Construction commenced	1 May 2010
Commissioning commenced	10 September 2010
Supply of equipment completed	30 November 2011
Construction completed	31 January 2012
Commissioning completed	29 February 2012

The estimated total cost of phase one of the project \$136.4 million. Of this expenditure in 2010/11 is forecast to be \$70.0 million.

Regular updates on the progress of the project will continue to be provided to shareholding Ministers as the project continues.

## Demand Management

Ergon Energy is focused on addressing the challenges and maximising the opportunities associated with climate change awareness and policy to add value to shareholders and customers. This focus extends across its entire business and includes an active role in understanding and managing peak demand, improving network utilisation and reliability, and investigating opportunities for value-adding services for customers “beyond the meter”.

Ergon Energy’s Long Term Demand Management Strategy is:

- To invest in non-network and demand side management solutions where these investments can be undertaken on a more favourable commercial basis compared to network solutions; and
- To investigate, and invest strategically, in research and development, in areas that will enhance demand management on the network. We work jointly with Energex to maximise capacity and intellectual investment while amortising development costs over a larger base.

For the 2010/11 year, the forecast operating and capital expenditure required to implement Ergon Energy’s demand management program is estimated at approximately \$37.7 million. This comprises approximately \$26.5 million in operating expenditure and \$11.1 million in capital expenditure. Ergon Energy intends to undertake the following demand management initiatives in 2010/11:

2010/2011 Initiatives	Forecast Expenditure \$000	Funding Source
<b>1. Program Management</b>	3,086	AER <sup>1</sup>
<b>2. 2010/11 Large Customers Targeted Peak Demand Initiatives</b>		
• Townsville Commercial and Industrial Customer program	640	AER
• Bohle Industrial Area Commercial & Industrial demand management project	150	Ergon Energy
• Power factor correction pilot project	3,125	Queensland Government ECDM Funding <sup>2</sup>
<b>3. 2010/11 Residential Customers Initiatives</b>		
• North Queensland load management project	7,295	AER
• Air conditioning direct load control	3,294	AER
• Pool pump direct load control pilot project	700	Queensland Government ECDM Funding
• Pool pump and filtration direct load control	700	AER
• Customer appliance and end use information activity	500	AER
• Hot water direct load control	600	AER
• Promotion of existing load control tariffs including hot water	500	AER
• Maintenance of existing load control relays	600	AER
<b>4. 2010/11 Embedded Generation Initiatives</b>		
• Sustainable Wide Area Network Support project	250	AER
• Magnetic Island Generation project	260	Ergon Energy <sup>3</sup>
<b>5. 2010/11 Rural Customers Initiatives</b>		
• SWER II pilot project	150	AER

• Energy audits	450	AER
• Off peak pumping/storage	150	AER
• Hot water promotion	450	AER
<b>6. 2010/11 Reward Based Tariffs Initiative</b>	2,000	Ergon Energy <sup>4</sup>
<b>7. 2010/11 Initiative to Develop New Regulatory Test Processes</b>	100	Ergon Energy <sup>5</sup>
<b>8. 2010/11 Isolated Communities Initiative<sup>6</sup></b>	3,000	Queensland Government <sup>7</sup>
<b>9. 2010/11 Energy Conservation Communities Initiative</b>	2,000	ECDM
<b>10. Energy Conservation One Stop Information Shop Initiative</b>	650	AER
<b>11. 2010/11 Queensland Solar City Project Budget</b>	6,023	AGO/Ergon Energy <sup>8</sup>
<b>12. 2010/11 Demand Management Investment Allowance Initiatives</b>	1,000	AER
<b>Total</b>	<b>37,673</b>	

**Notes:**

1. AER Non-Network Alternatives Operating Cost Forecast.
2. Queensland Government Energy Conservation and Demand Management (ECDM) Grant Funding.
3. This is based on the preferred solution of Ergon Energy leasing generation sets for 20 weeks each year. This is subject to internal Ergon Energy approval.
4. Ergon Energy's contribution to a joint project undertaken with Energex of up to \$2 million.
5. Approved budget to develop detailed business case subject to the Regulatory Test.
6. Off grid application
7. Queensland Government Grant Funding
8. Australian Greenhouse Office (AGO)
9. In regard to the Townsville Solar City Funding this is split as follows: AGO \$2.6M, Queensland Government \$1.1M (includes capex/opex and overheads)

**National Broadband Network (NBN)**

The National Broadband Network Company (NBNCo) has recognised that electricity utilities like Ergon Energy and Energex in Queensland and their interstate equivalents can significantly assist with the rollout of the NBN across the nation. There are five trial sites for the rollout of the NBN in mainland Australia with one of those five occurring in Queensland. The Queensland site is located in Townsville (Aitkenvale and Mundingburra) and Ergon Energy has an opportunity to leverage the outcomes of this trial for its benefit.

Ergon Energy and Energex are currently considering how they can effectively collaborate with the NBNCo in a commercial manner that also advances the interests of both corporations. Ergon Energy recognises that its involvement with NBNCo needs to be on a commercial basis and support its core business of electricity distribution. Ergon Energy will continue to keep shareholding Ministers informed in regard to its involvement with NBNCo and will seek shareholding Minister approval as required.

## Joint Workings with Energex

Ergon Energy and Energex are currently undertaking the following projects under the Joint Workings Asset Management Maintenance and Renewal Initiative:

Initiative	Expected Completed Date
Develop and Implement a Maintenance Framework Review	End January 2011
Develop and Implement Condition Based Risk Management	End February 2011
Develop and Implement a Substation Defect Classification Manual	End August 2010

In accordance with the expectations of the shareholding Ministers for Joint Workings in 2010/11 (recognising the common operations of ENERGEX and Ergon Energy, a continued focus should be given to identifying potential opportunities for further joint workings to build on the benefits derived from previous joint initiatives). ENERGEX and Ergon Energy have commenced a scoping exercise and business case development for future Joint Working initiatives including the use of a common Network Vision and Strategy Delivery Framework and alignment of business systems. Energex and Ergon Energy have agreed that Energy Conservation and Demand Management will now be progressed under the Governance of Joint Workings.

Ergon Energy and Energex will continue to keep shareholding Ministers informed in regard Joint Workings and will seek shareholding Minister approval as required.

## Major Asset Construction: Community Impact Assessment and Engagement Model

In Ergon Energy's 2008/09 Annual Report, we reported that we had changed our major asset planning and construction processes to include better identification of community impact and engagement requirements for major works, as well as improved engagement before and during construction.

This is part of improvement of the broader end-to-end process for planning and delivery of major capital works which has been facilitated by changes stemming from the Organisation Design Review, progressively being implemented from November 2009.

In line with our EMT-approved stakeholder engagement framework, Ergon Energy is committed to engaging with the community to ensure our infrastructure is built in line with their expectations, as far as practicable. We recognise and appreciate that community members can have significant concerns about the impact of our infrastructure, be it existing, proposed or under construction, and that improved engagement can help address these concerns.

Consistent with this framework, Ergon Energy includes community impact and assessment and community engagement within the planning and delivery of many

major works such as new substations or high-voltage lines, and has process improvements in development to enhance this.

Better processes not only help empower communities, but also capture community input that helps achieve better solutions to the often conflicting constraints of affordability, visual and environmental factors, line route, and construction types. Where revised consultation processes have been applied, we have found them effective in mitigating community concerns. However, inadequate legacy processes with projects already in the pipeline have exacerbated community concerns and caused project delays while issues are addressed.

Through our examination of industry experience of improved methodology, we had identified a need to further embed community impact assessment, based on multi-criteria analysis, and community engagement earlier into the planning phase of the end-to-end process for planning and delivery of major capital works.

This improvement opportunity has been incorporated into a revised model for community impact assessment and community engagement currently under review and planned for progressive implementation in 2010/11.

In the short term, selected projects where particular community impact has been identified (e.g. Scarness substation), have funds allocated to community engagement. In the longer term, EMT approval of an improved model will result in earlier and more robust community impact assessment and community engagement in the planning rather than the implementation phase of capital works projects.

### 3.5 SPONSORSHIP, ADVERTISING, CORPORATE ENTERTAINMENT, DONATIONS AND OTHER ARRANGEMENTS

**Sponsorship, Advertising, Corporate Entertainment, Donations and Other Activities:  
Total for ALL Expenditure Items (over and under \$5,000)<sup>1</sup>**

Activity	2009-10 Budget (\$)	2009-10 Est. Actuals (\$)	2010-11 Budget (\$)
Community Partnership	1,123,000	1,123,603	1,074,000
Advertising (and other marketing channels)	4,065,000	4,146,446	3,840,481
Corporate Entertainment	215,000	197,738	180,000
Donations	261,000	261,000	261,434
Other Related Activities*	1,984,000	1,904,508	2,161,366
<b>TOTAL</b>	<b>7,648,000</b>	<b>7,633,295</b>	<b>7,517,281</b>

<sup>1</sup>All expenditure to be GST exclusive

\* A breakdown of this expenditure is included in Attachment 3 of this SCI.

Ergon Energy has approximately 670,000 customers who are dispersed over a wide geographic area covering 97% of the State. As a Retailer and Distributor, the purpose of Ergon Energy's marketing expenditure is to engage with customers on a range of important issues including electrical safety, storm response, management of their electricity consumption, advice on energy conservation and supporting local communities. Ergon Energy also researches the perceptions, needs and expectations of customers and uses this information to improve the delivery of electricity to its customers and to improve customer service. Within the marketing program there is a strong focus on efficiency and ensuring that expenditure assists in improving customer and shareholder value.

#### Sponsorship

Sponsorship continues to be an important tool for Ergon Energy to engage with communities and customers with the objective of building customer advocacy. Ergon Energy's sponsorship policy is regularly reviewed and updated to ensure compatibility with OGOC guidelines.

#### Advertising and other Related Activities

Ergon Energy uses advertising and other marketing channels to engage with customers with a view to building customer advocacy. It is an essential tool in building community awareness and engendering behavioural change to raise levels of energy conservation, raising awareness of network issues including public safety and preparedness for summer storms. The response of Ergon Energy's customers to its operations, customer service and communications is measured using regular customer research to assess and improve performance and effectiveness.

## Customer Research

Ergon Energy maintains a comprehensive customer research program, consisting of various monitors and ad hoc projects with different levels of strategic importance. This research program operates within a strategic framework with its core aim to inform and measure the effectiveness of Ergon Energy's response to its strategic imperatives and act as the primary source of customer insights to support customer-driven decision making across the organisation.

## Corporate Entertainment

Ergon Energy's corporate entertainment budget delivers an informal channel for engagement with key stakeholders to enable interaction and dialogue regarding opportunities and risks within the many communities served by the Corporation. For the 2010/11 year no individual events with total expenses of greater than \$5,000 are currently planned. We are no longer a sponsor of the North Queensland Cowboys but have retained a corporate box for half the season for stakeholder engagement at a cost of \$20,000.

## 3.6 OTHER

As part of its performance agreement with its shareholding Ministers, Ergon Energy provides the following additional undertakings.

### 3.6.1 Prudent Financial Information

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

- abide with the *Code of Practice for Government Owned Corporations' Financial Arrangements* as issued by the Queensland Government.
- establish, maintain and implement appropriate financial risk management practices and policies required and as specified in the Code of Practice.

### 3.6.2 Capital Structure

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

Equity contributions will be requested from shareholders on the basis of maintaining Ergon Energy's current stand-alone investment grade credit rating as provided by Standard & Poor's in their rating report dated 13 October 2009. A debt to capital

(gearing) ratio of 65% is a key financial measure used for determining the level of equity support required from Shareholders. Interest coverage ratios are also considered. Ergon Energy's forecast EBITDA and EBIT interest coverage ratios for the next regulatory period are within Queensland Treasury Corporation advised acceptable ranges for a similar rated entity. Ergon Energy's risk management strategies have been developed assuming the provision of equity as identified in the SCI and Corporate Plan.

Based on the modelling of the AER's Final Distribution Determination dated 6 May 2010, Ergon Energy expects to request an equity injection from its shareholding Ministers of \$20 million for financial year 2012/13, \$140 million for financial year 2013/14 and \$150 million for financial year 2014/15 to bring gearing to within the target range.

Ergon Energy is prepared to explore alternative methods of raising equity including dividend reinvestment.

If shareholder support for a requested equity injection is not provided, its highly probable Ergon Energy's stand-alone credit rating will be downgraded based on its weakening credit metrics resulting in higher borrowing costs for the Company and reduced dividend payments to shareholders.

The Board of Ergon Energy will continue to monitor the stand-alone credit rating of the Company and will seek shareholder support for an equity injection, as detailed in the SCI and Corporate Plan.

### **3.6.3 Weighted Average Cost of Capital (WACC)**

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

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

Details of Ergon Energy's WACC calculations are provided in Attachment 4 to the SCI.



### **3.6.4 Dividend Policy and Payment**

While the dividend process is governed by the GOC Act 1993, the Board will also ensure that Ergon Energy's dividend policy takes into account the return its shareholders expect on their investments. The Board of Ergon Energy will recommend a dividend amount equivalent to 80% of Ergon Energy's applicable profit for the 2010/11 financial year. The Board will adopt such a recommendation on the basis of its shareholders agreeing to provide the necessary funding for projects which have received Board and shareholding Ministers' approval or for the maintenance of Ergon Energy's approved capital structure or for ensuring the operational viability of Ergon Energy. Ergon Energy's Board undertake to ensure the dividend policy is adhered to.

The dividend payment recommendation provided by the Board will be in the form of a percentage of consolidated profit after provision has been made for income tax (net profit after tax, NPAT), adjusted for the net impact of non-cash transactions. The recommendation will be accompanied by an estimate of NPAT and will include detailed information on any proposed or likely adjustments to NPAT, including a statement of the amount and reasons for any adjustment.

When determining the final dividend to be declared at the end of the period, the Board will ensure shareholder departments are consulted with and that written agreement is received from shareholder departments for any material changes to the adjustments identified or any subsequent adjustments in the dividend recommendation agreed to by shareholding Ministers.

### **3.6.5 Corporate Governance**

The Board of Ergon Energy undertakes to continually monitor and review its corporate governance arrangements to reflect good practice, having regard to the Corporate Governance Guidelines for Government Owned Corporations (Corporate Governance Guidelines).

Ergon Energy has adopted all the recommendations in the Corporate Governance Guidelines.

### **3.6.6 Risk Management**

The Board of Ergon Energy has ultimate responsibility for the management of all potential internal and external risks for the Corporation. The Corporation's risk identification and management process is monitored by the Audit and Financial Risk Committee (AFRC) and the Operational Risk Committee (ORC) which are subcommittees of the Board and which report to the Board on a regular basis.

The risk management framework is designed to ensure that all potential financial, operational and other risks are regularly identified, assessed, monitored and reported to the AFRC and the ORC and to the Ergon Energy Board, along with appropriate risk mitigation and management plans. In particular, potential security risks have been considered and identified and a framework to respond to security

threats has been developed. The Board will continually monitor security risks and update Ergon Energy's response framework as necessary.

Risk management plans have been incorporated in Ergon Energy's budgetary and strategic planning process.

### **3.6.7 Compliance with Government Policies**

Ergon Energy will comply with relevant government policies and guidelines as set out in Attachment 6. In particular, Ergon Energy will comply with the approval, notification, reporting and other requirements of those policies and guidelines.

## PART FOUR: PERFORMANCE AGREEMENT

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This Statement of Corporate Intent (SCI), for the financial year 2010/11, is presented in accordance with Chapter 3, Part 8 of the Government Owned Corporations Act (1993) (the GOC Act).

In accordance with Chapter 1, Part 3, Section 7 of the GOC Act, the SCI represents a formal performance agreement between the Board of Ergon Energy and its shareholding Ministers, (Hon Andrew Fraser, MP and Hon Stephen Robertson MP) with respect to the financial and non-financial performance targets specified for the financial year. The SCI also represents an acknowledgment and agreement on major activities, the objectives, undertakings, policies, investments and borrowings of Ergon Energy for the 2010/11 year.

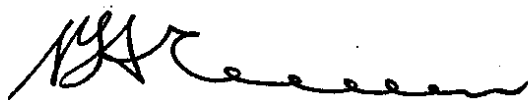
This SCI is consistent with Ergon Energy's Corporate Plan 2010/11 to 2014/15, submitted to, and agreed to by, the shareholding Ministers in accordance with Chapter 3, Part 7 of the GOC Act.

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

In signing the document Ergon Energy's Board undertakes to achieve the targets proposed in the SCI for 2010/11.

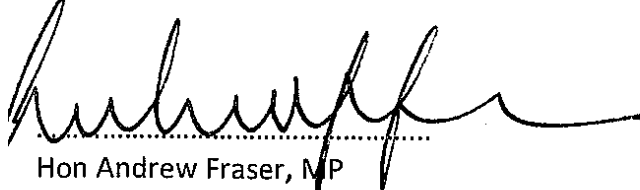
Major changes to key assumptions and outcomes detailed in this SCI, and which come to Ergon Energy's attention during the year, will be brought to the attention of shareholding Ministers. Any modifications to this SCI will be dealt with in accordance with the GOC Act.

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



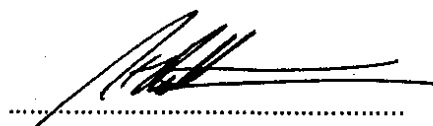
.....  
Dr Ralph Craven  
**Chairman**

Date



.....  
Hon Andrew Fraser, MP  
**Treasurer and Minister for Employment and Economic Development**

Date 17-6-10



.....  
Hon Stephen Robertson, MP  
**Minister for Natural Resources, Mines and Energy, and Minister for Trade**

Date 8/6/10

## PART FIVE: ATTACHMENTS

### ATTACHMENT 1 – DEFINITIONS OF FINANCIAL AND NON-FINANCIAL TARGETS

Definitions of Financial Ratios		
Return on Assets (%)	Consolidated	[EBIT/Average of opening & closing assets]. (Assets = "Total Assets")
	Regulated	[EBIT/Average of opening & closing assets]. (Assets = "Net PPE inc computer intangibles")
	Non Regulated	[EBIT/Average of opening & closing assets]. (Assets = "Net PPE inc computer intangibles")
Return on Equity (%)	Consolidated	[NPAT/Average of opening & closing equity]
Cost Recovery Ratio	Consolidated	[Revenue from operations/Expenses from operations (excluding abnormals, investment income & finance charges) ]
Operating Sales Margin (%)	Consolidated	[EBIT less investment income/Total revenue less investment income]
	EEQ	[EBIT less investment income/Total revenue less investment income]
Profit Margin (%)	Consolidated	[NPAT/energy related revenue + CSOs+ DUOS +non-energy gross margin]
Gearing Ratio (%) (excl. reserves)	Consolidated	[Debt/Debt + equity (excluding reserves) ]
Gearing Ratio (%) (incl. reserves)	Consolidated	[Debt/Debt + equity (including reserves) ]
Current Ratio (times)	Consolidated	[Current assets/Current liabilities]
Quick Ratio	Consolidated	[Cash + debtors + financial assets/Current liabilities]
Interest Cover (EBIT times)	Consolidated	[EBIT/Finance charges]
Interest Cover (EBITDA times)	Consolidated	[EBITDA/Finance charges]
Funds from Operations interest cover (times)	Consolidated	[Funds from Operations + interest expense paid/ interest expense paid]
Fixed Asset Turnover	Consolidated	[Sales + grid services revenue/Average PP&E]
Capital Ratio	Consolidated	[Liabilities/Assets]
Debt to RAB %	Consolidated	[Debt/Regulated Asset Base]
Economic Profit	Consolidated	tba

## **ATTACHMENT 2 –EMPLOYMENT AND INDUSTRIAL RELATIONS PLANS 2010/11**

### **Ergon Energy Corporation Limited**

#### **EMPLOYMENT AND INDUSTRIAL RELATIONS PLAN**

**March 2010**

#### **SHAREHOLDER INFORMATION**

##### ***1. Philosophy and Direction***

Ergon Energy's vision for people is to create a high performance organisation which leverages our preferred employer status to achieve the Ergon Energy strategy

This is articulated through our People Strategy, which is a subset of the overall Ergon Energy strategy and defines the 'people' elements critical to the delivery of organisational objectives. It also defines the resources, skills and culture required to execute the corporate strategy, including the competencies needed to support strategic priorities.

Our desired culture will be achieved when our values are demonstrated every day throughout the Ergon Energy community, there is a high level of job pride and employees are committed to work with others to continually improve.

Our strategic employee relations goal is to foster effective and productive working relationships with our internal and external stakeholders, including unions, thereby developing a workplace reputation that enjoys a strong positive public perception and which meets our social obligations.

To support this vision there will be a continuing focus during 2010 to further improve operational efficiency to be in a position to respond to any potential financial constraints that may be imposed over the 2010 - 2015 revenue stream period, as a result of the final determination by the Australian Energy Regulator (AER) in May 2010. The AER outcome is likely to necessitate a renewed focus on workforce productivity with new opportunities being sought to reform work practices and industrial agreements through meaningful negotiations with the relevant unions.

Ergon Energy's strategic focus on being a leader in climate change will also require new skills to be introduced into the business. This will involve re-skilling and will drive the need for improved flexibility and skills mobility across the business. Co-operative working relationships with unions to achieve these outcomes will be key to the business's success.

Ergon Energy has recently implemented a new organisational structure which has resulted in a significant reduction in workplace duplication and alignment of core corporate functions, systems and processes, while establishing clearer lines of functional and individual accountability. Throughout 2010 there will be further organisational restructures involving work groups and roles to further remove duplication and improve operational efficiency below that of level 3 managers.

##### ***2. Significant and Emerging Issues***

In 2009 Ergon Energy made changes to the Senior Executive structure as part of an Organisational Design Review Project. This restructure has been fully implemented down to level 3 senior management levels. The focus over the 2010 year will be to continue to review roles and functions down through the remaining structural levels.

In addition any reduction in Ergon Energy's regulated revenue stream as a result of the AER determination will also present considerable challenges in relation to maintaining current levels of employment in regional Queensland due to the need to achieve efficiencies and associated cost reductions.

These issues have the potential to impact employees by way of further organisational design resulting in redesigned roles which in some cases may result in voluntary retrenchments or redeployment to new positions. Ergon Energy will ensure that all relevant stakeholders and employee organisations are fully consulted in accordance with established protocols and Agreement provisions throughout the change process, and any employee impacts are managed within established industrial principles and support mechanisms.

Ergon Energy is now subject to the Fair Work Act 2009. The Act has not caused any significant impact to or departure from existing employment conditions and entitlements that already exist by way of employment policy or within the Ergon Energy Collective Agreement 2008 (EEUCA 2008).

The award modernisation process has resulted in the introduction of a new national based Power Industry Award 2010 for the Energy Sector, effective from 1 January 2010. This is not expected to cause any significant industrial impacts in the period while the EEUCA 2008 remains in place. The nominal expiry date of the Agreement is 22 September 2011.

Ergon Energy is now a respondent to the *Integrity Act 2009* and therefore the *Crime and Misconduct Act 2001*. Following consultation with the Crime and Misconduct Commission officers, this has required Ergon Energy to undertake a full review of existing policy and guidelines relating to investigation and reporting protocols and disciplinary procedures to ensure full compliance with the intent of the Act.

### 3. Directors/Senior Executive Remuneration

#### *Ergon Energy Corporation Limited (EECL): Non-Executive Director Fees*

Board Member	Director Fees	Committee Fees	Superannuation	Other	Total Annual Fees
Ralph Craven	\$72,885	\$16,196	\$8,017	\$0	<b>\$97,098</b>
John Bird	\$28,344	\$10,798	\$3,522	\$0	<b>\$42,664</b>
Anthony Mooney	\$28,344	\$8,098	\$3,279	\$0	<b>\$39,721</b>
Wayne Myers	\$28,344	\$13,497	\$3,765	\$0	<b>\$45,606</b>
Susan Forrester	\$28,344	\$4,049	\$2,915	\$0	<b>\$35,308</b>
Helen Stanton	\$28,344	\$9,448	\$3,401	\$0	<b>\$41,193</b>
Gary Humphrys	\$28,344	\$8,098	\$3,279	\$0	<b>\$39,721</b>

Notes:

1. Fees noted above are current as at May 2010 and assume no changes to Directors' appointments and Committee memberships during the 10/11 year.
2. Director's Fees are set at the time of appointment with provision for review according to movements in the Consumer Price Index.
3. Specific fees are payable for being a member of a Committee, with a higher fee payable for being a Committee Chairman.
4. The actual superannuation total contribution will need to be confirmed based on contributions during 10/11.
5. Amounts do not include potential reimbursement for costs associated with telecommunication and other incidental expenses.

Ergon Energy Corporation Limited (EECL): Senior Executive Remuneration as at 1 January 2010

CEO / Senior Executives	Base Salary	Employer Superannuation Contributions	Motor Vehicle	Car Park	Other personal benefits	Total Fixed Remuneration	Other non-personal benefits	
Ian McLeod Chief Executive	\$641,255	\$14,461	0	0	0	\$655,716	0	
Jim Chisholm Executive General Manager Energy Sustainability & Market Development	\$239,415	\$21,556	\$10,074	\$10,338**	0	\$281,383*	0	
Peter Billing Executive General Manager Operations	\$338,239	\$14,461	0	0	0	\$352,700	0	
Justin Fitzgerald Executive General Manager Customer & Stakeholder Engagement	\$227,361	\$22,734	\$10,931#	\$10,338**	0	\$271,364*	0	
Mal Leech Executive General Manager Employee & Shared Services	\$271,613	\$24,455	\$10,074	\$10,338**	0	\$316,480*	0	
John Hooper Chief Financial Officer	\$315,539	\$14,461	0	0	0	\$330,000	0	
Graeme Finlayson General Counsel/Company Secretary	\$272,364	\$14,461	\$8,412	0	0	\$295,237	0	
Roslyn Baker Executive General Manager Customer Service	\$245,539	\$14,461	0	0	0	\$260,000	0	
Neil Lowry Executive General Manager Asset Management	\$279,639	\$27,961	0	0	0	\$307,600	0	

**Notes:**

\* Indicates book value TFR equivalent

# Reflects an increase to book value of \$857 post 1 July 2009

\*\* Reflects an increase to book value of \$102 post 1 July 2009

## ERGON ENERGY EMPLOYMENT AND INDUSTRIAL RELATIONS PLAN

Except for any construction work where compliance with existing Federal National Construction Code and Guidelines is required, the following will be applied:

### 4. Employment Conditions

Ergon Energy will continue to meet its obligations and commitments to implementing employment and industrial relations arrangements consistent with the guidelines provided by the Queensland Government, and the Federal *Workplace Relations Act 1996* and amendments made under current Federal Governments *Fair Work Act 2009*.

Ergon Energy employees are employed under the following industrial instrument and identified arrangements as applicable:

- The EEUCA 2008 incorporates applicable terms of the former Electricity, Generation, Transmission and Supply Award - State 2002 and Family Leave Award – State 2003 (No. AR10 of 2003); This is the only industrial instrument that is applicable to Ergon Energy Award/Agreement covered employees and has an expiry date of 22 September 2011.
- Individual Employment Arrangements (IEA) operating within relevant EEUCA 2008 parameters;
- Total Employment Cost (TEC) or Total Fixed Remuneration (TFR) contracts for outside the scope of the EEUCA 2008 application.

As at January 2010 there were 70 employees on IEA's (agreement covered), 106 on TEC or TFR contracts and 4477 covered by the EEUCA 2008.

Ergon Energy through the EEUCA 2008 offers to specific classifications of employees the option of 10 Day Fortnight (40 Hour Week) working arrangements with an applicable loading over base salary of 13%, 15% or 20% subject to the level of additional overtime hours agreed to be worked over and above the base 36.25 hour week. Such arrangements are offered on a mutually agreed basis where there is a confirmed business need.

The hours of work arrangements and work patterns for employees with coverage under the EEUCA consist of a standard 36.25 hours per week (Monday to Friday) over a nine day fortnight, over a daily spread of hours for ordinary day working employees from 6.00am to 6.30pm, Monday to Friday.

TEC/TFR employees operate under common law employment contracts (i.e. a 10-day fortnight with no loading entitlements). These employees may also have an 'at risk' component of up to 15% of TEC/TFR attached to their salary package.

The attached Schedule of Minimum Employment, Industrial Relations and Job Security Principles for Government Owned Corporation (GOC) Employees - November 2009 (the Schedule of Minimum Standards and Entitlements) forms part of this Plan. Ergon Energy will also adhere to the requirements of government policy in *Guidance for Chief Executive Officers - Agreement Making in Government Owned Corporations* February 2010 (the Guidance for Chief Executive Officers), as per the Guidelines for the Development of Employment and Industrial Relations Plans in GOCs (the Guidelines), subject to any applicable enterprise agreement provisions.

The primary mechanism for determining wage increases for the majority of Ergon Energy's employees is through the enterprise bargaining process. Ergon Energy is



required to follow the Government Owned Corporations Wages Policy which specifically details the parameters of future wage increases. Wage increases in the current Certified Agreement are set until September 2011. Salary increases for TEC/TFR employees are set each year by the Ergon Energy Board having regard to factors such as market data, shareholder expectations and individual performance, etc.

Where there are differences between the conditions contained in the Corporation's industrial instrument (as at March 2010) and those contained in either the Schedule of Minimum Standards and Entitlements or the Guidance for Chief Executive Officers, the relevant provisions from the Corporation's industrial instruments or policies will prevail. If gaps are identified, Ergon Energy will ensure an equivalent or more beneficial outcome will apply to impacted employees.

## **5. Enterprise Bargaining and Productivity Initiatives**

### **Enterprise Bargaining**

Through consultation with our stakeholders, the enterprise bargaining process is the process adopted to develop employment conditions for Agreement covered employees.

The EEUCA 2008 was negotiated with the combined industry unions and implemented on 22 September 2008 for a period of three years.

The EEUCA 2008 applies to employees of Ergon Energy, except those employees paid a salary for the purposes of superannuation which exceeds 115% of salary point 16.5.

The EEUCA 2008 meets the Government's policy requirements and conforms to the Guidance for Chief Executive Officers – Agreement Making and Industrial Relations in Government Owned Corporations (February 2010). The nominal expiry date of the EEUCA 2008 is 22 September 2011 and it shall remain in force until either terminated by the parties or replaced by a new agreement.

### **Agreement Productivity Initiatives**

The EEUCA 2008 provided for productivity and efficiency outcomes over the life of the Agreement as follows:

1. Implementation of agreed single person tasks listed in EEUCA 2008 involving technical stream employees (See attached table for status).
2. Broad based contribution of all employee classifications covered by the EEUCA 2008 in delivering the efficiency benefits in Ergon Energy's Strategic and Business Plans.
3. Implementation of Contractor High Voltage Switching on Single Wire Earth Return systems in rural and remote locations (See attached table for status).
4. A review of the job classification structure to ensure relevance to existing work functions and requirements. This was a non-binding obligation to review the documentation in conjunction with the signatory unions, still expected to be outworked over 2010 and any agreed changes incorporated into a replacement Union Collective Agreement in 2011.
5. Implementation, where operationally suitable, of a customer dispatch and work scheduling system (Field Force Automation) into Ergon Energy vehicles to improve field resources utilisation. The current strategy is to trial the technology

in both Energex and Ergon Energy from January 2010 to January 2011, followed by complete roll-out from January 2011.

The following table provides the status of the specific single person task productivity initiatives as per item 1 and 3 above.

Productivity Program	Source of Productivity Initiative	Target	Achievement to Date
<b>Single Person Tasks</b>			
Disconnects and reconnects where there is no exposure to live parts	EEUCA	Field Deployment From March 2010	In Progress To be implemented June 2010
Asset inspection	EEUCA	March 2009	Completed
Layout investigations	EEUCA	Field Deployment March 2009	Completed
Work that does not require the employee to work above 1.8 metres and/or is not associated with live electrical work	EEUCA	Field Deployment March 2010	In Progress To be implemented June 2010
LV isolation/connections utilising a telescopic link stick from the ground	EEUCA	Field Deployment From March 2010	In Progress To be implemented June 2010
Polarity – ground based	EEUCA	Field Deployment 4 <sup>th</sup> Qtr 2009	In Progress To be implemented June 2010
LV testing in accordance with the <i>Electrical Safety Act 2002</i>	EEUCA	Field Deployment March 2010	In Progress To be implemented June 2010
Meter changes where the supply has been isolated	EEUCA	Field Deployment March 2009	Completed
Changing plug in meters where the meter base has been pre-wired	EEUCA	Field Deployment March 2010	In Progress
<b>External Service Providers</b>			
High Voltage Switching and Isolation of all Single Wire Earth Return (SWER) transformers for the sole purpose of the repair, maintenance and replacement of the SWER earthing grid	EEUCA	4 <sup>th</sup> Qtr 2009	Roll-out of HV Switching training to contractor employees is programmed for September 2010. Delay caused by back log of training providers to cater for Ergon Energy requirements
Act as Switching Operator Assistants (SOA's) for all High Voltage access and isolation procedures as required	EEUCA	4 <sup>th</sup> Qtr 2009	Completed

## 6. Employee Flexibility

The implementation of flexible work practices and arrangements is managed through Ergon Energy policy or consultative processes and provisions established within the EEUCA 2008. Work practices are tailored wherever possible to enable employee flexibility and adherence to Government guidelines. A summary of current flexible work practices is below:

Part-time Arrangements	Yes
Flexible Work Hours	Yes - this includes a nine day fortnight, Rostered Day Off (RDO) and Time off in Lieu (TOIL).
Reduced Working Year	Yes - employees may purchase up to four weeks additional leave per year with salary payment averaged over the whole year.
Paid Maternity/ Adoption/ Paternity Leave	Yes - paid Maternity and Adoption Leave ex-gratia payment of 14 weeks and paid Paternity Leave of one week for employees with at least 12 months continuous service. Employees can ask for an additional 12 months unpaid maternity leave.
Telecommuting (work from home)	Yes - a Working From Home Policy is in place.
List any Other Policies/Practices	<ul style="list-style-type: none"> <li>- Job Share - a full time position shared by two employees to enable a balance between work and home.</li> <li>- Transition to Retirement - an employment option for employees nearing retirement by reducing their working hours to extend their working life, to mentor and utilise their experience for business benefit and prepare for full time retirement at the same time.</li> <li>- Cultural Diversity Leave - leave provided over and above other leave options for relevant employees to attend special events aligned to their cultural or ethnic background.</li> <li>- Leave without pay for up to 12 months - an enhanced leave option for employees to access a sabbatical work break or seek other work experiences beneficial either to the employee or Ergon Energy.</li> </ul>

## 7. Type of Employment and Workforce Planning

	01 Jan 2010	30 June 2010	30 June 2011	30 June 2012	30 June 2013
<b>Employment Category:</b>					
Permanent Full Time	3974	3927	3809	3695	3584
Permanent Part-time (FTE)	136	136	136	136	136
Other Contract	123	123	123	123	123
Senior Executive Contract	9	9	9	9	9
Apprentices (In House)	210*	221	215	225	239
Trainees (In House)	74	58	66	70	71
Casual Employees (FTE)	57	57	57	57	57
<b>Total Directly Employed Workforce:</b>	<b>4,583</b>	<b>4,531</b>	<b>4,415</b>	<b>4,315</b>	<b>4,219</b>
Apprentices (Group)	0	0	0	0	0
Trainees (Group)	0	0	0	0	0
Contractor Employees (Trade/Technical)	685	700	750	800	850
Contractor Employees (Professional/Administrative/ Clerical)	42	42	42	42	42
Labour Hire (Trade/Technical - FTE)	23	23	23	23	23
Labour Hire (Professional/Administrative/Clerical – FTE)	137	137	137	137	137
s457 Temporary Visa	12	12	12	0	0
Number of employees engaged on AWAs with contractors	0	0	0	0	0
<b>Total Workforce:</b>	<b>4,786</b>	<b>4,732</b>	<b>4,616</b>	<b>4,516</b>	<b>4,420</b>

### Notes:

- Information correct as at 1 January 2010 – Note: figures from HR reporting system used, some variation in apprentice and trainee figures noted due to timing of report.
- Advised that an estimated 44 apprentices are yet to start post this reporting period. Data from 31 December 2009 is 210 Internal Apprentices.
- Total number of Trainees includes nine Business Administration Trainees (Once the last of these Trainees complete their traineeship in April 2010, Training and Development will no longer be taking on Administration Trainees or running an Administration Traineeship Program) and two Land Management Trainees. The remainder are technical trainees.
- All figures are total employee numbers, not FTE.
- Other Contract includes Fixed Term and Vacation students.
- Senior Executive Contract – includes Chief Executive and direct report positions.
- The current s457 visa holders are being progressed to permanent resident status, expected to be completed by June 2010. There will be no net increase to the number of s457 visa holders by the end of 2010.
- The figures provided for 2010/12 are estimates only based on resourcing scenarios.
- Contractors (Technical) include core tendered contractors (eg such as vegetation maintenance work). The total of 685 is made up of one full-time Project Resource (classified as such in the HR reporting system) and 684 core-tendered contractors.
- Sponsored apprentices are included in the Permanent Full Time figure (79 in December 2009) which results in an overall total of 289 apprentices (210 internal and 79 sponsored).
- Apprentice numbers continually change as finishing Apprentices are placed in permanent roles or leave the Company. The numbers peak around January each year when there is a new intake, then decline over the following 12 months.

Ergon Energy employs all apprentices directly and where possible offers graduating apprentice's permanent appointments, subject to availability of vacant positions. Where permanent appointments are not possible, a fixed term appointment of 12

months may be offered, which allows additional time for the apprentice concerned to secure a permanent position.

457 Visa numbers are expected to remain unchanged during 2010.

Workforce Planning capability has been implemented into the business with a 2008-2018 plan developed. The current Workforce Plan is primarily based on projected work demand and age demographics over a ten year period. Significant focus has been placed on securing a future pool of suitably skilled employees (apprentices/trainees) over the preceding years, with a noticeable trending down in the years to 2012.

The gradual reduction in numbers forecasted in the table for permanent employees reflects the expectation that there will be progressive improvements in efficiency across all areas of the business which will impact workforce demand. The reductions are not related to any particular large projects. However, it is anticipated that the Australian Energy Regulator (AER) outcome is likely to necessitate a renewed focus on workforce productivity and improved work practices which should result in a reduction of positions over time.

Notably, natural attrition is still greater than the planned demand and this should provide flexibility to manage position reductions through attrition in the majority of cases and ensure that the commitments made in this document to job security are met.

#### 8. Workplace Health & Safety

The Ergon Energy Safety *Management Plan* provides the framework for Ergon Energy to consolidate and improve upon its overall safety performance through a single coordinated three year rolling plan. As outlined in the table below, while Ergon Energy's safety goal during 2009 was **Be Safe**, the 2015 future state vision is to be a **Leader in Safety**.

Horizon	Time	Outcome	Focus
1	2010	Be Safe	<ul style="list-style-type: none"> <li>Believe, own and reflect "Be Safe" in the way we behave.</li> <li>Ensure our approach encompasses all aspects of safety, using consistent messages, from our operational approach through to behavioural change, teamwork and leadership.</li> <li>Continue investment in community education, awareness and ownership of electrical safety.</li> <li>Continue to monitor our performance primarily against the number of Dangerous Electrical Events (DEEs) and the All Injuries Frequency Rate (AIFR).</li> </ul>
2	2015	Leader in Safety	<ul style="list-style-type: none"> <li>Continue to focus heavily on safety.</li> <li>Achieve a degree of safety performance which will attract recognition as an industry leader in safety practice and management, both for our people and for the people in the communities in which we operate.</li> </ul>
3	2020	World's Best Safety Practices	<ul style="list-style-type: none"> <li>Embed the world's best safety practices in the business.</li> <li>Reinforce safety messaging with practical and achievable goals.</li> <li>Monitor and improve safe work practices to lead the industry in safety performance.</li> <li>Achieve World Class performance</li> </ul>

Ergon Energy will realise this future when the following is evidenced:

- We target zero injuries and are the safest utility in Australia.
- We are experts in the safety area, and believe that we can continue to achieve zero injuries.
- Employees are empowered and accountable for safety as part of the way they work. Our safety culture does not accept unsafe behaviours.
- Our distribution network is built and maintained in a manner that assists our customers to interact safely with electricity. The Hazard Analysis and Operability (HAZOP) framework is incorporated into our processes and analysis of our network.
- We work with 'high-risk' community groups to reduce the likelihood of injuries from our assets.

As part of an Organisation Design Review (ODR) in 2009 all of Ergon Energy's safety resources were combined into a single group. This restructure will assist with ensuring there is an uncompromising stance and priority for safety within Ergon Energy and will allow more consistent provision of safety services. During 2010 the Health and Safety Group will also undertake a services review to ensure the organisational structure and governance is positioned to further improve the health and safety services provided to Ergon Energy.

During 2010 the Ergon Energy *Safety Management Plan* will be further reviewed and updated to detail the initiatives and actions for Horizon Two. The revision will also consider the organisational impacts from ODR.

### Policy and Commitment

Ergon Energy's *Workplace Health and Safety Policy* commits the Corporation to:

- Continually reinforcing that working safely is a mandatory condition of employment for all employees and contractors.
- Implement a Health and Safety Management System (HSMS) that not only meets all statutory and industry health and safety requirements, but also aims to achieve Best Practice.
- Ensure all levels of management demonstrate commitment to, and are accountable for, community and workplace health and safety.
- Continue to deliver comprehensive safety leadership programs.
- Integrate community and workplace health and safety requirements into all relevant business processes and decisions.
- Consult and involve employees in the development and implementation of workplace health and safety programs that strive for continuous improvement towards zero injuries.
- Develop and implement procedures and work practices that manage exposure to workplace hazards and risks to as low as reasonably practicable.
- Ensure all employees and contractors have the information, training and equipment required to competently and safely perform their work.
- Manage the rehabilitation of injured/ill employees.
- Recognise, reward and promote employees who demonstrate positive safety behaviours and take personal responsibility for their safety and those around them.
- Allocate adequate resources required to fulfil the aims of this policy.
- Monitor and report compliance with statutory, industry and corporate health and safety requirements.

## Initiatives

During 2009 Ergon Energy committed to reviewing and integrating its health and safety management system with its environmental management system. The Integrated Management System (IMS) is scheduled for completion in December 2010. The IMS will provide a framework for Ergon Energy to continuously improve its safety program, thus improving upon its overall safety performance. The IMS will incorporate improved quality elements which will enable enhanced governance structure and improved business reaction times to not only manage immediate risk, but combat emerging risk trends.

Ergon Energy is progressing with the three horizons strategy set by the business in 2008. During 2009 a Five Point Plan was implemented as a foundation to move into Horizon 2. The key actions from the plan are detailed below.

- Action 1: Upgrade Safety Leadership Capability Development.
- Action 2: Improve eSafe Data Capture and Analysis.
- Action 3: Implement the Next Evolution of Behavioural Safety.
- Action 4: Refocus the Process and Communications Functions to Better Support Safety.
- Action 5: Implement a Drugs and Alcohol Policy and Testing Regime.

Several of the foundation initiatives for the **Leader in Safety objective** are also well advanced including the enhancements to Ergon Energy's SPIRIT Values. The values will be relaunched in 2010 to include Safety as the first Value. Under the relaunch, Ergon Energy's Values will reflect that Success is built on our Values of: Safety, Professionalism, Integrity, Respect, Innovation and Teamwork.

Ergon Energy's Drug & Alcohol Policy and associated business rules have been deployed. Following the deployment of self test drugs and alcohol kits post incident testing is now in place for Class 1 and Class 2 incidents. An education program will be implemented in 2010 prior to random testing commencing on 1 June 2010.

## Safety Risk Management

Ergon Energy through its Health and Safety Management System has a comprehensive risk management methodology. Recent Legislative changes by the Electrical Safety Office (commencement of the *Electrical Safety Code of Practice 2010 – Risk Management*) have reinforced that the risk management process is the key to systematically managing safety in the workplace. Ergon Energy recognises the importance of risk management and has committed to reviewing and revising the risk governance structure to improve its effectiveness in 2010.

## External Audit Performance

The Ergon Energy approach to health and safety ensures that the organisation meets all current statutory and industry health and safety requirements and is prepared to meet and manage future statutory requirements. Over the past year Ergon Energy has continued to be accredited against AS/NZS 4801, the Australian Standard for Health and Safety Management Systems and was successfully re-accredited against AS/NZS 14001 for Environmental Management Systems. In October 2009 Ergon Energy successfully achieved external accreditation to the internationally recognised standard OHSAS 18001:2007 Occupational Health and Safety Management Systems – Requirements.

During 2009 Ergon Energy changed its external certification body as a strategy to bring in a fresh perspective to further assist Ergon Energy to improve its Safety Management System. Ergon Energy was externally independently audited in:

- Surveillance audit to AS/NZS 4801 and AS/NZS 14001 in April 2009. This audit resulted in only four minor non-conformances which were immediately actioned with subsequent audits confirming compliance.
- Certification audit of AS/NZS 4801, AS/NZS 14001 and OHSAS 18001 in October 2009. This audit resulted in eight minor non-conformances. Detailed action plans have been developed and agreed to by the external auditors. Ergon Energy is presently working on these initiatives which will be assessed at the next surveillance audit in 2010.

### Health and Safety Performance

Under our whole-of-business Health and Safety Strategy, our safety performance continues to be monitored. Ergon Energy's Lost Time Injury Frequency Rate (LTIFR) has unfortunately deteriorated from 3.91 in December 2008 to 4.79 in December 2009. AIFR also has deteriorated from 10.15 in December 2008 to 13.16 in December 2009. Ergon Energy is investigating the utilisation of more leading indicators in the health and safety area, again in line with a maturing health and safety environment.

The foundation of the current Five Point Safety Plan coupled with an updated five year Safety Management Plan will ensure that Ergon Energy meets its Horizon 2 objective of targeting zero injuries and being the safest utility in Australia.

### **9. Equal Employment Opportunity and Anti-Discrimination**

Ergon Energy's diversity goals are:

- A commitment to attract and recruit a workforce that is representative of Ergon Energy's customer base through increasing the diversity of the applicant pool and creating a recruitment strategy that is attractive to more applicants from under represented groups;
- A commitment to retain a workforce which is representative of Ergon Energy's customer base by creating an authentic inclusive culture which supports staff and includes flexible work choices;
- Given the high number of staff who are due to retire over the next few years, a commitment to creating exit strategies that provide flexibility, transfer of knowledge and support the transition of these staff;
- A commitment to enhance Ergon Energy's Corporate Social Responsibility through regional community engagement and support.

Ergon Energy has existing diversity and anti-discrimination policies in place. Diversity training is provided to all new employees at induction and existing employees are required to complete refresher training every two years. Employees are trained regarding equity in recruitment through attendance at the 'Recruiting and Selecting Employees' training program.

Ergon Energy ensures the principles of merit and equity are upheld in its processes associated with recruitment, selection and promotion of employees.

### **10. Interstate Acquisitions/Operations**

There are no interstate acquisitions or operations to report.



### **11. Joint Venture Projects**

SPARQ Solutions is a subsidiary company which provides information technology services to both Ergon Energy and ENERGEX (SPARQ Solutions provides a separate E&IR Plan). There are no further joint venture arrangements under consideration.

### **12. Management of the Relationship between GOCs and Unions**

Ergon Energy continues its commitment to developing and maintaining harmonious industrial relations with key industry unions, consistent with government policy and EEUCA 2008 provisions.

A comprehensive arrangement of consultative forums has been established across the business involving the unions to ensure ongoing and effective communication and consultation. Matters of dispute are resolved through workplace level negotiation or through the use of the Dispute Settling provisions in the EEUCA 2008.

Ergon Energy recognises that the industry unions are key stakeholders and represent the interests of employees. While the consultative arrangements provide a more structured forum to raise and progress change and other issues, there is frequent engagement with key union officials and workplace delegates with all levels of Ergon Energy management on a day to day basis. This relationship, while robust at times due to its nature, has continued to deliver mutually beneficial outcomes. The next round of enterprise agreement negotiations is not expected to prove any more or less challenging than previous negotiations.

### **13. Redundancy Provisions**

Notwithstanding the commitment to no forced redundancy, the redundancy provisions contained in Schedule 3 of the EEUCA 2008 are as follows:

- Employees and their unions are to be given at least six months notice before a position is identified as being redundant.
- An employee can apply for a Voluntary Redundancy, but approval is at Ergon Energy's discretion;
- Where a position has been declared redundant, suitable alternative redeployment opportunities will be explored and a dedicated career support service is available when required.
- Redundancy/Retrenchment will not be offered or occur without prior consultation with the Department of Justice and Attorney-General and unions.
- Among other benefits, an employee who is retrenched is entitled to receive a retrenchment payment of three weeks per year of service, with a maximum payment of 75 weeks or where applicable, paid in accordance with the NES Redundancy Provisions which ever is the greater.
- Payment for recreation leave includes an employee's accumulated balance as well as the pro-rata balance. Pro-rata recreation leave is paid to the date of termination.
- A long service leave payment of 1.3 weeks for each completed year of service will be made. Pro-rata Long Service Leave (LSL) will be paid for an incomplete year of service up to the date of termination.
- All balances of accrued Time Off In Lieu will be paid out. These will be paid at the ordinary rate applicable at the date of termination.

#### **14. Job Security**

Ergon Energy is committed to Clause 1.10 of the current EEUCA 2008 which states there will be no forced redundancies for the life of the Agreement unless formally approved by the Shareholding Ministers. This is dependent on employees accepting reasonable retraining and redeployment to suitable alternative employment within their current locality.

#### **15. Contracting Out**

Ergon Energy is committed to orderly and sustainable practice in relation to the use of contractors, the use of labour hire arrangements and the employment of skilled overseas staff to cover labour shortages through employer sponsored Temporary Long Stay Subclass 457 Visas, though this latter option has limited application (except for highly specialised and business-critical roles unattainable in Australia) in the foreseeable future. Where Ergon Energy engages labour hire employees under 457 Visa arrangements, such arrangements will be in accordance with prevailing legislation.

Ergon Energy will continue with the approach that all contractors will be engaged through a competitive tender process that will require all contractors to demonstrate their ability to meet and comply with legislative and regulatory requirements that apply to the Queensland Electrical Industry. Such compliance will focus on ensuring that the contractor's operating policies and procedures in respect of WH&S plans, Industrial Relations, Work Practices and Risk Management Plans are aligned with the policies and procedures that apply to Ergon Energy and our employees where appropriate and lawful. Through these arrangements, Ergon Energy ensures that any contractors or external resources engaged in electrical work on our assets are appropriately licensed to perform the work and meet Ergon Energy's safety obligations.

Ergon Energy will, as a part of our Contractor Management System, undertake regular compliance audits (including joint Ergon Energy/union safety audits) to ensure that all contractors are operating within these documented parameters and that risks are being adequately managed professionally and in a timely manner to eliminate or minimise liability.

Ergon Energy will ensure that the relevant industry unions are consulted prior to the outsourcing of any significant work functions, that contract labour is utilised within the scope of the applicable industrial framework and that the risk of industrial disputation is minimised.

Ergon Energy and the relevant industry unions recognise that circumstances may arise where the use of contractors is either desirable or essential. These circumstances are seen to be within the following guidelines:

1. The work volume is beyond the capacity of the resources or staff of Ergon Energy;
2. It is in the public interest to undertake such work. Public interest includes issues of cost effectiveness;
3. The type of work or specialisation required is beyond the capacity of the resources or staff of Ergon Energy;
4. The security and tenure of employment of additional staff required to meet work peaks cannot be guaranteed.

Ergon Energy sponsors a small number of international employees on 457 visas with the intent to convert them to Permanent Residency status as soon as possible. This approach ensures their skill sets and the training invested in them remains within the organisation and regional Queensland. In addition, the majority of these international recruits are employed in supervisory/management and/or mentoring positions, with the requirement that they train/mentor others within the organisation, so that these skills will be developed locally. All current 457 Visa holders are in the process of gaining Permanent Residency status.

Ergon Energy employs international employees under the same terms and conditions as other employees covered by the EEUCA.

#### **16. Superannuation**

All Ergon Energy employees who are employed under the EECA 2008, must be members of the Electricity Supply Industry (ESI) Superannuation Fund. Choice of super fund is only available to employees who are employed on common law contractual terms.

There are employees in both the Defined Benefit and the Defined Contribution parts of the ESI Super Fund. The ESI Defined Benefits section is closed to new employees of Ergon Energy (ie all new employees join the ESI Defined Contribution part of the Fund).

Defined Benefit members contribute 5% to the fund and Ergon Energy contributes at the rate as recommended by the ESI Super Fund actuary. From 1 July 2009 the employer Defined Benefit rate increased to 29% for the next four years ending 30 June 2013. The fund actuary recommended the 29% employer rate as the contribution required to return the sub plan (Ergon Energy) assets to a satisfactory financial position by 30 June 2013. The expected Vested Benefits Index is projected to be 102% by 30 June 2013. In addition, a lump sum payment of \$8.9 million was paid in June 2009 to top up the Defined Benefit assets as a result of the shortfall created by a higher crediting rate in the Smoothed Investment Fund option.

Defined Contribution members receive either the statutory contribution of 9% from Ergon Energy or, should they decide to contribute 5% to the fund themselves, then Ergon Energy will contribute 10%.

As at 6 January 2010, Ergon Energy has the following numbers in each of the funds:

- Defined Contribution – 3,117 employees
- Defined Benefit – 1,440 employees

Casual employees receive the statutory Government contribution of 9% from Ergon Energy.

Ergon Energy also contributes to the following superannuation companies on behalf of a further 17 employees:

- ING Group
- MLC
- Superwrap
- EQUIPSUPER
- BT Financial Group
- Colonial First State
- Westpac Financial Services
- QSuper

- Suncorp
- MLC Masterkey
- Woden Super Fund
- Horizon Super Fund
- Telstra Super Scheme

### **17. Consultation**

Ergon Energy will undertake consultation on various aspects of this plan with the Department of Employment, Economic Development and Innovation, the Office of Government Owned Corporations (OGOC), the Department of the Premier and Cabinet and the Department of Justice and Attorney General.

Consultation on this E&IR Plan will also occur at Ergon Energy's consultative committee where unions are represented and issues raised will be recorded and where appropriate incorporated.

### **18. Reporting**

Ergon Energy will provide a brief report on performance against the Plan to OGOC highlighting any significant divergences from the Plan and the background for these variances.

## **SPARQ SOLUTIONS EMPLOYMENT AND INDUSTRIAL RELATIONS PLAN 2010/11**

### **Shareholder Information**

#### **1. E&IR Philosophy/Direction**

SPARQ Solutions is a client focussed, cost-effective Information and Communications Technology (ICT) shared service provider to ENERGEX Limited (ENERGEX) and Ergon Energy Corporation Limited (Ergon Energy). SPARQ Solutions works with its clients to achieve their business goals by developing, implementing and operating ICT solutions to enable business capability and growth.

Jointly owned by ENERGEX and Ergon Energy, the company was established in July 2004 through the amalgamation of the ICT Services of its shareholders. While not a subsidiary in Corporations Law terms due to the joint ownership structure, SPARQ Solutions was declared a subsidiary of ENERGEX and Ergon Energy for the purposes of the *Government Owned Corporations Act* by Regulation in March 2006.

As SPARQ Solutions is a subsidiary of Ergon Energy and ENERGEX, the SPARQ Solutions Employment and Industrial Relations Plan (E&IR Plan) forms part of the E&IR Plans of its shareholders. However, as a separate legal entity with its own operational requirements and business drivers, the SPARQ Solutions E&IR Plan stands in its own right, and to the extent of any inconsistency between its E&IR Plan and the E&IR Plans of its shareholders, the SPARQ Solutions E&IR Plan will prevail.

SPARQ Solutions people vision is to be a world-class employer which will attract, retain and develop existing and new employees and position the organisation as an “employer of choice”. This positioning will provide the foundation for achievement of the company’s vision to be the leading provider of shared solutions to its clients.

Ergon Energy provides employment and industrial relations services to SPARQ Solutions under a corporate services arrangement, while ENERGEX, through its shareholding and close association with the company, is a key stakeholder in employment and industrial relations matters. However, SPARQ Solutions has its own enterprise bargaining agreement covering its (award based) employees.

The salient characteristics which define SPARQ Solutions desired culture and “employer of choice” vision are:

- Managers will implement employment policies and practices within approved guidelines, and will apply contemporary leadership skills to engage employees for commitment, personal fulfilment and achievement in the workplace.
- SPARQ Solutions will be characterised by achievement through the ongoing development of an achievement focussed culture, whilst being open to creativity through fostering innovation, flexibility and adaptiveness. Through this, SPARQ Solutions will deliver client expectations and build employee engagement. SPARQ Solutions will be a “learning organisation” where individuals can move across functional boundaries and share knowledge in an open and timely manner.
- SPARQ Solutions will be a leading employer in the Queensland ICT industry and provide employees with the opportunities associated with working in a client-focused and achievement-oriented company.
- SPARQ Solutions will maintain its commitment to developing and implementing an appropriate industrial framework which facilitates productivity improvements, increases staff engagement and flexibility whilst maintaining industrial harmony.

- Employees will enjoy working for SPARQ Solutions and promote the company as a great place to work, where they can appropriately balance their lives and fulfil both work and family goals. This will be evidenced by employees representing SPARQ Solutions in the community, which will help to establish the company as a responsible and committed corporate citizen.
- Diversity amongst employees will be seen as an area of strength, and systemic barriers which prevent the full participation of employees from different backgrounds will be broken down.
- SPARQ Solutions will have a direct relationship with its employees, supported by a balanced relationship with third party representatives. The right of employees' to affiliate with Unions will continue to be recognised and relationships with relevant Unions will be productive and encompass working together to achieve shared goals to the benefit of both employees and the company.
- There will be a genuinely effective relationship between employees and their managers. This will be evidenced through employees being fully engaged, exhibiting high levels of loyalty towards the company, having greater participation in decision-making, and enjoying a sense of community, caring and trust. Strong leadership will be evident through the promotion of a shared vision, collaboration and commitment to people.
- SPARQ Solutions will achieve its target of zero injuries and be a place where health, safety and environment are seen as integral to the way it does business and to the way employees live their lives. It will create an environment where people take personal responsibility for their own health and safety and that of their workmates, and for the environment.

In order to support the achievement of the Philosophy and Direction as outlined above, the continued focus of SPARQ Solutions Employee and Industrial Relations direction and goals for 2010/11 are:

- The full implementation of the SPARQ Solutions Union Collective Agreement 2009 (SSUCA 2009) as the replacement industrial agreement for the Preserved State Agreement (ENERGEX, SEPL and SPARQ Certified Agreement 2005) which will provide the framework for supporting the achievement of SPARQ Solutions overall business plan initiatives;
- Continued focus on the implementation of a comprehensive development framework to ensure effective leadership behaviours and performance at all managerial levels within SPARQ Solutions;
- Maintaining a harmonious industrial environment which emphasises employee participation and engagement as a standard feature of SPARQ Solutions culture.

## **2. Significant and Emerging Issues**

To meet the specific requirements of SPARQ Solutions business model and workforce, SPARQ Solutions has maintained employment arrangements that promote flexible working conditions including telecommuting and working from home, transition to retirement, flexible remuneration arrangements and the refinement of after hours and on-call arrangements which are applicable to ICT operations.

The award modernisation process has resulted in the introduction of new national-based Industry Awards across all Industry Sectors. Preliminary advice indicates that SPARQ Solutions operations are covered by the State Government Agencies Administration Award 2010 (SGAA Award) which came into effect on 1<sup>st</sup> January 2010. Further investigation will be

required during 2010/11 to clarify the application of a new modern award to SPARQ Solutions operations, however, the Award modernisation process is not expected to cause any significant issues while the certified SSUCA 2009 remains in place until its nominal expiry date of 30 January 2012.

SPARQ Solutions will continue to provide and maintain all existing employment conditions and entitlements to Agreement-covered employees as per SSUCA 2009. SPARQ Solutions will continue to observe and apply relevant policies in accordance with shareholder direction and any applicable Government policy relevant to Government Owned Corporations, including the commitment to apply the attached Minimum Employment, Industrial Relations and Job Security Principles for GOC Employees (November 2009).

### **Joint Working Activities**

ENERGEX, Ergon Energy and SPARQ Solutions are committed to pursuing opportunities for joint working to reduce duplication of effort, achieve economies of scale and thereby increase service capability and reduce costs.

As part of the Joint Working activities, in April 2009 the Joint ICT Governance Project implemented changes to the governance model to enable increased effectiveness and efficiency in decision making, and improved end-to-end ICT processes, in a joint working relationship.

The result of the changed ICT Governance arrangements meant that SPARQ Solutions commenced management accountability of ICT for both ENERGEX and Ergon Energy from April 2009. This included the progressive transfer of approximately 25 roles to SPARQ Solutions and included groups with accountability for Solutions Support, Information and Solution Architecture, Process Architecture and Governance and ICT Portfolio management.

The shift that the changed governance arrangements brought was for SPARQ to transition its relationship with Ergon Energy and ENERGEX from one that is contractually managed via a Service Level Agreement to a more inclusive relationship where SPARQ is a "virtual business unit" of Ergon Energy and ENERGEX. This new model provides greater "line of sight" and a clearer set of accountabilities which will lead to a more efficient delivery of services and business capability.

Some employees of ENERGEX and Ergon Energy previously transferred to SPARQ Solutions during its establishment in 2004 on a "no disadvantage" basis. SPARQ Solutions employees continue to work closely with the employees of ENERGEX and Ergon Energy as the provider of ICT services and there is widespread understanding at the employee level of the industrial arrangements of these entities. To accommodate the impacts from Joint Workings activities between the two parent corporations, it has been important to maintain parity between the conditions of employment within SPARQ Solutions and the conditions established by the respective Union Collective Agreements of ENERGEX and Ergon Energy.

### **Operational Improvement Review**

SPARQ Solutions will be conducting an Operational Improvement Review aimed at enhancing its overall performance and effectiveness to ensure that it continues to meet the business needs of Ergon Energy and ENERGEX and provide good value for their ICT investment.

SPARQ Solutions has not held a formal organisation-wide review of operations since its inception more than five years ago. The primary purpose of the review is to examine internal processes, procedures, and generally the way of working at SPARQ.

One of the key objectives of the Operational Improvement Review is to ensure that SPARQ is better set up for long term continuous improvement by focusing on identifying productivity and efficiency gains in line with our future direction.

The review will be carried out in two phases: diagnosis and implementation.

During the diagnostic phase, subject matter experts under the guidance of independent consultants will examine the services provided to ENERGEX and Ergon Energy and the processes used. Recommendations for improvement opportunities will be put forward for consideration and potential implementation.

The Operational Improvement Review does not involve reviewing SPARQ's organisational structure or resourcing levels. However, the outcome of the review may have potential to impact SPARQ Solutions employees. This may be through redesigned roles and or processes, which could give rise to retraining, redeployment to new positions and as a last resort, voluntary redundancies. Voluntary redundancies will not occur unless all other options are exhausted and consultation has occurred with the Department of Justice and Attorney-General and unions.

### Integrity Act Implications

While the *Integrity Act Queensland 2009* brings Queensland Government Owned Corporations and prescribed GOC subsidiaries within scope of the *Crime and Misconduct Act 2001*, independent legal advice provided to SPARQ Solutions is that SPARQ Solutions is not a prescribed GOC subsidiary as defined in the *Integrity Act Queensland 2009*. This position is supported by separate legal advice provided to Ergon Energy in its capacity as a shareholder of SPARQ Solutions.

SPARQ Solutions recognises that it may be the Government's intention that SPARQ should be subject to the Crime and Misconduct Act 2001 and has requested the Crime and Misconduct Commission to clarify how its jurisdiction applies to SPARQ Solutions. Notwithstanding this uncertainty, SPARQ Solutions is working to ensure that its policies, procedures and practices are adequate to meet any obligations arising from the Integrity Act, should it be determined authoritatively that these apply to SPARQ Solutions.

### 3. Directors/Senior Executive Remuneration

SPARQ Solutions Pty Ltd Directors are Executives of the Shareholding Companies and do not receive any remuneration for their role as a SPARQ Solutions Director.

Board Member	Director Fees	Committee Fees	Superannuation	Other	Total Annual Fees
Ian McLeod (Chair) – Chief Executive – Ergon Energy	Nil	Nil	Nil	Nil	Nil
Terry Effeney – Chief Executive Officer – ENERGEX	Nil	Nil	Nil	Nil	Nil
Peter Weaver – Executive General Manager – Customer Services - ENERGEX	Nil	Nil	Nil	Nil	Nil
Darren Busine – Chief Financial Officer – ENERGEX	Nil	Nil	Nil	Nil	Nil
Mal Leech – Executive General Manager – Employee and Shared Services – Ergon Energy	Nil	Nil	Nil	Nil	Nil
Justin Fitzgerald – Executive General Manager – Customer & Stakeholder Engagement – Ergon Energy	Nil	Nil	Nil	Nil	Nil
John Hooper – Chief Financial Officer – Ergon Energy	Nil	Nil	Nil	Nil	Nil

SPARQ Solutions has adopted the Ergon Energy “Guidelines for Executive Remuneration” as the basis for remunerating and appointment of Senior Executives. The adoption of this Policy was approved by the shareholding Ministers on 20 February 2008.



Details of SPARQ Solutions Senior Executives' remuneration are set out in the table below.

CEO/Senior Executives	Base Salary <sup>1</sup>	Employer Superannuation Contributions <sup>2</sup>	Motor Vehicle <sup>3</sup>	Car Park <sup>4</sup>	Other personal benefits <sup>5</sup>
P. Effeney – Chief Executive Officer	\$303,293	\$32,532	\$10,931	\$11,136	0
B. Maskey –Project Delivery Manager	\$201,239	\$14,461	\$9,526	0	0
P. Cockburn – Service Delivery Manager	\$208,850	\$18,804	0	0	0
C. Hanley – Applications Capability Manager	\$194,717	\$19,469	\$8,412	0	0
P. Poncini – Client Solutions Manager	\$206,961	\$20,693	\$10,074	0	0
J. Thompson – Chief Financial Officer	\$217,415	\$21,739	\$9,526	0	0

CEO/Senior Executives	Total Fixed Remuneration <sup>6</sup>	Other non-personal benefits <sup>7</sup>	
P. Effeney – Chief Executive Officer	\$357,892	0	
B. Maskey –Project Delivery Manager *	\$225,226	0	
P. Cockburn – Service Delivery Manager	\$227,654	0	
C. Hanley – Applications Capability Manager	\$222,598	0	
P. Poncini – Client Solutions Manager	\$237,728	0	
J. Thompson – Chief Financial Officer	\$248,680	0	

Mr Maskey commenced employment with SPARQ Solutions in August 2009 and therefore did not qualify for a performance payment in the previous year.

1. Includes salary sacrifice items plus cash salary
2. Employer contributions to superannuation (other than by salary sacrifice)
3. Value of a motor vehicle for business and personal use (other than by salary sacrifice)
4. Value of car park if car park is a personal benefit to the Executive (other than by salary sacrifice)
5. Includes but is not limited to, general/expense allowances, subscriptions, home telephones/communication expenses. FBT not elsewhere included, etc (other than by salary sacrifice)
6. Sum of columns 1 – 5
7. Include the value of non-personal benefits provided to the Executive to assist in the performance of their duties

Notes:

Mr Bryce Maskey was appointed to the position of Project Delivery Manager in August 2009 following a merit based selection process in accordance with the *Governance Arrangements for Chief and Senior Executives*.

Prior to the appointment of Mr Maskey, SPARQ Solutions initiated a rotation for Senior Executives within the capability and Joint ICT lines of business to build cross-organisational capability and to enhance teamwork within the organisation. Following the appointment of Mr Maskey, the rotation of SPARQ Senior Executives was discontinued and the executives returned to their substantive management positions.

## **SPARQ SOLUTIONS EMPLOYMENT AND INDUSTRIAL RELATIONS PLAN**

### **4. Employment Conditions**

SPARQ Solutions will continue to be committed wherever possible to implementing employment and industrial relations arrangements consistent with the guidelines provided by the Queensland Government, and amendments made under the current Federal Governments *Fair Work Act 2009*.

Current employment arrangements reflect commitment to using the dispute settlement provisions of the SSUCA 2009 through Fair Work Australia, or by utilising the Queensland Industrial Relations Commission for any disputed matters. The successful negotiation of the SSUCA 2009 demonstrates SPARQ Solutions preference for collective agreements.

SPARQ Solutions has a standard 9 Day fortnight for employees covered by the SSUCA (72.5 hour fortnight). The hours of work arrangements and work patterns for these employees consist of a standard 36.25 hour week (Monday to Friday) with a daily spread of hours for ordinary day working employees from 6.00am to 6.30pm, Monday to Friday.

The SSUCA 2009 provides specific classifications of employees the option of 10 Day Fortnight (80 hour fortnight) working arrangements. These have a loading over base salary of 13%, 15% or 20% subject to the level of additional overtime hours agreed to be worked over and above the base 36.25 hour week. These arrangements are offered on a mutually agreed basis dependent upon business need.

SPARQ Solutions employees are employed under the following arrangements as applicable:

- SPARQ Solutions Union Collective Agreement 2009 (a transitional instrument under the Federal Fair Work Act 2009), which now incorporates applicable terms of the former Electricity, Generation, Transmission and Supply Award - State 2002 and Family Leave Award – State 2003 (No. AR10 of 2003) (322 employees);
- Individual Employment Arrangements (IEA) operating within relevant SSUCA 2009 parameters (3 employees); and
- TEC or TFR contracts for employees outside the scope of SSUCA 2009 (10 employees).

TEC/TFR employees operate under common law employment contracts (i.e., a 10-day fortnight with no loading entitlements). These employees may also have an 'at risk' component of up to 15% of TEC/TFR attached to their salary package.

SPARQ Solutions complies with the Schedule of Minimum Employment, Industrial Relations and Job Security Principles for Government Owned Corporation (GOC) Employees – November 2009 (the Schedule of Minimum Standards & Entitlements). The Schedule forms part of this Plan and the agreement with shareholding Ministers it represents. SPARQ Solutions will also adhere to the requirements of the government policy directive in *Agreement Making in Government Owned Corporations – Guidance for Chief Executive Officers* (the Guidance for Chief Executive Officers), as per the Guidelines for the Development of Employment and Industrial Relations Plans in GOCs (the Guidelines), subject to any applicable enterprise agreement provisions.

Where there are differences between the conditions contained in SPARQ Solutions industrial instrument (as at March 2010), and those contained in either the Schedule of Minimum Standards and Entitlements or the Guidance for Chief Executive Officers, the relevant provisions from the company's instruments or policies will prevail. SPARQ Solutions maintains an industrial instrument (SSUCA) and employment policies that are equal to or more beneficial than those outlined in the Minimum Employment Conditions.

## **5. Enterprise Bargaining and Productivity Initiatives**

### **Enterprise Bargaining**

Through consultation with our primary stakeholders, the enterprise bargaining process is the process adopted to develop employment conditions for Agreement covered employees.

The SSUCA 2009 was negotiated with the combined industry unions and lodged with the Federal Workplace Authority on 30 January 2009. Its nominal expiry date is 30 January 2012 and it shall remain in force until either terminated by the parties or replaced by a new agreement.

The SSUCA 2009 applies to all SSUCA 2009 covered employees (320) of SPARQ Solutions Pty Limited, except those employees who are paid a salary for the purposes of superannuation which exceeds 115% of salary point 16.5 (\$140,286).

The SSUCA 2009 meets the Government's policy requirements and conforms to the Queensland Government Guidelines for the Development of Employment and Industrial Relations Plans in Government Owned Corporations.

### **Productivity Initiatives**

The Agreement provides for productivity and efficiency outcomes as follows:-

- Broad based contribution of all employee classifications covered by the Agreement in delivering the efficiency benefits from SPARQ Solutions Strategic and Business Plans.
- Commitment to flexibility in working arrangements such as greater office space density, working from home, telecommuting as an accepted working practice (subject to role requirements, practical working arrangements and management agreement) and use of shared facilities where positions do not require a permanent workstation.
- Increase in the minimum notice period for resignation purposes from one (1) week to three (3) weeks for employees in the Professional and Managerial Stream.

The following table provides an overview of progress with achieving productivity initiatives agreed as part of the SSUCA 2009.

Productivity Program	Source of Productivity Initiative	Target	Achievement to Date
<b>SPARQ Solutions Union Collective Agreement</b>			
Increase in minimum notice period for resignation from one week to three weeks for employees classified in the Professional and Managerial Stream.	SSUCA	<ul style="list-style-type: none"> <li>Three week notice period to be implemented following lodgement of SSUCA.</li> </ul>	<ul style="list-style-type: none"> <li><b>Complete</b> - Implemented 30/1/2009 upon lodgement of SSUCA.</li> <li>Three week notice period is now applied for all separating employees.</li> </ul>
Commitment to flexibility in working arrangements which will contribute to greater office space density through initiatives such as working from home and telecommuting practices.	SSUCA	<ul style="list-style-type: none"> <li>Up to 10 FTE in Approved Working from Home Arrangements by 30 June 2010.</li> </ul>	<ul style="list-style-type: none"> <li><b>Partially Complete</b> - SPARQ Solutions Working From Home Guidelines and Processes were reviewed in 2009 with amended processes being introduced.</li> <li>Four employees are engaged in approved working from home arrangements as at 7 January 2010.</li> <li>An organisational review of positions was completed to determine roles that may be suitable for remote working arrangements.</li> </ul>
SPARQ Solutions to have discretion to offer all new appointments as 10 day fortnight for all Professional and Managerial and Administration Stream employees above SP11.0.	SSUCA	<ul style="list-style-type: none"> <li>Arrangements in place</li> </ul>	<ul style="list-style-type: none"> <li><b>Complete</b> - Implemented 30/1/2009 upon lodgement of SSUCA.</li> </ul>
SPARQ Solutions to have discretion for all new or vacant nine day fortnight positions RDO's to be scheduled on any day (Monday to Friday).	SSUCA	<ul style="list-style-type: none"> <li>Arrangements in place</li> </ul>	<ul style="list-style-type: none"> <li><b>Complete</b> - Implemented 30/1/2009 upon lodgement of SSUCA.</li> </ul>
<b>SPARQ Solutions Property Strategy</b>			
Achieving a reduced CBD office accommodation footprint	Property Strategy	<ul style="list-style-type: none"> <li>Reduced accommodation costs of \$146,000 p.a from 2009/10.</li> </ul>	<ul style="list-style-type: none"> <li><b>Complete</b> - SPARQ Solutions relocated the majority of Brisbane based employees and contractors (300) to new premises in Newstead in September 2009.</li> <li>The new premises provide for significantly reduced accommodation costs and will also allow SPARQ to remain in close proximity to ENERGEX who will take up occupancy of their Newstead offices in July 2010.</li> </ul>

## 6. Employee Flexibility

The implementation of flexible work practices and arrangements are managed through consultative processes and provisions established within SSUCA 2009. Work practices are tailored wherever possible to enable employee flexibility and adherence to Government guidelines. There is an underlying commitment to the implementation of policies consistent with the Government guidelines for Government Owned Corporations (GOC's).

SPARQ Solutions offers a variety of initiatives aimed at providing flexible work arrangements for its employees. These initiatives include:

Flexibility Initiative	Detail
Part Time Arrangements	Establishment of part time working arrangements and varying work roster arrangements is provided for under the provisions of the SSUCA 2009.
Flexible work hours	Time Off In Lieu provisions and practices are provided for under the provisions of the SSUCA 2009.
Reduced working year	The SSUCA 2009 entitles employees to purchase up to four (4) weeks additional leave each year.
Paid maternity/paternity/adoption leave	The SSUCA 2009, provides entitlements to employees with twelve (12) months continuous service to: <ul style="list-style-type: none"> <li>o Fourteen (14) weeks paid Maternity leave</li> <li>o Fourteen (14) weeks paid Adoption Leave</li> <li>o One (1) week paid Paternity Leave.</li> </ul>
Telecommuting (work from home)	SPARQ Solutions provides telecommuting opportunities for staff through the provision of remote user access to SPARQ Solutions applications to support emergency call out and after hours support functions, avoiding the necessity for on-call staff to attend SPARQ Solutions premises outside working hours.  In addition, SPARQ Solutions has established and implemented <i>Working From Home Guidelines</i> to enable formalised working from home arrangements to be implemented where the position requirements meet established criteria.
Transition to retirement	Transition to retirement arrangements are provided for under the SSUCA 2009.
Job Sharing Opportunities	Job Sharing arrangements are provided for under the SSUCA 2009.
Leave Without Pay	Leave without pay for up to 12 months is available for employees to access a sabbatical work break or seek other work experiences beneficial to either the employee or SPARQ Solutions.
Cultural or Religious Leave	Is provided over and above other leave options for relevant employees to attend special events aligned to their cultural or religious background.

SPARQ Solutions expects to continue the development of these initiatives and practices as a feature of our standard working conditions and practices.

## 7. Type of Employment and Workforce Planning

	30 June 2009	30 June 2010	30 June 2011	30 June 2012	30 June 2013
<b>Employment Category:</b>					
Permanent Full Time	308	351	351	351	351
Permanent Part-time (FTE)	3	3	3	3	3
Other Contract	-	-	-	-	-
Senior Executive Contract	6	6	6	6	6
Apprentices (In House)	-	-	-	-	-
Trainees (In House)	-	-	-	-	-
Casual Employees (FTE)	-	-	-	-	-
<b>Total Directly Employed Workforce:</b>	<b>317</b>	<b>360</b>	<b>360</b>	<b>360</b>	<b>360</b>
Apprentices (Group)	-	-	-	-	-
Trainees (Group)	-	-	-	-	-
Contractors (Trade/Technical)	-	-	-	-	-
Contractors (Professional/Administrative/Clerical)	104	64	64	64	64
Labour Hire (Trade/Technical - FTE)	-	-	-	-	-
Labour Hire (Professional/Administrative/Clerical - FTE)	21	21	21	21	21
s457 Temporary Visa	1				
<b>Total Workforce:</b>	<b>443</b>	<b>445</b>	<b>445</b>	<b>445</b>	<b>445</b>

### Notes:

- The figures provided for 2010/11 and onwards are estimates based upon the assumption that the current level of expenditure on ICT will be maintained by SPARQ Solutions clients (this is outside of SPARQ Solutions control).

Permanent employment arrangements are used to support SPARQ Solutions ongoing operational levels of work. Contractors are generally utilised by SPARQ Solutions to undertake projects delivering new ICT capability projects commissioned by the clients of SPARQ Solutions. While contractor numbers were higher in the past, due to a record program of work supporting clients' obligations following the Electricity Distribution Service Delivery Report, the introduction of Full Retail Contestability in Queensland and the sale of their electricity and gas retail operations, these contractor numbers have now stabilised and are anticipated to remain at the noted level for the foreseeable future.

Workforce planning processes will continue to be refined during 2010/11 through the Program Management function within the Project Delivery Group. The SPARQ Program Management Office (PMO) has evolved from a reporting focus to include the management of the coordinated scheduling, resourcing and delivery of the work program and operational demands servicing the needs of all SPARQ lines of business. The PMO function will continue to be developed and improved over the next year, consistent with the SPARQ Solutions

business plan. In addition to the establishment of the Program Management function, SPARQ Solutions will continue to progress other workforce planning initiatives including:

- Introduction of "Transition to Retirement" strategies; and
- Ongoing skill development and structured retraining for SPARQ Solutions employees.

In relation to the composition of the workforce, SPARQ Solutions has a relatively small component of employees in the 55-65 year age bracket. Transition to Retirement Guidelines have been developed and are in the process of being implemented to support the management of ageing workforce issues.

At the present time, SPARQ Solutions does not engage trainees or apprentices due to the specialised nature of ICT work undertaken by the business. SPARQ Solutions recruitment strategy is to target new and recent graduates where possible as a means of introducing new skill sets to the organisation and to continue to develop organisational capability.

SPARQ Solutions notes Government's 2009 election commitment to maintain 5,000 public sector apprenticeships and trainee positions over four years to April 2013 across the Queensland public sector agencies, Government Owned Corporations, government departments and statutory authorities. SPARQ Solutions workforce planning and employment policies are underpinned by a clear recognition of the need for a skilled and viable workforce which takes into account the need for on-going renewal and appropriate training to ensure there is sufficient capacity within the organisation to replace retiring or departing employees. Apprentices and trainees are an important part of this forward planning and SPARQ Solutions therefore supports the Government's commitment. SPARQ Solutions will endeavour to make available trainee opportunities consistent with its workforce planning, training programs and business needs.

## **8. Workplace Health & Safety**

SPARQ Solutions continues to focus on the primary objective of moving health and safety from a systems-based, intensive focus to a fully operational, behaviourally-based part of normal day-to-day operations. SPARQ continues to work with Ergon Energy as the corporate services provider to implement a range of key health and safety initiatives through the business. The WH&S current initiatives focus on behavioural safety, health programs and legislative requirements as well as actively managing SPARQ's safety risk profile.

SPARQ Solutions develops an annual Workplace Health and Safety Program in conjunction with Ergon Energy as the corporate services provider. The behavioural safety and health programs will continue to be a feature of the Workplace Health and Safety Program along with the standard activities for risk management and safety monitoring. Standard activities for risk management and safety monitoring include:

- Monthly reporting of safety performance indicators including Lost Time Injury Frequency Rate, All Injuries Frequency Rate (which are lag indicators) and the SPARQ Solutions Poweraid Index (which is a lead indicator).
- Monthly workplace inspection cycles;
- Further improvements to the Electronic Safety System (eSafe) for the monitoring and reporting of safety hazards, risks and incidents;
- Escalation of improvement actions and hazards to regional and Peak Workplace Health and Safety Committees for monitoring and review; and
- Annual review of SPARQ Solutions Hazard and Risk Register with adoption of appropriate controls.

SPARQ Solutions is seeking certification of its safety management system under AS4801 by 30 June 2010. As part of the preparations for certification, a pre-certification audit was conducted by an external provider (NCS International) in January 2010. The audit results were favourable and indicate that SPARQ Solutions is on target for attaining certification of the overall system. As part of the continuous improvement of the safety management system, SPARQ Solutions focus will be on the establishment of appropriate review processes including internal monitoring systems.

SPARQ Solutions has an Environmental Management System (EMS) in place and obtained certification to the Australian Standard ISO 14001: 2004 Environment in June 2006. SPARQ Solutions maintains this certification by conducting six monthly surveillance audits of the Environmental Management System. A reaccreditation audit was conducted in June 2009 and SPARQ Solutions maintained accreditation of the EMS.

SPARQ Solutions will strive to continually improve its Workplace Health and Safety and Environmental Management Systems by working with Ergon Energy as the Corporate Services provider and to explore opportunities to integrate and align these systems wherever possible.

## **9. Equal Employment Opportunity and Anti-Discrimination**

SPARQ Solutions has EEO and anti-discrimination policies in place. EEO training is provided to all new employees at induction and existing employees are required to complete refresher training every two years. Employees are trained regarding equity in recruitment through attendance at the 'Recruiting and Selecting Employees' training program.

SPARQ Solutions complies with the requirements of the Pay Equity Inquiry Report of the Queensland Industrial Relations Commission, and ensures that these matters are addressed effectively through a range of employment strategies, policies and practices.

SPARQ Solutions ensures the principles of merit and equity are upheld in its processes associated with recruitment, selection and promotion of employees.

SPARQ Solutions will ensure that probationary employment is characterised by scheduled, formal and minuted discussions with individuals on probation, regarding their conduct capacity and/or performance. Such staff shall be treated in line with the requirements of Clause 6 of the Schedule of Minimum Employment, Industrial Relations and Job Security Principles mentioned above, in relation to any matter concerning conduct, capacity or performance, particularly where dismissal is contemplated.

## **10. Interstate Acquisitions/Operations**

SPARQ Solutions has no interstate acquisitions or operations.

## **11. Joint Venture Projects**

SPARQ Solutions has no Joint Venture projects.

## **12. Management of the Relationship between GOCs and Unions**

SPARQ Solutions continues its commitment to developing and maintaining harmonious industrial relations with key industry Unions. The primary mechanism used for engaging the Unions is through the role of union delegates. Arrangements are in place to ensure ongoing and effective communication and consultation by way of monthly consultative meetings which are conducted with nominated employee and management representatives. Matters of dispute are resolved through negotiation or through more formal dispute settlement processes if necessary.



### **13. Redundancy Provisions**

Notwithstanding the commitment to no forced redundancies, the redundancy provisions contained in schedule 6 of the SSUCA 2009 are as follows:

- Employees and their unions are to be given at least 6 months notice before a position is identified as being redundant;
- An employee can apply for a Voluntary Redundancy, but approval is at SPARQ Solutions discretion;
- Where a position has been declared redundant, suitable alternative redeployment opportunities will be explored and a dedicated career support service is available when required; and
- Among other benefits, an employee who is retrenched is entitled to receive a retrenchment payment of three (3) weeks per year of service, with a maximum payment of 75 weeks.
- Payment for recreation leave includes an employee's accumulated balance as well as the pro-rata balance. Pro-rata recreation leave is paid to the date of termination.
- A long service leave payment of 1.3 weeks for each completed year of service will be made. Pro-rata LSL will be paid for an incomplete year of service up to the date of termination. Any LSL already taken will be deducted.
- All balances of accrued Time Off In Lieu will be paid out. These will be paid at the ordinary rate applicable at the date of termination.

There will be no forced redundancies without the explicit and written sanction of relevant Shareholding Ministers. Voluntary redundancies will not occur unless all other options are exhausted and consultation has occurred with the Department of Justice and Attorney-General and unions.

### **14. Job Security**

SPARQ Solutions is committed to Clause 1.10 of the current SSUCA 2009 which states there will be no forced retrenchments for the life of the Agreement.

### **15. Contracting Out**

SPARQ Solutions is committed to orderly and sustainable best practices in relation to the use of contractors, the use of labour hire arrangements and the employment of skilled overseas staff to cover labour shortages through employer sponsored Temporary Long Stay Subclass 457 Visas.

SPARQ Solutions and the relevant industry unions recognise that circumstances may arise in SPARQ Solutions where the use of contractors is either desirable or essential. These circumstances are seen to be within the following guidelines:

- The work volume is beyond the capacity of the resources or staff of SPARQ Solutions;
- It is in the public interest to undertake such work. Public Interest includes issues of cost effectiveness;
- The type of work or specialisation required is beyond the capacity of the resources or staff of SPARQ Solutions;
- The security and tenure of employment of additional staff required to meet work peaks cannot be guaranteed.

As indicated under Part 7 – Type of Employment and Workforce Planning, contractors are used by SPARQ Solutions to undertake projects delivering new ICT capability projects commissioned by the clients of SPARQ Solutions where the skill sets required are not needed

on a long term basis. These arrangements are typically labour hire in nature with the contractors working under the supervision of SPARQ Solutions employees.

Contractors are sourced through a panel of preferred suppliers established in December 2008 after undertaking an open tender process. The establishment of the panel was undertaken to ensure that SPARQ Solutions maximises the value of contractor engagements and ensure that providers comply with SPARQ Solution's requirements for workplace health and safety in the engagement of contractor resources. Structured recruitment and engagement processes are in place to manage the engagement of contract resources within SPARQ. This includes validation of skills and qualifications against established criteria.

SPARQ Solutions will ensure that the relevant industry unions are consulted prior to the outsourcing of any significant work functions in accordance with our industrial instruments. We will ensure contract labour is utilised within the scope of the industrial framework that is applicable to SPARQ Solutions and that the risk of industrial disputation is minimised.

Should there be changes to current government policy or guidelines for the engagement of contractors, such changes will be considered in the process of engaging contractors and implemented within the scope of any applicable law.

SPARQ Solutions presently has no staff engaged under s457 visa arrangements.

## **16. Superannuation**

SPARQ Solutions employees are predominately members of the ESI Superannuation Fund.

Those employees who are members of ESI Superannuation Fund, and are permanent employees, are members of the Defined Benefits Fund or the Defined Contributions Fund. The ESI Defined Benefits Fund has been closed to new employees of SPARQ Solutions (i.e., only the Defined Contribution Fund is available).

Members of the Defined Benefits Fund contribute 5% to the fund and SPARQ Solutions contributes at the rate as recommended by the fund actuary (currently 5%). Members of the Defined Contributions Fund receive either the statutory Government contribution of 9% from SPARQ Solutions or, should they decide to contribute 5% to the fund themselves, then SPARQ Solutions will contribute 10%.

To meet the requirements of the Australian Prudential Regulation Authority (APRA), the defined benefit part of the fund has to have Fund Assets greater than Vested Benefits. While the most recent Actuarial Review of the Defined Benefits Fund confirmed the Fund was in surplus at 30 June 2008, preliminary advice provided by the Actuary is that due to the impact of the Global Financial crisis, the value of Vested Benefits is now greater than Fund Assets. Actions to rectify the situation are being assessed in conjunction with SPARQ Solutions shareholders, ENERGEX and Ergon Energy. These steps may include increasing the company contribution rate for Defined Benefit Fund members, or making lump sum payments to recoup the shortfall.

As at 2nd February 2010, SPARQ Solutions has the following numbers in each of the funds:

- Defined Contribution – 243 employees
- Defined Benefit – 75 employees

While SPARQ Solutions currently has no casual employees, employees engaged on a casual basis would receive the statutory Government contribution of 9% from SPARQ Solutions.

Currently, SPARQ Solutions also contributes to the following four superannuation companies:

- AMP Flexible Super
- BT Lifetime Super

- Colonial First State Super
- Sun Super

## **17. Consultation**

Ergon Energy will undertake consultation on behalf of SPARQ Solutions through its peak consultative committee on which relevant Unions are represented and where appropriate changes requested will be incorporated.

Ergon Energy has undertaken consultation on behalf of SPARQ Solutions on various aspects of this plan with the Department of Employment, Economic Development and Innovation, the Office of Government Owned Corporations, the Department of the Premier and Cabinet and the Department of Justice and Attorney-General and relevant Unions.

## **18. Reporting**

SPARQ Solutions will provide a brief report annually to OGOC covering the following matters:

- confirming the implementation of the current E&IR Plan;
- outlining if there have been any events or matters that have occurred or due to occur that vary to the E&IR Plan provisions for that cycle and explanations for those variations; and
- detailing any contentious issues that have arisen or are expected to arise during the current E&IR Plan cycle.

## ATTACHMENT 3 – SPONSORSHIP, ADVERTISING, CORPORATE ENTERTAINMENT, DONATIONS AND OTHER ARRANGEMENTS

**Table 1: Sponsorship, Advertising, Corporate Entertainment, Donations and Other Activities : Details of Individual Expenditure Items <sup>1,2</sup>**

Activity <sup>3</sup>	Description / Benefit	2009-10 Budget (\$)	2009-10 Est. Actuals (\$)	2010-11 Budget (\$)	Quarter (SCI year) <sup>4,5</sup> (\$)				(SCI year) Per Head Budget (\$)
					Sept	Dec	Mar	Jun	
<b>COMMUNITY PARTNERSHIP<sup>a</sup></b>									
Envirofund	A grant program that provides funding for community groups and not-for-profit organisations to undertake energy conservation and environmental initiatives in their local community.	100,000	97,525	100,000					
Schools program	An influential education tool used to drive Ergon Energy's energy efficiency strategy into schools.	10,000	8,116	45,000					
Tidy Towns	Community-based environment program open to all Qld local governments and Aboriginal and Torres Strait Island community councils, town residents, school groups, community groups and environment and conservation groups.	110,000	109,866	120,000					
Queensland Energy Museum	A comprehensive archive collection and resource library funded by Ergon Energy, Energex and Powerlink.	100,000	100,000	100,000					
Urban Development Inst of Australia	Liaison and network opportunity with local development industry leaders creating an infrastructure and network benefit	25,000	25,000	25,000					

<sup>a</sup> Community engagement is an important communication tool used by Ergon Energy to reach its customers; with approximately 87% of funding spent at a regional level.

Activity <sup>3</sup>	Description / Benefit	2009-10 Budget (\$)	2009-10 Est. Actuals (\$)	2010-11 Budget (\$)	Quarter (SCI year) <sup>4,5</sup> (\$)				(SCI year) Per Head Budget (\$)
					Sept	Dec	Mar	Jun	
Netball Queensland	Netball Qld has 10,000 members in Regional Qld & 80 associations throughout the state. Naming rights partnership of the Ergon Energy Netball Academy and the Ergon Energy Equipment Grant allows access to members to assist our customers to manage electricity affordability and support Regional Queensland activities.	120,000	110,000	110,000					
Agforce	For delivery of safety initiatives and educational campaigns.	20,000	20,300	20,000					
QUT Business Leaders Forum	The events bring together key members of the Qld business and political community to explore the trends, issues and ideas that are shaping the economy and politics of the nation.	0	22,000	22,000					
Local Government	Members promote their services, products and community involvement for the benefit of our local government communities.	88,000	71,720	70,000					
Townsville Enterprise <sup>b</sup>	Providing a forum for the corporation to interface with key stakeholders on regional development issues.	120,000	111,344	120,000					
Carnival of Flowers	Access to key stakeholders and business leaders in the community through associated events and activities.	50,000	50,000	50,000					

<sup>b</sup> This forms part of an overall community engagement programme and provides a key channel for communicating with Townsville business and the wider Townsville community.

Activity <sup>3</sup>	Description / Benefit	2009-10 Budget (\$)	2009-10 Est. Actuals (\$)	2010-11 Budget (\$)	Quarter (SCI year) <sup>4,5</sup> (\$)				(SCI year) Per Head Budget (\$)
					Sept	Dec	Mar	Jun	
Festival Cairns	Community engagement with local stakeholders and community in Far North Queensland.	20,000	25,140	25,000					
Technology Challenge	Promotion and education of energy efficiency and alternative energy sources to the local community in particular high school students	15,000	15,024	15,000					
Opera Queensland		15,000	20,000	0					
General Sponsorship		60,000	67,568	0					
<b>Total over \$5,000</b>		<b>853,000</b>	<b>853,603</b>	<b>822,000</b>					
Tactical Local	Managed by local Corporate Communications Managers and linked to specific stakeholder and network issues	270,000	270,000	252,000					
<b>TOTAL (1)</b>		<b>1,123,000</b>	<b>1,123,603</b>	<b>1,074,000</b>					
<b>ADVERTISING (and other marketing channels)</b>									
Energy Conservation/Affordability	Educate customers on energy efficiency	1,766,000	2,234,147	1,848,712					
Community Safety and Internal Communications	Promote safe use of electricity around Ergon Energy assets	900,000	757,570	802,542					
Community Engagement	Community communication	317,000	151,239	80,000					
General Communications (Clean Energy, Employer of Choice, The Wire, Collateral etc)	General marketing	1,082,000	1,003,490	1,109,227					
<b>Total over \$5,000</b>		<b>4,065,000</b>	<b>4,146,446</b>	<b>3,840,481</b>					
Other (total) below \$5,000		0	0	0					
<b>TOTAL (2)</b>		<b>4,065,000</b>	<b>4,146,446</b>	<b>3,840,481</b>					

Activity <sup>3</sup>	Description / Benefit	2009-10 Budget (\$)	2009-10 Est. Actuals (\$)	2010-11 Budget (\$)	Quarter (SCI year) <sup>4,5</sup> (\$)				(SCI year) Per Head Budget (\$)
					Sept	Dec	Mar	Jun	
<b>CORPORATE ENTERTAINMENT</b>									
Staff Christmas Function in Townsville			5,180	6,000					approx \$27 per head
Staff Christmas Function in Cairns			7,639	8,000					approx \$27 per head
Staff Christmas Function in Toowoomba			8,991	8,000					approx \$27 per head
<b>Total over \$5,000</b>		<b>0</b>	<b>21,810</b>	<b>22,000</b>					
Staff Christmas Functions below \$5,000	72 functions held in Brisbane and other regional centres	55,000	47,475	48,000					approx \$27 per head
Anniversary Functions below \$5,000		25,000	11,509	0					
North Queensland Cowboys Corporate Box	Corporate hospitality opportunity to strengthen relationships with customers and influential stakeholders	0		20,000					
Townsville Crocodiles	The Townsville Crocodiles is a corporate hospitality opportunity to strengthen relationships with customers and influential stakeholders.	25,000	25,000	0					
Brisbane Mining Club	The Brisbane Mining Club is a corporate hospitality opportunity used to strengthen relationships with major customers and for stakeholder management.	10,000	10,000	10,000					

Activity <sup>3</sup>	Description / Benefit	2009-10 Budget (\$)	2009-10 Est. Actuals (\$)	2010-11 Budget (\$)	Quarter (SCI year) <sup>4,5</sup> (\$)				(SCI year) Per Head Budget (\$)
Hospitality / Events for Stakeholder Engagement and Business Development		100,000	81,944	80,000					
<b>Other (total) below \$5,000</b>		<b>215,000</b>	<b>175,928</b>	<b>158,000</b>					
<b>TOTAL (3)</b>		<b>215,000</b>	<b>197,738</b>	<b>180,000</b>					
<b>DONATIONS</b>									
Individual entity over \$5,000		0	0	0					
<b>Total over \$5,000</b>		<b>0</b>	<b>0</b>	<b>0</b>					
Other (total) below \$5,000		261,000	261,000	261,434					
<b>TOTAL (4)</b>		<b>261,000</b>	<b>261,000</b>	<b>261,434</b>					
<b>OTHER RELATED ACTIVITIES</b>									
Customer Research and Segmentation	Market research data analysis	911,000	801,861	883,751					
Internet	Internet build and enhancements	301,000	208,121	450,952					
Bill related communications	Bill newsletter & other billing related communications	541,000	678,830	592,352					
Corporate Memberships:	Memberships of local development & industry associations as per below:								
<i>Rockhampton Regional Development</i>	Interface with key stakeholders regional development issues.	30,000	30,000	30,000					
<i>Electrical Users Association Australia</i>	National association providing networking and information exchange with energy users	7,270	7,270	7,270					
<i>Advance Cairns</i>	Interface with key stakeholders regional development issues.	15,000	15,000	15,000					



Activity <sup>3</sup>	Description / Benefit	2009-10 Budget (\$)	2009-10 Est. Actuals (\$)	2010-11 Budget (\$)	Quarter (SCI year) <sup>4,5</sup> (\$)				(SCI year) Per Head Budget (\$)
Mackay Whitsunday Regional Economic Development Corporation	Interface with key stakeholders regional development issues.	20,000	20,000	20,000					
Tourism Tropical North Queensland	Interface with key stakeholders regional development issues.	8,191	8,191	8,191					
Corporate Reporting	Production of annual report	81,000	77,299	91,000					
Conferences	Community and Stakeholder Engagements	50,000	42,480	47,770					
<b>Total over \$5,000</b>		<b>1,964,461</b>	<b>1,889,052</b>	<b>2,146,286</b>					
Other (total) below \$5,000		<b>19,539</b>	<b>15,456</b>	<b>15,080</b>					
<b>TOTAL (5)</b>		<b>1,984,000</b>	<b>1,904,508</b>	<b>2,161,366</b>					
<b>TOTAL (1)+(2)+(3)+(4)+(5)</b>		<b>7,648,000</b>	<b>7,633,295</b>	<b>7,517,281</b>					

**Notes:**
<sup>1</sup>All expenditure to be GST exclusive

<sup>2</sup>Cells shaded in grey do not need to be populated

<sup>3</sup>Add other rows as required to include all entities/campaigns/events/commitments over \$5,000 in each category

<sup>4</sup>These figures are not cumulative

<sup>5</sup>If expenditure planned for during the year but quarter not finalised, insert N/A in quarter columns

**Table 2: Corporate Entertainment: Details of Total Budgeted Expenditure under \$5,000<sup>6,7</sup>**

Activity	2009-10 Budget (\$)	2009-10 Est Actuals (\$)	2010-11 No. of Activities	2010-11 Budget (\$)	Quarter (SCI year) <sup>8</sup> (\$)			
					Sept	Dec	Mar	Jun
<b>Corporate Entertainment Total</b>								
• Staff Functions	82,431	58,984	73	48,000				
• Business Development	45,796	43,910	24	36,128				
• Stakeholder and Community Engagement	86,773	73,034	61	73,872				
<b>TOTAL UNDER \$5,000</b>	<b>215,000</b>	<b>175,928</b>		<b>158,000</b>				

**Notes:**
<sup>6</sup>All expenditure to be GST exclusive

<sup>7</sup>Cells shaded in grey do not need to be populated

<sup>8</sup>These figures are not cumulative

## ATTACHMENT 4 – WACC CALCULATIONS

Ergon Energy’s WACC for its regulated business is set by the Australian Energy Regulator (AER) final Distribution Determination for the 2010-2015 period.

The WACC Parameters as per the final Distribution Determination from the AER are as follows:

Parameter	AER Determination
Nominal Risk-Free Rate (%) (A)	5.64%
Real Risk-Free Rate (%)	3.04%
Expected Inflation Rate(%)	2.52%
Gearing Level (Debt:Equity)	60:40
Market Risk Premium	6.5%
Equity Beta	0.8
Debt Risk Premium	3.33%
Nominal pre-tax return on debt (%)	8.98%
Nominal pre-tax return on equity (%)	10.84%
<b>Nominal vanilla WACC (%)</b>	<b>9.72%</b>

For non regulated investments Ergon Energy derives a project specific WACC using the GOC guidelines. These project specific WACC rates are higher than the WACC established by the Distribution Determination. Investments are only considered if they are expected to have a rate of return in excess of the project specific WACC.

## **ATTACHMENT 5 – CORPORATE GOVERNANCE GUIDELINES FOR GOVERNMENT OWNED CORPORATIONS**

This section is intentionally blank.

## ATTACHMENT 6 – COMPLIANCE WITH GOVERNMENT POLICIES

EECL will observe and comply with Policies and Guidelines issued by the Queensland Government including:

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

The Board and Chief Executive (CE) of Ergon Energy take full responsibility to ensure that prudent financial practices will be applied both within the Corporation and within its subsidiaries (whether fully controlled or otherwise). Without limiting the obligations imposed on the Board and the CE by the GOC Act and where applicable the Corporation's Law, this includes a commitment to:

- Abide by the Code of Practice for Government Owned Corporation's Financial Arrangements (2004) as issued by the Queensland Government.
- Establish, maintain and implement appropriate financial risk management practices and policies required and as specified in the Code of Practice.

EECL and EEQ will make best endeavours to comply with the following Policies and Guidelines issued by the Queensland Government:

- Guidelines for Frequent Flyer Schemes (1999)
- 2% for Public Art Policy (2004).

Further in relation to the commitment above to the Guidelines for CEOs on Agreement Making in GOCs, in the conduct of enterprise bargaining by the corporation, it will adhere to the framework for negotiations approved by the Cabinet Budget Review Committee.

**ATTACHMENT 7 – MINIMUM EMPLOYMENT, INDUSTRIAL RELATIONS AND  
JOB SECURITY PRINCIPLES FOR GOVERNMENT OWNED CORPORATION  
(GOC) EMPLOYEES**



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

**18 January 2010**

## **Context**

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

## **Rationale**

The introduction of Work Choices legislation has created some uncertainty regarding minimum employment standards, industrial relations practices and job security, especially in the government owned corporation sector, which is subject to the Work Choices legislation. This Government is opposed to the erosion of employment conditions by the Work Choices legislation introduced in 2006.

## **Objective**

The principles set out below, which have been endorsed by Government, are intended to confirm the Government's position on minimum employment conditions and industrial relations practices and ensure that pre-Work Choices conditions are not eroded. As a general principle, GOCs should maintain arrangements and policies existing prior to Work Choices, including in any GOCs subsidiaries within Queensland unless otherwise agreed with unions. GOCs should also work cooperatively with unions to resolve issues using services available at the State level where possible.

## **Application**

GOC shareholding Ministers request that GOCs put in place available safeguards to maintain standard employment conditions, industrial relations practices and job security through the provisions of GOC Employment and Industrial Relations Plans (E&IR Plans). E&IR Plans form part of the annual Statements of Corporate Intent which are considered and approved by the shareholding Ministers by 30 June each year in line with the *Government Owned Corporations Act 1993* provisions. Legal advice from Crown law supported this approach, except where the relevant GOC is subject to the National Code of Practice for the Construction Industry e.g. Qld Rail as a result of undertaking work on federally funded rail infrastructure projects.

## Principles

### 1. Union Encouragement

At the point of engagement, employees are to be provided with a document indicating that the corporation encourages employees to join and maintain financial membership of an organisation of employees that has the right to represent their industrial interests. Union delegates and job representatives have a role to play within a workplace. The existence of accredited union delegates and/or job representatives is to be encouraged. Accredited union delegates and/or job representatives shall not be unnecessarily hindered in the reasonable and responsible performance of their duties.

### 2. No Disadvantage

Rates of pay and conditions of employment included in a Notional Preserved State Award and/or a Preserved State Collective Agreement, when taken as a whole, are not to be reduced in the future except as required by relevant federal legislation or as agreed between the relevant industrial parties.

### 3. Enterprise Agreements

The following conditions of employment and practices shall continue –

- a) collective agreements with unions shall be the preferred means of industrial regulation of rates of pay and conditions of employment;
- b) new individual common law contracts shall not be written within the relevant enterprise agreement envelope (individual contracts should only be executed where total fixed remuneration equates to or exceeds the equivalent of the Queensland Public Service AO-8 level (from 1/7/2008 \$95,082.40 per annum) plus 12.75% plus the equivalent of annual leave loading plus any overtime component) or the top rate in the respective GOC enterprise agreement plus the applicable superannuation and annual leave components, where the aggregate of these is lower –
  - i) An amount lower than outlined in b) above may be negotiated within an enterprise agreement as agreed between the relevant parties; and
  - ii) Developing and utilising alternative employment arrangements under enterprise agreements, which provide hours and overtime flexibility linked to a rolled-up rate of pay, is



preferred to the use of individual contracts within the relevant enterprise agreement envelope/s.

#### **4. Payroll Deductions of Union Fees**

Requests from employees for payroll deduction of union fees are to be accommodated where the service was made available immediately prior to 27 March, 2006. It is noted that Government agencies provide this facility without charge to relevant unions.

#### **5. Use of Contractors**

The following general principles should be followed when using contractors:

- (a) Contractors and/or labour on-hire arrangements are to be utilised in an orderly and responsible manner, such that there is not a detrimental effect on the State's or public interest e.g. causing disruption to services to the public or causing damage to the economy or standing of the State.
- (b) It is recognised that circumstances arise where the use of Contractors is either desirable or essential. These circumstances are seen to be within the following guidelines:—
  - (i) The work volume, type of work or specialisation required is beyond the capacity of resources or staff;
  - (ii) It is in the public interest to undertake such work. Public interest includes issues of cost effectiveness; or
  - (iii) The security and tenure of employment of additional staff required to meet work peaks cannot be guaranteed.
- (c) The use of contractors is not to be used to avoid training existing staff or employing new staff to cater for emerging areas of work. "Emerging areas of work" does not include one-off works or temporary work peaks.
- (d) In addition, contractors and/or their employees are not to be appointed to any position as permanent employees unless normal advertising and selection processes have been followed.

#### **6. Unfair Dismissal**

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

- a) if an employee's conduct, capacity or performance is deficient —
  - (i) ensure the employee is formally warned about the conduct, capacity or performance and is given a chance to rectify any deficiency; and
  - (ii) ensure the employee is given an opportunity to respond formally to any allegation about their conduct, capacity or performance; and
  - (iii) ensure employees have a right to be represented through all parts of the process; and
- b) if dismissal is subsequently contemplated —
  - (i) provide the employee with a clear reason for dismissal detailing the process gone through to seek improvement as referred to above; and
  - (ii) ensure clarity as to whether the dismissal is related to the employee's conduct, capacity or performance.

#### **7. Right of Entry of Union Officers to the Workplace**

An officer of a union party to a GOC award or enterprise agreement shall be provided with access to relevant workplaces during business hours to inspect and request information and/or discuss with the employer and members or potential members, a suspected breach of applicable employment legislation, a relevant award or enterprise agreement or a workplace or industrial matter. The above is subject to seeking access from a responsible manager or other person in charge. Permission shall not be unreasonably withheld, but access and the activities undertaken thereafter shall not interrupt the normal continuity of work.

**It is noted that by law, entry to certain operations subject to national/State security initiatives can only occur under escort unless the necessary authorities are held. Union officials should make contact with GOCs beforehand to ensure necessary compliance before entering workplaces where this might be the case e.g. ports, airports and like essential infrastructure installations.**

#### **8. Industrial Relations Education Leave**

Unless an award/enterprise agreement and/or custom and practice immediately prior to 27 March 2006 provides otherwise, paid time off not exceeding five days per union in any one year non-cumulative, is to be made available to a duly elected or appointed union representative or delegate, upon written application by the union at least 6 weeks in advance (or such lesser period as was provided for in an award/enterprise agreement or custom or practice immediately prior to 27 March 2006 or as is mutually agreed by the union and the GOC), to attend courses or seminars conducted by the union or specific training courses approved and accredited by the union. The GOC shall give consideration to the special requirements of any regionally based workplaces in applying the limits on paid time off referred to above, provided that the granting of such leave does not unreasonably interfere with the GOC's operations. The scope, content and level of such courses or seminars shall be such as to contribute to a better understanding of industrial relations within the GOC's operations.

#### **9. Consultative Arrangements**

GOCs shall endeavour to deal with industrial relations matters cooperatively through consultative arrangements with employees and union delegates at the workplace level and through employees and/or delegates and union representatives or officials at the organisation level. Paid involvement of delegates and relevant employees shall be considered in relation to such consultative arrangements, as well as in circumstances where their involvement facilitates the resolution of industrial relations issues or assists the employer in developing and implementing new initiatives, provided they are not involved in industrial action. Where paid union meetings have been available as a result of an award/enterprise agreement or custom and practice existing immediately prior to 27 March 2006, such arrangements shall be continued.

#### **10. Job Security**

In any situation of redundancy, options for redeployment and retraining of staff shall be exhausted before the offer of voluntary redundancy arrangements is considered. DEIR should be consulted prior to the offer of voluntary redundancy arrangements. There shall be no forced redundancies without the explicit and written sanction of relevant shareholding Ministers in the case of forced redundancies at GOCs.

#### **11. Assistance with the Resolution of Disputes**

The *Industrial Relations Act 1999* (IR Act) was amended in 2007 to provide for parties to have access to the Queensland Industrial Relations Commission (QIRC) by agreement, to conciliate and/or arbitrate matters in dispute and to provide greater flexibilities in the structure of the QIRC to respond to changing workloads as a result of the introduction of Work Choices. This includes parties to Preserved State Collective Agreements or Notional Agreements Preserving State Awards. GOCs are encouraged to utilise these avenues as a means of resolving issues at the State level. Wherever possible, GOCs should genuinely attempt to resolve issues through the provisions of the IR Act.

If a matter cannot be resolved as a result of utilising the QIRC functions, such processes will satisfy the requirements of the *Workplace Relations Act 1996* regarding alternative dispute resolution, should matters subsequently be referred to the Australian Industrial Relations Commission by way of dispute.

GOCs are advised to develop a Dispute Resolving Policy that provides a consistent and clear approach for the parties to deal with disputes early on. The Disputes Resolving

Policy may list the nominated person(s) agreed with the union(s) to assist the parties in resolving disputes and a range of functions and conditions agreed between the parties to determine on a case by case basis the best way to deal with particular disputes.

**This is not a process to deal with industrial action.**

See attachments: Guidelines for Establishing a Disputes Resolving Policy for use in seeking the assistance of the Queensland Industrial Relations Commission under section 273A of the IR Act.

**ATTACHMENT**

**GUIDELINES: Establishing a Dispute Resolving Policy**

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

**Step 1 Resolution at the Workplace Level**

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

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

**Step 2 Alternative Dispute Resolution Process [including QIRC assistance]**

**Who** *The disputes policy shall list the nominated person(s) agreed between the parties to assist in resolving disputes.*

*Person/s may include a Queensland Industrial Relations Commission (QIRC) member/s in relation to utilising section 273A under the Industrial Relations Act 1999 or, alternatively establish a panel of agreed persons (eg industry expert, AIRC/QIRC representative and union representative)*

**How** *The parties may determine the appropriate approach to each dispute on a case-by-case basis and must agree in writing how the dispute is to be resolved. If the parties agree to seek the QIRC's assistance, the parties must submit a **referral agreement** to the QIRC as to how the dispute is to be resolved by the QIRC (refer to section 273A (1)(b) under the Industrial Relations Act 1999).*

**What General Provisions**

*Provisions covered in the disputes resolving policy must be agreed between the parties in advance of handling any particular dispute. Such provisions can include:*

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

Any time industrial action is threatened or taken, the GOC must inform Department of Employment and Industrial Relations as soon as possible.

**Functions of QIRC**

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

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

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

### Disputes Resolving Policy - Checklist

The following checklist could also be used as a basis of a referral agreement under section 273A(1)(b) of the Industrial Relations Act 1999.

1. Request the informal assistance of [INSERT Commissioner] to resolve a dispute between [INSERT parties involved].
2. Advise the dispute is in relation to [INSERT subject matter, brief background and timeframe the dispute has existed].
3. Indicate the [INSERT union or other party to the dispute] has been notified and agrees to the Commissioner's assistance to resolve this dispute and the parties request that the Commissioner be requested [INSERT terms of disputes process eg
  - to conciliate the matter
  - to conciliate the matter and if the dispute remains unresolved, arbitrate the matter
  - to arbitrate the matter
  - granting a remedy or other relief
  - deciding any other issue or question arising in the dispute.
4. State that in its role as [INSERT conciliator / arbitrator] the Commissioner is requested [INSERT any of the following relevant term]s:
  - to observe the confidentiality of the matters in dispute
  - to identify and define the matters in dispute
  - to develop a procedure that aims to resolve the dispute quickly, fairly and cost-effectively
  - to suggest resolution techniques for individual issues aimed at narrowing the matters in dispute
  - to act as the facilitator of direct negotiations between the parties
  - to make suggestions for resolution (Conciliation process)
  - express opinions about a reasonable resolution (Conciliation process)
  - that if the matter is unresolved it may within seven days of terminating the process, provide a written report to the parties expressing the opinion of what would be a reasonable resolution of the dispute (Conciliation).
  - to determine the matter (s) in dispute by selecting one only of the final round of offers on the basis of which offer the Commissioner believes provides the most reasonable basis on which to resolve the matter in dispute (Arbitration)
  - not to amend or otherwise qualify the offer it selects (Arbitration)
  - to notify the parties in writing as to the offer it considers to provide the most reasonable basis of settlement as soon as practicable after receiving the final round of offers from the parties (Arbitration)
  - to make a recommendation which the parties accept as a binding resolution of the dispute. The recommendation can be based on the information provided in conciliation and additional information provided by the parties. The parties agree that the Commission may issue directions for the purposes of obtaining further information. (Informal Determination)

to make a formal determination and that the parties agree to abide by the determination. The parties will have the opportunity to be heard formally on the matter(s) in dispute and the Commissioner will only regard material including witness evidence, submission and will disregard admissions, concession, offers or claims made in mediation. The Commissioner may also make and issue directions in relation to the process leading to its determination and the parties will abide by those directions. (Formal Determination).
5. Address procedural matters including [INSERT details about:
  - how the parties will present its position
  - confidentiality arrangements
  - representation
  - timing, location and duration of the process
  - if a telephone conference is required
  - how the process will be recorded
  - any other particulars about the Commissioner's role in relation to establishing procedures.

6. Advise that in the event that the requested Commissioner is not available, the parties request [INSERT Commissioner] to assist the parties.

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