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Looking for more information?

Additional information, industry measures and abbreviations are provided on page 52. The Annual Financial Statements for Ergon Energy Corporation Limited and its Controlled Entities (including the Directors’ Report and our Financial Statements), as well as previous reports, are available online at www.ergon.com.au/annualreport

COVER: Glen Boyle discusses his power bill savings with Lisa McDonald, Ergon Energy Manager Products and Demand Management. Glen is a resident of The Village, at Oonoonba in Townsville, a real-estate development focused on building energy-smart homes. p22
We’ve been listening to our customers to help us best target our efforts. We’re refreshing our service commitments... and bringing about the changes needed to make sure we can meet them.

Our efforts are about making certain we can continue to deliver the safe, dependable electricity service we are known for – and, as an essential service, the ‘peace of mind’ that this brings.

They’re about looking to the future – and evolving the role of the electricity network and our business - so we can support greater customer choice and control in economic electricity supply solutions.

And, most importantly, our efforts are about doing everything we can as an organisation to deliver on our commitments, and the customer value they offer, for the best possible price.

*It is a challenging time for the industry, and for those who rely on us, but by working together towards a shared energy future we see a world of opportunity for our business, for our customers, and for regional Queensland.*
About our report

This report presents Ergon Energy’s overall performance for the 2013-14 financial year – showcasing the contribution of Ergon Energy Corporation Limited and its subsidiary Ergon Energy Queensland Pty Ltd. It also provides limited commentary on our other subsidiaries and our joint venture (p41).

Our role in sustainability
Ergon Energy’s stakeholders are our customers, the communities we work in and serve, our government shareholders and industry regulators, our employees (including representative unions), and our industry associates and suppliers.

We are active in assessing our stakeholders’ expectations, and in maintaining an understanding of the opportunities and risks associated with supplying electricity to regional Queensland. This understanding has guided the content of this report.

While our most significant contribution to sustainability remains our response to electricity affordability, this report also addresses a range of other sustainability concerns, relevant to our stakeholders (see below) and ourselves.

Our approach to reporting has been guided by Global Reporting Initiative’s (GRI) G4 Principles of Sustainability Reporting, as well as the Australasian Reporting Awards criteria for best-practice reporting and the Energy Supply Association of Australia’s Sustainable Practices Framework.

To assist us to continually improve our reporting, we invite your feedback online, or through our external stakeholder engagement team on 13 10 46.

STAKEHOLDER SUSTAINABILITY CONCERNS

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</tr>
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<td></td>
<td>Local procurement opportunities</td>
<td>38, 50</td>
</tr>
</tbody>
</table>

1. While addressing electricity affordability is the primary objective of the industry reform agenda, service standards and the broader customer and community concerns listed are also shared by our government shareholders and regulators.
Ergon Energy supplies electricity across a vast, diverse service area of more than one million square kilometres – across 97% of the state of Queensland.
OUR DISTRIBUTION BUSINESS

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

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

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

OUR RETAIL BUSINESS

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

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

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

OUR OTHER BUSINESSES

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

SPARQ Solutions Pty Ltd, our joint venture with Energex Limited (our south-east Queensland counterpart), provides each of our respective organisations with information and communications technology solutions and services.

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

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

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

4,415 employees
$11.5 billion asset base
160,000km of powerlines
69 service depot locations
2 network control centres
2 customer contact centre sites

Our delivery

724,000 customers served
2,441MW peak demand met
15,247GWh electricity distributed
2.7 power outages per customer
17,500 new solar systems connected
1.7 million calls answered

Our network

Around 70% of our electricity network runs through rural Queensland, a vast service area with large distances between communities. This makes customer density on the network the second lowest in the national electricity market.

To transport power over these distances our network consists of both a high proportion of high voltage ‘poles and wires’ and over 65,000 kilometres of ‘SWER’ lines (using the limited capacity Single Wire Earth Return technology).

We also have 33 stand-alone power stations supplying communities isolated from the main grid, in western Queensland, the Gulf of Carpentaria, Cape York, various Torres Strait islands, and Palm Island. Our retailer also has a gas-fired power station at Barcaldine, which supplies the main grid.

What makes up the price?

For 2013-14, a typical quarterly electricity bill for our residential customers was $435, up 7.1% on 2012-13. At $33.50 per week, this is 2.7% of Queensland’s median weekly household income.3

The cost of transporting electricity around regional Queensland (both distribution and transmission) makes up the largest part of the bill. Retail costs, then electricity generation, are the next largest. The carbon tax was passed on in 2013-14, however, this has since been removed. The other costs are associated with the Queensland Government’s Solar Bonus Scheme and the Renewable Energy Target.4

3. The average residential bill is based on Ergon Energy Queensland Pty Ltd accounts, excluding households with solar energy systems installed. Australian Bureau of Statistics Queensland median weekly household income ($1,235 per week).

4. Cost components and percentages are based on QCA publication of Electricity Prices 2013-14.
Performance highlights

**We refreshed our service commitments to inform our investment plans** – this has led to a Regulatory Proposal centred on delivering peace of mind, choice and control for the best possible price. p11, 37

**Network reliability continues to improve** – over the past five years the average duration of outages has been reduced by 41% and the average number of outages by 34%. p14

**We delivered improvements in our new connection service**, both for large and small ‘developers’ – delivery against our ‘contract acceptance to construction’ target improved by 17%. p17

**We managed the connection of over 17,500 solar energy systems** – and continued to evolve the network as an open access platform for distributed energy resources. p17, 24

**By working actively with our customers to manage their demand, we surpassed our five-year demand reduction target in four years**, the equivalent of removing the demand of 36,000 houses. p22

**Our telecommunications network project, UbiNet, was completed** – linking our network monitoring and control capability to deliver efficiencies and improved asset management outcomes. p24

**Our Grid Utility Support System is set to deliver real commercial benefits**, as the first known medium scale ‘battery’ utility application to move beyond the trial phase in Australia. p25

**We undertook significant organisational restructuring** in order to create the right business model to deliver our strategic objectives and ensure we are an efficient, adaptable organisation. p27

**We progressed Field Force Automation**, as one of our many technology-supported organisational transformation projects, to enable our people to deliver efficiently and effectively into the future. p27

**Our focus on safety has taken the organisation’s work, health and safety performance towards our target of industry best practice** – with a Lost Time Injuries Frequency Rate of 1.4. p32

Financial summary

<table>
<thead>
<tr>
<th></th>
<th>2013-14</th>
<th>2012-13</th>
<th>2011-12</th>
<th>2010-11</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets (million)</td>
<td>$11,488</td>
<td>$11,461</td>
<td>$10,605</td>
<td>$9,975</td>
<td>$8,698</td>
</tr>
<tr>
<td>Total Capital Investment (million)</td>
<td>$812</td>
<td>$872</td>
<td>$870</td>
<td>$831</td>
<td>$806</td>
</tr>
<tr>
<td>Net Profit After Tax (million)</td>
<td>$403</td>
<td>$423</td>
<td>$320</td>
<td>$322</td>
<td>$167</td>
</tr>
<tr>
<td>Dividends Provided For (million)</td>
<td>$392</td>
<td>$326</td>
<td>$256</td>
<td>$253</td>
<td>$138</td>
</tr>
<tr>
<td>Community Service Obligation Payment (million)</td>
<td>$519</td>
<td>$596</td>
<td>$415</td>
<td>$399</td>
<td>$252</td>
</tr>
<tr>
<td>Return on Average Assets</td>
<td>8.3%</td>
<td>8.7%</td>
<td>7.6%</td>
<td>8.0%</td>
<td>5.7%</td>
</tr>
<tr>
<td>Return on Average Equity</td>
<td>11.2%</td>
<td>12.1%</td>
<td>9.7%</td>
<td>10.8%</td>
<td>6.4%</td>
</tr>
<tr>
<td>Gearing (including reserves)</td>
<td>59.7%</td>
<td>57.3%</td>
<td>59.3%</td>
<td>56.6%</td>
<td>59.8%</td>
</tr>
<tr>
<td>EBITDA to Interest Cover (times)</td>
<td>3.7x</td>
<td>3.7x</td>
<td>3.6x</td>
<td>3.6x</td>
<td>3.2x</td>
</tr>
</tbody>
</table>

FOR MORE ON OUR FINANCIAL PERFORMANCE SEE PAGES 37-40.
Performance overview
Ergon Energy’s performance targets for 2013-14 are detailed in our Statement of Corporate Intent (SCI). As part of our performance agreement with our shareholding Ministers, the SCI is tabled in the Queensland Parliament with this corresponding report. These performance results are discussed in more detail throughout this report.

<table>
<thead>
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<th>Delivering customer value p11</th>
<th>TARGETS</th>
<th>RESULTS</th>
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<tr>
<td>‘Value to Customer’ Survey</td>
<td>Better than peer average</td>
<td>101</td>
</tr>
<tr>
<td>Supply Reliability Indicators:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Duration (SAIDI):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Urban</td>
<td>≤146</td>
<td>119</td>
</tr>
<tr>
<td>- Short Rural</td>
<td>≤406</td>
<td>292</td>
</tr>
<tr>
<td>- Long Rural</td>
<td>≤916</td>
<td>796</td>
</tr>
<tr>
<td>Frequency (SAIFI)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Urban</td>
<td>≤1.9</td>
<td>1.4</td>
</tr>
<tr>
<td>- Short Rural</td>
<td>≤3.8</td>
<td>2.8</td>
</tr>
<tr>
<td>- Long Rural</td>
<td>≤7.1</td>
<td>6.1</td>
</tr>
<tr>
<td>Guaranteed Service Levels - Network Reliability</td>
<td>≤4,000 claims accepted</td>
<td>2,155 claims paid, valued at $224,120</td>
</tr>
<tr>
<td>Guaranteed Service Levels - Other</td>
<td>≤5,000 claims accepted</td>
<td>4,178 claims paid, valued at $155,870</td>
</tr>
</tbody>
</table>

| Optimising the network p20 | | |
| Actual Capital Expenditure | ≤59.5% | 56.6% of five-year allowance |
| Within Regulatory Allowance | | |
| Demand Management Reductions | ≥14MVA | 18MVA |
| Network Maintenance Costs/Regulated Asset Base | ≤2.2% | 2.2% |

| Striving for high-performance p26 | | |
| Actual Operating Expenditure | ≤78.6% | 78.6% of five-year allowance |
| Within Regulatory Allowance | | |
| Operational Expenditure Per Route Kilometre | ≤$2,210 | $2,208 |
| Annualised Staff Turnover | n/a | 8.9% |
| Safety Indicators: | | |
| Lost Time Injuries Frequency Rate – Employees | ≤2.2 | 1.4 |
| All Injuries Frequency Rate – Employees | ≤11.4 | 6.4 |
| Compensation Claims Frequency Rate – Employees | ≤3.3 | 2.6 |
| Lost Time Injuries Frequency Rate – Contractors | ≤2.8 | 3.2 |
| Environmental Protection Agency Breaches – Class 1 | Nil breaches | Nil breaches |

| Delivering economic value p37 | | |
| Net Profit After Tax | ≥$467 million | $403 million |
| Dividends Provided For | ≥$374 million | $392 million |
| Customer Service Obligation Payment | ≤$607 million | $519 million |
| Return on Average Assets | ≥8.9% | 8.3% |
| Return on Average Equity | ≥12.2% | 11.2% |

5. Target revised down, compared to the Statement of Corporate Intent target of 24MVA.
What a great adventure and challenge; to be leading a regional energy business at a time of unprecedented change.

I would like to pay tribute to the exceptional team at Ergon Energy. It seems to me that the great majority truly understand the community’s need for best practice outcomes, competitive pricing and a reliable service. The organisation has rallied this year to the enormous changes we’re seeing across the industry, and are now more responsive, agile and customer-focused than ever before.

Community bodies continue to comment positively to me about their experiences with Ergon Energy’s people, those both from the field and the office. This is most evident whenever the organisation has to play its part in a community’s emergency response following a major weather event, as it did again this year.

The executive team have also responded to the challenges, creating a new simplified corporate structure that has resulted in a more accountable and responsive business. Business processes have also been refined and automated to support greater efficiencies, and improve service delivery standards for our customers.

Embracing change
It’s well known that Ergon Energy has a vast, dispersed network with a high capital investment per customer. This makes it even more important, in order to remain relevant in the current dynamic market, that we take advantage of new technologies and improved practices to deliver in a cost-effective, sustainable way.

Ergon Energy is here to distribute and sell energy; however, by embracing demand management appropriately, regional Queensland can only benefit. By partnering with our customers and the providers of emerging technology, we can achieve significant improvements in network utilisation, which will ultimately drive down network charges, and help us maintain the current high levels of supply security without over-investment in the network. This approach also allows us to support market enablement and create greater customer choice.

To achieve this, Ergon Energy has been busy implementing a range of strategic initiatives. At the heart of our strategic direction are two key themes, efficient service and effective market reform - these are underpinned by a stringent focus on our customers and their needs. This strategic direction is about preparing the business to meet the challenges in providing a safe, affordable and reliable product to our customers in a time where emerging technology is changing the very nature of the industry.

The Board’s goal is to guide the company in a way that ensures it can deliver a valued service to the communities that rely on us, presents opportunities for the people of Ergon Energy, and supports economic development and prosperity across regional Queensland.

I am confident Ergon Energy has a strong future ahead.

MALCOLM HALL-BROWN
CHAIRMAN

“(Our) strategic direction is about preparing the business to meet the challenges in providing a safe, affordable and reliable product to our customers in a time where emerging technology is changing the very nature of the industry.”
“It’s not the strongest of the species that survives, nor the most intelligent that survives, it’s the one that is most adaptable to change” – Charles Darwin

Similarly, as the purpose of our network changes, adaption becomes both our challenge and opportunity.

I’m pleased to report that we’re making strong progress from this perspective.

Over the past year we have aligned our business model, organisational structure and business processes to both our strategic objectives and our refreshed customer commitments. Through our delivery against our strategic plan we have influenced our operating environment and enhanced our capability to deliver against our customers’ expectations and our regulatory obligations at a lower cost.

Our customers tell us they want the ‘peace of mind’ that comes from a safe and dependable electricity supply. They also want ‘choice and control’ in how they source their electricity, and they want these for the ‘best possible price’.

We believe our network is central to the effective sharing and utilisation of energy resources, whether they are centralised or distributed. By enabling equitable and open access with efficient pricing signals, the networked energy ecosystem will deliver the lowest-cost, safest and most dependable supply solution for all customer segments, and help drive economic growth and employment throughout regional Queensland.

On that note, the recently released PowerQ plan and Queensland Plan, as well as the proposed Northern Australia Plan, provide a strong foundation on which Ergon Energy can enhance its role in driving economic prosperity. Through effective tariff reform and technology integration, the regional Queensland population and economic objectives put forward can be supported in a way that minimises network investment and increases network utilisation, and ultimately puts downward pressure on electricity prices.

**Delivering peace of mind**

Over recent years we have been making prudent investments to ensure we can deliver a safe, dependable electricity service. As a result, we cut the number of outages our customers experienced by one third. This achievement is discussed in more detail in this report.

We are proud of this result, and we’re committed to maintaining this improvement, but we have seen a shift in our customers’ priorities. It is clear, from our customer research and discussions, that electricity affordability is now their main concern. While our customers still expect high standards, they are no longer willing to pay for further reliability improvement.

To enable us to reduce our expenditure in this area – and deliver savings for our customers – we sought the support of government this year to flat line the reliability standards that are regulated by the Queensland Electricity Industry Code. These standards were becoming more stringent year on year.

We also sought changes to our network planning security criteria. As a result, we no longer have the prescriptive requirement to duplicate costly investment to provide security of supply. This means we are better able to optimise our capital investment and use more efficient, innovative means, both on the network and customer side of the meter, to meet our customers’ expectations around security, and ultimately reliability of supply.

Peak demand has historically been a major reason behind network expansion. However, the full capacity within those assets is typically only needed for the hottest few days each year, and is under used during non-peak periods. This year, through our demand management program, we surpassed our five-year demand reduction target of 122MVA (equivalent to the demand of a regional city the size of Bundaberg) a year in advance, deferring $664 million in network investment.

Despite changes to our approach, I reassure you that we remain ready to respond when needed, especially in times of natural disasters, as we did this year following the destruction caused by the cyclones that crossed the Queensland coast. I am proud of the way our people deliver in times like this, when our customers need us most.

“My focus is on evolving the electricity network, our business and, importantly, the expertise of our people, so we can support greater customer choice and control in economic electricity supply solutions.”
Increasing choice and control

Our customers have more options than ever before in using the network to access the energy they need – with the option to invest in solar being the most significant.

We have managed an explosion in the number of solar energy systems connected to the network over recent years – with another 17,500 connected over the past year. Over 21% of detached houses now have solar.

As a network service provider we have to rise to this new paradigm, and operate the network as an open-access platform for distributed energy resources and other applications that support an effective market. But we also know this has to be a managed evolution so we can avoid network performance and over investment issues, and put in place equitable, sustainable market mechanisms.

For these reasons, I was particularly pleased that we gained industry support this year for a new connection standard, that is additional to the government solar bonus scheme, that allows for much larger solar systems to be connected as non-exporting systems.

The other initiative that is due recognition is the establishment of a pathway for network tariff reform – as a foundation for other reforms – and the first changes that have come into play in retail prices in 2014-15. The Queensland Government also moved further in retail tariff reform, setting the mandatory Solar Bonus Scheme feed-in-tariff for regional Queensland at a rate that is cost reflective of the energy component of the electricity bill, thereby removing the cross subsidy from other customers to new Solar Bonus Scheme customers.

During the year we also continued to show utility-industry leadership in using batteries to support the efficient operation of the network.

My focus is on evolving the electricity network, our business and, importantly, the expertise of our people, so we can support greater customer choice and control in economic electricity supply solutions.

For the best possible price

In last year’s report, I reiterated our medium-term strategic goal of limiting increases in average network charges to less than the Consumer Price Index. This commitment remains at the centre of our strategic direction, and has provided the framework for the development of our investment plans for 2015-20.

These plans, which I have been discussing with our customers over recent months, are at the heart of our Regulatory Proposal to be presented to our regulator in October 2014.

We have done a lot already to help stabilise electricity prices in the coming years.

Reflecting reduced consumption and demand, and the changes to our network planning security criteria, our total expenditure will be over $1.5 billion (approximately 20%) less than that allowed by the Australian Energy Regulator for 2010-15.

During the year we continued the process of resizing and restructuring the organisation around our changing business model. These changes place the organisation and our governance frameworks in a strong position for the future, and have already delivered over $150 million in operational savings.

We also continued to integrate information technology into our operational practices. A highlight was the progress made towards automating the dispatch of customer-service orders and fault-response work, which will help our field crews deliver more efficiently and effectively.

These achievements, however, are unfortunately not immediately apparent in our consolidated profit result. This was below budget due to the accounting treatment of the forward market price of electricity. I stress here that this does not reflect the underlying performance of our retail operations.

I also must stress that addressing electricity affordability is not all about Ergon Energy’s costs. We also need changes in the operation of the market, including retail tariff reform, to ensure we can deliver for the best possible price into the future.

Our safety commitment

Lastly, and most importantly, I would like to note our safety performance.

I am very proud, on the one hand, to report that we have made big strides ahead, almost halving our Lost Time Injuries Frequency Rate to 1.4. This has taken our work, health and safety performance well on the way to being best practice.

However, tragically we lost one of our own – Brett Williams – in a single vehicle accident while he was travelling to his home depot at Hughenden. This was a brutal reminder of the diverse risks our people face every day in serving the community, and saw the whole organisation stop to reflect on their personal safety-related behaviours and beliefs.

Community safety also remains in the forefront of my mind. Going forward, I expect our remote observation capability to increasingly support our proactive response to potential community safety issues associated with the network.

You have my commitment that our Senior Leadership Team will give safety the closest attention over the coming year. It is our goal to stand tall with the best in the industry.

I thank our customers and our other stakeholders for their support during the year.

I also recognise the efforts of the great people in Ergon Energy who are focused on delivering for our customers. In addition to the innovations mentioned here, I have personally witnessed countless other examples of our people going ‘above and beyond’ to meet our customer commitments. Our success in the future will continue to rely on our people finding ways to work smarter to deliver for our customers.

With the progress we have made to date I have every confidence we will continue to be the backbone for regional Queenslanders to realise their economic and lifestyle aspirations for many years to come.

IAN McLEOD
CHIEF EXECUTIVE
Ergon Energy understands that rising electricity prices are an increasing concern to our customers. Here we discuss our strategic focus on customer value and electricity affordability, and initiatives like network tariff reform. We also showcase what we’re doing to help our customers manage their energy bills. This section then reports on how we measure up across our service commitments, and on our efforts to be a responsible service provider.

Addressing Value and Affordability

Listening to our customers
Ergon Energy has a substantial customer insights program – including direct engagement, customer research and complaints analysis – that guides our strategic and operational decisions.

We ramped up these efforts this year with an integrated customer/community engagement program designed to help refresh our future service commitments and inform our future investment plans (p37). These engagement activities included a significant service/cost trade-off research study, online engagement, and a substantial commitment to both regional stakeholder and peak body engagement.

Review of operations:
Delivering customer value

- Addressing value and affordability
- Helping customers manage electricity bills
- Being a responsible provider

Strategic initiative

<table>
<thead>
<tr>
<th>Strategic initiative</th>
<th>Achievement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintain strong customer relationships and work with customers to identify and meet their future needs.</td>
<td>Delivered an integrated engagement program to help refresh our service commitments, and inform our future investment plans. p11</td>
</tr>
<tr>
<td>Deliver quality, cost, value and choice, by customer segment.</td>
<td>Refreshed our retail operations’ value proposition. p12 Began on a pathway of network tariff reform. p13 Gave our customers new bill payment options. p13</td>
</tr>
<tr>
<td>Meet Minimum Service Standards and secure an optimal Service Target Performance Incentive Scheme result.</td>
<td>Our reliability improvement strategy has, for the first time since 2008, seen all six reliability performance indicators achieved and the incentive optimised. p14</td>
</tr>
</tbody>
</table>

Above: Our efforts to help our customers manage their electricity bills received a boost, with the introduction of a Pay per Month option. This provides two additional statements during the quarter to help customers keep their bills affordable and avoid bill shock.
Through all of these channels our customers continue to express their concerns over rising electricity prices. However, customers still want a high standard of service. They also increasingly want greater choice and control around their energy supply solutions.

Our ‘value to customer’ research program, which commenced in 2001, remains our key measure for tracking our customers’ perceptions of value. This year, the residential customer score for overall value continued to strengthen to 6.9 out of 10 (compared to 6.8 last year). However, Ergon Energy’s peer-supplier benchmark dropped to 101 (compared to 105 last year, where 100 indicates parity with the peer average). Business customers’ value perceptions also dropped, coming into average). Business customers’ value strengthened to 6.9 out of 10 (compared to 6.1 last year).

Peak body engagement proving vital
Spearheading our peak body engagement, our Customer Council continued to develop as a vital channel for building our stakeholders’ capacity to participate in our decision making processes. The matters discussed ranged from tariff reform (p13) to our natural disaster response (p15). Established in 2011, this consultative forum, and the dedicated working group established this year to assist with the development of our Regulatory Proposal (p37), bring together representatives from a range of community service, environmental management and business sector advocacy organisations.

The other stakeholder forum strengthened this year was our real-estate developer reference group, consisting of ten external stakeholders. This group played an important role in guiding our new connections service improvement plans and cost reduction efforts (p17), as well as in building our understanding of the drivers of growth in electricity demand.

Our strategic focus remains on affordability
While Ergon Energy does not set retail electricity prices, we recognise that any increases in our distribution and retail costs put pressure on the final bill our customers pay.

In recognition of the pressure on prices from rising costs in electricity distribution, we have again strengthened our commitment – through our Regulatory Proposal (p37) – to our strategic goal of limiting increases in average network charges, to less than the Consumer Price Index in the next regulatory control period.

In order to play our part in stabilising prices, and navigate through the changes underway in our operating environment, we are implementing a range of initiatives under two inter-dependent strategic themes: effective market and efficient service.

During the year, under the effective market theme, we made progress in three notable areas: in strengthening our retail operations as a stand-alone business within the larger business, in network tariff reform (these initiatives are discussed here) and in customer demand-side solutions (p22).

Our progress under the efficient service theme, discussed later in this report, has been around optimising the use of the network and being as prudent as possible in our investment program (p23), and improving our operational efficiency and effectiveness (p28).

These efforts are in line with the Queensland Government’s aims to stabilise electricity prices, and their new plan for the electricity sector, PowerQ, which aims to steer electricity reform for Queensland through the coming decades. PowerQ provides a framework to encourage competition, create a more responsive market, enable innovation and investment, and improve affordability.

Igniting fresh retail value
We have continued to strengthen our retail operations as a stand-alone business, with a focus on becoming a specialised energy-solutions provider, capable of delivering and brokering new products and services of value to our customers.

We took a fresh approach to the retailer’s value proposition, to ensure we are considered the electricity retailer of choice for our regional customers. We are currently developing programs and strategies through which we believe lasting customer relationships can be built and maintained. These customer loyalty and insight programs, and our efforts to build a commercially-focused sales and customer service ethos, will enable us to give customers greater choice, control and value, and confidence in making informed energy decisions. Some of this work is discussed in the next section about the range of ways we help our customers better manage their electricity bill.
We have also been making an investment in our information systems (p27) and addressing our business intelligence capability to improve customer outcomes and reduce our cost to serve. The retail business also implemented a number of important government reforms this year (p37), which lay important foundations for greater competition and choice for customers in regional Queensland.

Our focus on developing as a strong retail business will continue over the coming year. We are looking to leverage off and strengthen existing capabilities, while developing new customer-focused, high-performance retail capabilities. This includes building the ability, as a market participant, to act as a channel for demand reduction and response related product or service offers (p22).

**Tariff reform core to an effective market**

Our focus on tariffs this year has been at the network level. During the year we undertook the first steps in restructuring the way we charge for the use of the distribution network. This effectively set us on a path to more efficient, improved pricing signals, as part of the broader market reforms needed to ensure we offer customer choice and maintain a viable network for our customers into the future.

In developing our network tariff strategy, to ensure we understood and considered any customer or broader stakeholder implications, we undertook an extensive stakeholder consultation process. This informed the pricing proposal submitted to our regulator in April 2014, for our 2014-15 tariffs, which was ultimately approved. In broad terms, the changes involve:

- introducing kVA as the basis for the demand tariffs used by our very large energy users
- commencing the process of ‘rebalancing’ tariffs towards more fixed/less usage-dependent charges for our large and small users
- introducing new and optional broad-based tariff structures for our smaller customers.

In line with this, the long-term network tariff strategy was developed and published for each tariff class. Our aim is to give our stakeholders visibility of the direction we are taking, especially our large customers, so they can make informed decisions about their energy use, or energy-related investments.

Ergon Energy’s network tariff strategy and the initial price outcomes were considered by the QCA in its determination of the regulated retail tariff for 2014-15. However, at this stage these changes have only had minimal impact on retail tariffs – further reforms are expected.

**Changes to the Solar Bonus Scheme**

Ergon Energy supported the reform of the Queensland Government’s Solar Bonus Scheme.

For a number of years, the distributor paid the scheme’s feed-in tariff (FIT) to customers exporting solar energy back into the grid. Over the past 12 months, this led to Ergon Energy crediting more than $118 million (up from $78 million in 2012-13) to customers as part of the scheme.

A large part of this expense, which is borne by all customers, is due to the generous 44c/kWh FIT provided as part of the original scheme. In July 2012, the tariff was changed to 8c/kWh for new solar customers, while a review was undertaken. For the 10,000 solar households on this arrangement, or those who install a system in regional Queensland the future, the QCA has since calculated a fair FIT for 2014-15 of 6.53c/kWh.6

We think this rate, which is now being paid by the retailer, is reasonable as it is reflective of the energy component of the bill and associated network losses (p34). This rate also more appropriately encouraged customers to use the energy they generated, rather than export it and defer using power until the evening peak. For solar-panel owners in south-east Queensland, the FIT rate is now negotiated with their retailer.

**HELPING CUSTOMERS MANAGE ELECTRICITY BILLS**

We continued to help customers manage their electricity bills by introducing new payment options and by educating them on how to save energy, and ultimately reduce their costs.

We introduced the option to Pay per Month, providing two additional statements per quarter, helping customers smooth electricity payments over the billing period to avoid bill shock. Almost 6,000 customers have signed up since this option was introduced in February.

Our retail business partnered with Pulse Energy to trial a new product, Energy Check, to help businesses benchmark themselves against similar operations. This product provides monthly reports with energy saving tips, and access to an online portal, to enable businesses to create energy plans and access more comprehensive energy advice.

To avoid unnecessary bill stress, we also worked with our customers to resolve ongoing meter access issues, which contribute to skipped reads and estimated accounts. Text messages are now being sent to remind these customers to provide access.

We also trialled a new app that allows customers living in our more remote locations, and who chose to read their own meters, to submit self-reads by a simple click of their mobile device. The trial also tested other features of the app to enable enhancement and refinement, before we release it to our wider customer base.

We continue to promote energy efficiency tips on our web site, including through videos focussing on the ‘big energy suckers’ that contribute to a household’s electricity costs.

Our energy-education efforts also continue as part of our broader demand-side engagement efforts. These initiatives deliver immediate savings to the participating customer, while helping improve the utilisation of our network, and in turn reduce upward pressure on electricity costs. This saw 8,500 customers in selected areas of Townsville invited to complete an online Home Energy Survey and receive a personalised Home Energy Savings Report, as part of the Townsville Energy Sense Community project. This successful pilot provided participants with tailored advice and incentives to help them to save. p22

We continued to incentivise the take up of Tariff 33, our economy off-peak tariff for electric water heaters to help customers save on their bill. The isolated communities’ energy saving program, known as powersavvy, also continued to support energy usage behavioural change. p18

We also looked at the role technology can play in helping our customers to save. We began to trial a new cooling and heating product that could radically reduce air conditioning expenses, while helping to reduce demand on the network. We built two test huts in Townsville to trial the product, incorporating a home energy management system to automate the management of the huts’ internal climate.

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6. After repeal of the Carbon Tax.
Network reliability continues to improve

Network reliability continued to improve this year – over the last five years the average duration of outages has been reduced by 41% and the average number of outages experienced by our customers, by 34%.

For the first time since 2008, we achieved all six reliability performance indicators that make up the Minimum Service Standards (MSS) set by the QCA under the Electricity Industry Code of Queensland.

This significant outcome is both a result of the mild weather conditions experienced generally, and the realisation of the performance benefits from the significant investment over recent years in network improvement. The two major storm events experienced, as recognised major event days (p52), were excluded from our reported reliability statistics.

To consolidate the performance improvement achieved over recent years, we are continuing to implement the 2010-15 reliability improvement strategy. This year, this investment included initiatives targeting our worst performing sections of the network. This change in priority placed on achieving the regulated performance results mean we have met our customer service targets (capped at 2% of total regulated revenue across the STPIS parameters). This year’s network performance results mean we have met all six STPIS reliability targets.

This work remains important – especially when considering the network’s exposure to seasonal weather conditions – to creating the performance margin required for us to meet our commitment to maintaining reliability standards.

However, having largely addressed the community’s concerns about reliability – that existed only a small number of years ago – our reliability investment, as we move into 2015-20, will be limited to initiatives targeting our worst performing sections of the network. This change in strategy is about balancing the objectives of price and reliability.

Overall our customers are experiencing an average of 2.7 outages per year – this is as low as 1.4 outages for our urban areas. Ergon Energy considers that overall network reliability is now generally delivering the level of service our customers expect. We are now looking to ensure expenditure in this area continues to deliver customer value.

Ergon Energy operates the longest distribution network in Australia, with only five customers per kilometre of line on the main grid. Our reliability challenges are both common to the industry and unique. With less than a third of our network supplying our urban communities, the topography of our network is largely made up of radial rural lines with limited redundancy in the event of a fault.

<table>
<thead>
<tr>
<th>NETWORK RELIABILITY PERFORMANCE7</th>
<th>MSS</th>
<th>2013-14</th>
<th>2012-13</th>
<th>2011-12</th>
<th>2010-11</th>
<th>2009-10</th>
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<tr>
<td>System Average Interruption Duration Index (minutes)</td>
<td>≤1.46</td>
<td>119</td>
<td>135</td>
<td>136</td>
<td>149</td>
<td>222</td>
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<td>• Urban Distribution</td>
<td>≤1.06</td>
<td>292</td>
<td>341</td>
<td>393</td>
<td>426</td>
<td>544</td>
</tr>
<tr>
<td>• Short Rural Distribution</td>
<td>≤0.916</td>
<td>796</td>
<td>952</td>
<td>1042</td>
<td>828</td>
<td>999</td>
</tr>
<tr>
<td>System Average Interruption Frequency Index (number of outages)</td>
<td>≤1.9</td>
<td>1.4</td>
<td>1.5</td>
<td>1.4</td>
<td>1.6</td>
<td>2.3</td>
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<tr>
<td>• Urban Distribution</td>
<td>≤3.8</td>
<td>2.8</td>
<td>3.0</td>
<td>3.6</td>
<td>3.5</td>
<td>4.6</td>
</tr>
<tr>
<td>• Short Rural Distribution</td>
<td>≤7.1</td>
<td>6.1</td>
<td>6.2</td>
<td>7.0</td>
<td>5.3</td>
<td>7.2</td>
</tr>
</tbody>
</table>

There after the storm

We know it is important to the communities we serve that we are there as soon as possible after the storm. Two major weather systems crossed the Queensland coast this year, Category 2 Cyclone Dylan and Category 4 Cyclone Ita.

Cyclone Dylan crossed south of Bowen in January, resulting in 49,000 customers losing power from Ingham to Mackay and inland as far as Emerald – 14,000 at one time on 31 January. Within 24 hours, field crews, totalling almost 400 people, and a cost of $2.2 million, had restored the majority of customers. Another system approached the coast in the Gulf of Carpentaria within days of Dylan, putting us at the ready again, but it did not cause any major issues with the power supply.

In April, Cyclone Ita developed into a Category 5 system – readying the full capability our new Regional Emergency Management Plan, from helicopter access to the region, to fuel storage at anticipated generator sites. This plan was reviewed this year to increase the efficiency, effectiveness and safety of our response.

While Ita was downgraded before crossing the coast near Cooktown – a less populated area of our network – and weakened as it moved south-west before heading back out to sea south of Proserpine, its destructive forces still caused significant damage to the network in its path. The power supply was cut to around 46,000 customers – 27,500 at one time on 13 April. It took field crews, totalling around 570 people, and at a cost of $4.2 million, five days to restore the majority of customers. A small number of properties experienced significant damage, and required repairs and inspections before being reconnected.

Throughout these events our contact centre managed an influx of over 18,000 outage-related calls. We also continued to build on our success in keeping customers up-to-date online, with some 100,000 individual web page views during Cyclone Dylan, and 44,000 during Cyclone Ita. Both events attracted around 1,200 Facebook page ‘likes’ and/or comments, while almost 4,000 Twitter followers received updates as tweets.

The recently launched online Outage Finder tool proved its value during Ita, being viewed by more than 20,000 people during the peak of the cyclone. The interactive tool uses Google Maps to show unplanned power outages and any planned improvement works taking place across our supply network.

Contact centre customer satisfaction strong

To manage our customer enquiries, Ergon Energy operates a contact centre across two sites. Customer satisfaction with this service has remained strong with an average satisfaction rate of 91%. Feedback, through a series of customer focus groups, has been consistently positive.

Performance in the distribution and retail general enquiries is measured through a target of 70% of calls being answered within 120 seconds. In 2013-14, distribution general enquiries achieved a service grade of 86.4%. Retail general enquiries recorded 69.1%, just short of target, due to the need to focus resources towards the cyclone response efforts in early 2014, and an increase in meter access enquiries.

Call centre performance for the unplanned outage enquiries and emergency line, was well above target (77.3%) with a service grade of 81.3%. This was supported by a strong response following each cyclone.

During the year, the contact centre took the first steps to separate its retail and distribution call centre functions. This involved creating dedicated staff groups for each business and separating the management of call queues. We also began the process of upgrading the centre’s systems to improve the customer experience, and lower the cost to serve (p27).

Positive steps for those in financial hardship

Ergon Energy works closely with customers to help them manage their electricity bill and considers disconnection a last resort option. We make every attempt to contact customers in arrears, to discuss their options to avoid disconnection. However, during the year disconnection for debt rose, in line with economic conditions and price increases, to 12,454 disconnections.

Support to avoid disconnection is provided, through our Customer Assist program, to people unable to pay their accounts due to financial hardship. During the year, 2,285 customers ‘graduated’ from our Customer Assist program with the financial capability and energy usage knowledge to meet their energy debts on a sustainable and independent basis.

Thanks to the improvements made in the previous financial year, the number of customers in the program long-term, dropped dramatically. These improvements included a more comprehensive assessment of the customers’ electricity use; more assistance in applying for the government’s Home Energy Emergency Assistance Scheme; and the implementation of sustainable, customer-centric payment plans.

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

A trial of monthly billing in Townsville, using smart meters, was also completed. The aim was to identify the potential benefits of this type of meter for customers facing difficulties paying their electricity bill – all participants chose to stay on the monthly billing option after the trial.
Standing by our service commitments

Ergon Energy has a range of guaranteed service commitments – associated with outage restoration timeframes, the number of outages experienced, and the notification of planned power interruptions – where, if we don’t deliver, we pay the customer for the inconvenience. As part of the Electricity Industry Code, these commitments also include guaranteed service levels (GSLs) for appointments, new connection and reconnection timeframes, wrongful disconnections, and the resolution of hot-water supply matters.

This year, ongoing service improvement saw another 20% plus drop in the overall number of GSL payments made. This outcome was largely thanks to continuing improvements in the reliability of the network, and a focus by operational personnel on ensuring that the duration of unplanned supply interruptions to our customers are kept to a minimum.

In addition to the enhancements made to the notification of planned interruptions, we also reviewed our ‘Knock on door’ policy, which alerts customers to impending unanticipated interruptions, and our Life Support customer connection procedures, in line with the Queensland Government’s intention to implement the National Energy Customer Framework (NECF) within the next regulatory control period. A range of other service standards were also reviewed.

Complaints management remains a priority

We continued to out-perform other participants in the Energy and Water Ombudsman Queensland’s (EWOQ) complaints scheme when comparing complaints numbers on the basis of the participants’ customer base in Queensland. For our retail arm, the most recent EWOQ Annual Report shows an increase in the level of complaints. However, we continue to out-perform other participating organisations. Our distributor continues to see complaint figures reducing.

Like all other retailers, our complaints data indicates that billing issues are the biggest retail complaint category, followed by credit issues. We recognise that complaints about high bills and credit issues sometimes disguise affordability issues for customers, and often require staff to be proactive in identifying customers who would be best served through our Customer Assist program.

We took the opportunity, as we progressed our organisational restructuring (p27), to continue to review the way complaints are being managed across the business.

B. Call volumes record corrected for 2011-12. 9. Target as set for the AER’s STPIs.
Making it easier to connect to the network

Our Major Projects business unit continued to improve service standards for major customer-initiated connections. This activity is largely associated with Queensland’s resource sector.

This focus on improvement means it now takes an average of 43 business days for a formal connection offer to be made, following an application from a customer – well inside the 65 business days outlined by the NECF. To help clarify processes and procedures for managing major customer connections, and to streamline their delivery, we developed and published a Major Customer Connection Manual. As a result, major customer service satisfaction continues to improve – now at 61% compared to 55% in 2013.

Major customers are increasingly choosing to use their own approved suppliers to construct their electricity infrastructure requirements, enabling full control of their project’s delivery and costs. In order to promote and support this option, we have made the process as flexible as possible, while still managing our obligations. One of the most significant customer ‘designed, constructed and transferred’ projects this year, was a major substation at Wiggins Island in Gladstone, one of Queensland’s larger port facilities.

The other major customer-initiated projects delivered during the year included connection works for the Diamantina and Leichhardt Power Stations in Mt Isa, Jax Mine near Collinsville, and the Paget Industrial Estate in Mackay.

Solar connections now core business

During the year, over 17,500 new solar photovoltaic (PV) systems were connected to the network, taking the total installations in Queensland under the Solar Bonus Scheme to over 96,000. This was an average of around 330 connections per week. While still substantial, this was around half the rate of connection experienced in 2012-13 (due largely to changes to the scheme p13).

As well as the number of connections, we also managed changing expectations. In a review of complaints received in relation to solar connections, around half were due to network matters. These included our requirement to ‘downsize’ or decline the connection application for a solar system due to the potential for network and other customer impact; a system’s under-performance where the local network is unable to support the export capacity of the systems installed; and our ability to support other technical alternatives for connecting solar to the network.

Our efforts to address these issues, and meet our commitment to evolving the network to best support customer choice in economic electricity supply solutions, are discussed on pages 24–25.
BEING A RESPONSIBLE PROVIDER

Engaging on major infrastructure projects

We consider our stakeholders (p2) to be the groups or individuals who could potentially be impacted by our activities, or could affect our ability to achieve our objectives and serve our customers. The most obvious area where this occurs is in the building of major electricity infrastructure projects.

For this reason, we continue to undertake early community-impact assessments for all major projects, and our engagement guidelines support the planning and implementation of both acquisition and construction projects. During the year, we also formulated a Community Engagement Framework to provide an overview of this engagement process. This framework, which is available online, demonstrates how our approach complies with the Queensland Government’s commitment to consulting with communities on the planning, development and construction of electricity infrastructure to reduce impacts.

In this and many other areas, we continue to work closely with local government. For the first time this year, the State Planning Policy, which identifies the state’s interests in town planning and development and how those factors must be considered, recognised electricity infrastructure as a state interest. This will help ensure our electricity infrastructure needs are considered at the beginning of the development phase and avoid land-use conflicts, and unnecessary community angst, from occurring in the future.

Supporting our Indigenous communities

Ergon Energy supplies the majority of regional Queensland’s Indigenous communities – one of the most disadvantaged consumer groups in Australia. Providing electricity services to these communities is challenging, with the majority being remote, and supplied by stand-alone diesel power stations. However, through our isolated communities’ energy saving program, powersavvy, and our operational efforts, we continue to achieve positive results for these communities.

powersavvy has been providing advice on reducing power consumption and financial incentives for the installation of energy efficiency measures for a number of years. It is estimated the program has resulted in electricity savings of approximately 13.5GWh to date, delivering savings of almost $3 million to our customers. Our success in the past year has come largely from incentivising the take up of solar energy systems by customers, which is cheaper than the diesel generation used in Indigenous communities (p33). The focus also remains on changing energy usage behaviour, and installing new technology and equipment. As a result, electricity consumption for a range of customers was cut significantly – at a resort on Horn Island by 32%; at a primary school on Yorke Island (Masig) by 47%; and at the local store in Doomadgee by 40%.

By working in partnership with the Department of Aboriginal and Torres Strait Islander and Multicultural Affairs, store projects, like the one at Doomadgee, resulted in innovative solutions that delivered benefits beyond electricity, from improvements in product storage and handling to lighting.

Moving into the coming year, we are looking at how we can evolve the powersavvy customer partnership approach, to integrate it into our broader stakeholder management activities. Core to our stakeholder engagement is our involvement in the Local Government Manager Australia’s regular Indigenous Council Chief Executive Officer forum. This engagement covers everything from community entry protocols to street lighting.

We also continued to engage this year on the future replacement of old technology card-operated meters, which have been phased out by the external provider. These meters were first introduced to our isolated, largely Indigenous communities, in the early 1990s. They enable customers to manage their electricity expenses as they are incurred, through prepayment, and also allow costs to be shared among household members rather than placing financial pressure on an individual.

Connecting through community partnerships

Ergon Energy’s Community Partnership program continues to help us meet our corporate responsibilities for energy education and community participation, as well as maintain the community relationships needed to ensure we are operating effectively at the local level.

We continue to use these partnerships to build community awareness of energy efficient behaviours – knowing that energy affordability can in part be addressed by educating the community about energy efficiency, and helping people adopt appropriate energy choices.

As a result, our Community Fund continues to support organisations to bring their energy conservation and electrical projects to life, with over 80 applications received this year. Supported projects include the purchase of a mobile lighting plant to assist with the staging of night time community events in central Queensland; replacement of air conditioners with reverse cycle units for a senior citizen’s group in Kingaroy; and training for aged-care workers in Rockhampton, who will in turn train their elderly clients in energy efficiency.

Ergon Energy’s customers and employees also continued to contribute actively to the Royal Flying Doctor Service (RFDS), with more than 100,000 regularly donating. This year, the scheme reached a momentous milestone having donated a total of $8 million; the funds required for the fit-out of a new emergency retrieval aircraft. As part of the 13-year scheme, donors contribute through their electricity bill, or make larger one-off donations.
Community electrical safety awareness

Ergon Energy continued to invest in understanding community safety risks associated with our infrastructure, and raising electrical safety awareness in the community.

Following last year’s increase in community safety incidents we significantly improved our collection of incident data, and are now capturing different types of incidents to better track overall community safety performance. These changes largely explain the increase in incidents reported this year. Under the new reporting arrangements we recorded 452 community safety incidents relating to our assets.

The improved data is allowing us to better target community and industry awareness-raising efforts. As a result, we are now formulating new strategies to further mitigate community safety risk. These will be outlined in our revised Community Electrical Safety Awareness Plan due in December 2014.

While community safety is the overwhelming priority of our efforts, network related incidents cause inconvenience to customers and add operational costs, with approximately 10 million customer minutes lost, and 87,000 customers affected in 2013-14.

Targeting areas of greatest risk

The level of incidents continues to be a concern that requires sustained, collective ownership and action – the need to address the risks drives our partnerships with a diverse range of external organisations.

To reduce electrical safety incidents, we continued to share strategies with Workplace Health and Safety, Cotton Australia, LGAQ, Energex, Dial Before You Dig, Queensland Trucking Association, Master Builders, and the Queensland Building and Construction Commission. During the year, we participated in major industry events, distributing more than 100,000 items of ‘Look Up and Live’ campaign material, and developed an innovative ‘movable’ windscreen sticker to help alert heavy-vehicle operators to electrical hazards. Our community safety team also participated in regional agricultural shows and delivered ‘Look Up and Live’ safety presentations to approximately 12,000 workers in 90 different locations.

These efforts were supported by a number of advertising campaigns. We targeted industries that work in close proximity to powerlines, such as the road transport, earth moving and building industries. A new Seven Mate community awareness advertisement was developed, to promote the need to ‘look out for your mates’ when working around powerlines. And our ‘Working together

to make this summer the best it can be’ campaign continued to build awareness of the dangers inherent in the summer storm season, especially the risk of fallen lines, while our Home Safety campaign raised awareness of ‘Look Up and Live’ around the home, and the importance of using qualified electricians.

We also actively urged customers to stay on top of inspection and maintenance of any privately-owned property power poles. While Ergon Energy owns and maintains its distribution lines, any poles on private property that support overhead lines to homes, outbuildings or bores – rather than to other customers – remain the responsibility of the property owner. In the past 12 months, Ergon Energy logged 15 incidents of privately-owned poles failing.

Asset management supports community safety

We are also looking to technology enablement to improve our risk management of the network.

Right across these initiatives there are safety benefits. For example, the ROAMES (Remote Observation Advanced Modelling Economic Simulation) capability uses specially designed LiDAR distance measurement equipment, and digital photography, to maintain up-to-date, three-dimensional geo-spatial models of the network through Google Earth. The safety benefit from this is that we can now respond more rapidly to vegetation encroaching unsafely towards the lines, or even to lines that sag below safe ground clearance levels – something we have been unable to do cost effectively on a network-wide level before. p27

Another network-safety highlight this year has been the replacement of the last of the old-fashioned open-wire service lines. These lines, which take power to a house, were installed during the 1950s and 60s, and were gradually being removed and upgraded with safer, twisted, or webbed, insulated service lines. A push to remove the remaining 13,000 open-wire service lines over the last year was achieved through the $15 million program, which also addressed a number of other service-related issues in targeted locations.

FOR FURTHER INFORMATION ON HOW WE ARE MEETING OUR CORPORATE RESPONSIBILITIES REFER TO THE STRIVING FOR HIGH PERFORMANCE SECTION.
In every way, we are working harder to use our network smarter. This section discusses the demand for electricity, and how we are changing the way we operate the network to optimise the investment in the network, and deliver more efficient energy supply solutions. It also highlights how we are responding to changes in technology and customer choice, and how we are developing our skills, and the network, for the future.

### Responding to Demand

- **A summer weekend peak**
  The demand on Ergon Energy’s network peaks during the summer months, lasting for only short intervals and fluctuating from year to year. Peak demand is one of the key drivers of our network augmentation investment. Last summer the coincident peak in demand across Ergon Energy’s main network was 2,441MW. Thanks to record summer temperatures and the associated peak in residential air conditioner use, this was the system’s highest weekend peak experienced to date. However, it remains well below the original growth forecast made in 2010 (in our Regulatory Proposal for the current five-year regulatory control period).

### Optimising the Network

- **A modern network is an efficient network**
- **The future is here**

Above: We are investing in the automation of the network, with a major investment in a Distribution Management System planned. This technology will support cost efficiencies and improved customer outcomes, through functions ranging from outage management to network optimisation.

### Strategic Initiative

<table>
<thead>
<tr>
<th>Strategic Initiative</th>
<th>Achievement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce peak load growth by at least 103MW (122MVA) by mid-2015 to defer capital expenditure on our network.</td>
<td>We achieved 18MVA of targeted peak demand reductions, against a target of 14MVA in 2013-14, surpassing the five-year target a year early. p22</td>
</tr>
<tr>
<td>Deliver the capital and operating expenditure programs prudently and efficiently, meeting shareholder and customer requirements.</td>
<td>We are on track to deliver the five-year works program, in line with the $1.5 billion in capital prudence and operational efficiency opportunities identified in 2012. p23</td>
</tr>
<tr>
<td>Enable solar connections in a way that takes into account the impact on the network, other customers, and on the business.</td>
<td>Our network is increasingly acting as an open access platform for distributed energy resources – during the year 17,500 new solar energy systems were connected. p24</td>
</tr>
</tbody>
</table>

### Review of Operations: Optimising the network

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24
This substation-level peak occurred in the early evening; historically peaks have typically occurred mid-afternoon. This change in the demand profile over recent years is due largely to the solar energy systems now generating throughout the network and the success of our demand management efforts. Without this, January’s maximum summer peak would have been earlier in the day and potentially above the highest system-wide peak of 2007.

Critical for our augmentation planning is the demand growth experienced at the regional level – both at the substation and downstream. When considering peak demand, it is also important to acknowledge that large loads have transferred off the distribution network and onto the transmission network in recent years.

Since forecasting for the current five-year regulatory control period, our forecasting techniques have been further developed and now incorporate the use of econometric and demographic metrics to ensure our forecasts are robust and reproducible. During the year, we used models to test scenarios around the take up of new technologies, such as solar and batteries, by the market.

Overall we are forecasting peak demand to increase gradually in line with Queensland’s economic forecasts, with more rapid growth in specific areas (consistent with the key drivers we have tested against historical and recent trends). We are currently using these forecasts to finalise our augmentation expenditure plans for 2015-20 (p37).

In contrast to the peak experienced, during 2013-14 we continued to see a decline in the electricity being used from the network by the average residential customer overall (due to both the take up of solar energy systems and general energy conservation). The increase in the total energy distributed in 2013-14 (15,247GWh compared to 15,097GWh) was largely due to additional coal mining load.

<table>
<thead>
<tr>
<th>OUR NETWORK DEMAND FORECAST</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>High Growth Scenario</strong></td>
</tr>
<tr>
<td><strong>Low Growth Scenario</strong></td>
</tr>
</tbody>
</table>

Record temperatures across the state in early January pushed the year’s coincident peak to 2,441MW, as our customers brought air conditioning load online. This was the systems highest weekend peak experienced to date. The 2007 and 2010 summer peaks occurred during a week day.

**AVERAGE HOUSEHOLD ELECTRICITY USE DOWN**

The amount of electricity used in households across regional Queensland is falling – average consumption per household is now 20% below the 2005-06 high. This percentage is even greater when households using solar energy systems are included. However, as the profile of the household mix with solar evolves, the average energy that they are using from the network is increasing.

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

**OUR STATISTICS**

<table>
<thead>
<tr>
<th>ENERGY USAGE SNAPSHOT</th>
<th>2013-14</th>
<th>2012-13</th>
<th>2011-12</th>
<th>2010-11</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population of Ergon Energy’s Service Area</td>
<td>1.52m</td>
<td>1.50m</td>
<td>1.48m</td>
<td>1.45m</td>
<td>1.44m</td>
</tr>
<tr>
<td>No. of Distribution Customers</td>
<td>724,264</td>
<td>712,634</td>
<td>700,989</td>
<td>690,708</td>
<td>680,095</td>
</tr>
<tr>
<td>Average Annual Electricity Use per Household</td>
<td>6,396kWh</td>
<td>6,811kWh</td>
<td>7,166kWh</td>
<td>7,242kWh</td>
<td>7,623kWh</td>
</tr>
<tr>
<td>Maximum Coincident Peak Demand</td>
<td>2,441MW</td>
<td>2,380MW</td>
<td>2,417MW</td>
<td>2,349MW</td>
<td>2,542MW</td>
</tr>
<tr>
<td>Electricity Distributed</td>
<td>15,247GWh</td>
<td>15,097GWh</td>
<td>15,212GWh</td>
<td>14,544GWh</td>
<td>15,678GWh</td>
</tr>
<tr>
<td>Electricity Generated by Ergon Energy</td>
<td>111GWh</td>
<td>114GWh</td>
<td>118GWh</td>
<td>117GWh</td>
<td>114GWh</td>
</tr>
</tbody>
</table>

11. 2013-14 estimate only. Other years are based on the most recent Census.
Making prudent investments

As a result of demand at the substation being well below forecasts in most regions, and requests for new network connections remaining suppressed, a detailed review of our works program was undertaken in 2012 to ensure we were being as prudent as possible in our investment decisions.

In turn, we scaled back our five-year capital works program up to 2015, to $1.3 billion below that originally allowed for prior to the Global Financial Crisis (GFC). Delivering on this revised target remains critical to containing future network charges. This is requiring a significant focus on network optimisation, and greater efficiencies in the delivery of our works program (p28).

Changes to our planning criteria

Since the review, we have gained support from the Queensland Government to move to new network planning criteria during the financial year. As a result, we have moved this year away from the prescriptive requirement to duplicate costly investment to provide security of supply (in the event that one component has a fault).

The new planning criteria are still about maintaining a high standard of electricity supply. However, they now use a risk management approach, with an incorporated safety net to ensure we are able to respond appropriately if a major fault occurs. This allows our planners to identify more innovative and cost effective solutions to deliver an appropriate level of security, and ultimately the reliability of supply.

We are also increasingly applying the best ‘capacity solution’ approach to investment decisions. This allows modular or intelligent network solutions (that allow automation) to be used, rather than a full-scale infrastructure build. One example, this year, is our decision to embed a diesel power generation into the network in Mount Isa to ensure security of supply to the town. This decision is far more prudent than the traditional approach of building in costly network redundancy, largely just for peak times.

This approach provides greater flexibility in the timing of decisions about larger network investments. The staged approach to meeting a gradual increase in load also removes the impetus of relying completely on forecasting to make decisions, and allows risk to be managed more efficiently and effectively.

It also allows us to better integrate customer demand-side engagement solutions into our network augmentation plans – as a lower cost alternative to a capacity constraint.

Customer demand-side solutions

Customer demand-side solutions are now frequently proving a more cost-effective way to respond to demand growth, and offset or defer costly expenditure in major electricity infrastructure.

In 2013-14, by working actively with our customers to manage their demand, Ergon Energy achieved 18MVA of targeted peak demand reductions, against a target of 14MVA. This surpassed the target of 122MVA (103MW) set in 2010, at the beginning of the current five-year regulatory control period. As we enter the fifth and final year of the period, we have already delivered 126MVA in demand reductions – the equivalent to the demand from 36,000 houses – a clear demonstration of the capability developed in this area over recent years.

A significant contributor to this year’s success is the Mackay EMPower program. This program engaged business customers in the high-growth area of South Mackay by offering incentives for optimising their electricity use. Under the program, participants are benefitting from three types of incentives: deemed demand, reduced demand and demand response incentives.

The program is the first time we have used a Demand Reduction Incentive Map (DRIM), as a more efficient delivery model for customer demand-side engagement, to attract and encourage market-based solutions for managing demand. This provided private-sector businesses with clear information on the network value of the demand reduction, enabling them to develop and operate as a channel for solutions that benefit both our customers and our network.

To support this, a Trade Ally Network was established, initially in Townsville and later extended to Mackay, as a reference list of businesses with capabilities, products or services, to help our customers access the incentives. The Trade Ally Network incorporates a wide range of businesses with specialist capabilities in the energy services sector, including companies with capabilities such as energy consultants, electrical contractors, air conditioning specialists and even finance companies.

This year’s result was also delivered by a range of other initiatives including further reductions from the Townsville commercial and industrial customer demand pilot; additional power factor correction gains in Toowoomba; another embedded customer-generation agreement in Moranbah; and a suite of demand-management initiatives rolled out in Mount Isa. We also continued our broad customer-demand engagement, incentivising customers who could benefit from the take up of our off-peak tariff for electric water heaters.

Trials and research activities also remained an important part of our demand-management program. During the year, we continued a body of projects in Townsville, known as Energy Sense Communities. This program has trialled a range of alternative technologies, such as demand-management techniques, solar power, electric vehicles, energy storage, network automation and smart customer appliances, as well as community engagement initiatives.

One of the key engagement projects completed this year, focused on engaging ‘greenfield real-estate’ developers in order to foster more energy and demand efficient communities. This saw us testing new business models, marketing methods and customer incentives aimed at delivering benefits to the developers, the residents who would ultimately live in the development, and our network.

We also trialled a new calculator that predicts the impact new property development will have on peak demand. This is helping us accurately plan and cost network growth, in areas like Roma, Gladstone and Townsville, as well as helping us engage developers at the planning and design stage.

We also progressed our ability to utilise battery storage to help manage demand (p25).

Further information on our Demand Management Plan can be found on our website.
Delivery against our investment plans

During the year, we continued to deliver against our revised capital investment plan, with the overall level of capital investment at $812 million (down from $872 million in 2012-13).

This saw the capital expenditure associated with our Standard Control Services, at the end of year four of the five-year regulatory control period, at 56.6% of what was originally allowed for (totaling $716 million in this financial year).

The capital projects Ergon Energy initiated – an investment of $611 million compared to $664 million in 2012-13 – delivered a range of outcomes including significant renewal of parts of the network nearing their end of life (to maintain safety and reliability standards); targeted network augmentation to meet local growth in demand (this was however reduced largely through the deferral of a number projects); and the delivery of reliability improvements (p14); as well as other projects. An additional $201 million was invested into network connections or upgrades, requested by our customers (p7).

One of the most significant augmentation projects to commence during the year was the $75 million Toowoomba Central substation project. This project, which will underpin growth in the city’s CBD for decades to come, includes a new, fully-enclosed three-story substation as part of a major shopping centre redevelopment; an upgrade at the South Toowoomba substation with the latest in gas insulated switchgear; and a dual circuit 110kV line between the two substations to provide a higher level of reliability and security of supply.

Other Ergon Energy-initiated capital program highlights covered in this report include:

- completion of the $140 million all-encompassing telecommunications network, known as UbiNet (p24)
- the continuation of our reliability improvement strategy, with $32 million invested over the past year (p14)
- the delivery of our $22 million capital program for our isolated generation systems, including the commissioning of the innovative Doomadgee solar farm (p33).

While we have been able to better target network renewal (either asset refurbishment or replacement) as we have improved our understanding of the condition of the network, this area remains the largest proportion of our investment program, followed by customer requests for new connections and then the projects we initiate to keep up with growth in general demand.

Construction of the new Toowoomba Central substation is progressing well and is on track for completion in 2016. The indoor design of the three-storey substation, and its integration within a major shopping centre, is a first for Ergon Energy.
A MODERN NETWORK IS AN EFFICIENT NETWORK

Across the network we have traditionally had limited real-time information on what is happening. We have relied on customers notifying us of issues. To respond to this, over recent years we have been increasing our visibility of the network through our substations – upgrading our network monitoring and control capability through the installation of SCADA (Supervisory Control and Data Acquisition) technology – to the point that we now have 97% of our customers connected through communication-enabled substations.

Developing this capability further is now critical to allowing us to be more proactive in addressing customer expectations, and to delivering greater asset management and operational efficiencies.

The major milestone in this area during the year was the completion of UbiNet, an all-encompassing telecommunication network, linking our growing network monitoring and control capability and our controllers. The $140 million investment, constructed over the past five years, now links 42 depots and 100 substations, and provides the backbone for our private cellular data and P2S digital radio networks.

To continue to expand this capability, and the level of automation in the network, this year we also commenced a multi-year rollout of a Distribution Management System (known as a DMS). The DMS is a modern computer-based system that will revolutionise our operational and outage management environment. It will mean our control centres in Rockhampton and Townsville will do away with using ‘pin boards’ to manage the switching required to operate the network, and use the system for pre-switching checks and scenario studies.

We are also continuing to look towards the future by progressively increasing the population of intelligent electronic devices beyond the substation within the distribution network. This year, we targeted the installation of power-quality monitoring devices in areas known to be poorly performing. These efforts will ultimately give us greater real time data on the status of the network, and supported by the DMS, will allow us to operate the network closer to its technical limits.

As a result we will be able to undertake maintenance and/or renewal in a far more targeted way, building on our conditions-based maintenance framework. The automation that the DMS supports, will also allow us to achieve greater network utilisation (and potentially deferral of costly network investment). Visibility of the network will also be increasingly important in ensuring the network can respond to voltage issues associated with a higher penetration of solar energy systems, and enable us to evolve the network as an open access platform that provides equitable access to distributed energy resources.

THE FUTURE IS HERE

In 2013, Ergon Energy participated in the CSIRO’s special inquiry into what the future of the grid may look like, together with more than 35 other industry stakeholders. We anticipate a rapid rate of change, with some elements of the scenarios outlined by the CSIRO’s final Future Grid Forum report already becoming a reality in our service area.

What the future will ultimately look like will depend, of course, on consumer choices, technology, government policy and commercial responses – regardless it will require us to adapt and even play a central role in creating an energy future that delivers the best outcome for our customers.

Solar energy shining the way

In regional Queensland, 16% of all residential households, and many businesses, have already connected solar energy systems to our network – the total capacity installed is now 339MW.

The take up of solar is a game changer for the way we manage the network and for our business model.

It is impacting both the demand profile of the network and the amount of energy needed by our customers from the grid (p21). There is also a financial impact on all customers through the Queensland Government’s Solar Bonus Scheme (p13). These have already been discussed.

In addition, as the network was designed and built to cope with the one-way flow of electricity from large-scale generators to customers, we are having to consider the technical challenges created. While the network is operating well in most instances with the two-way flow now being experienced, the growing number of systems exporting power back into the grid has implications for the operation of the network. The biggest challenge is to maintain stable voltages in the surrounding network. These challenges are exacerbated on the SWER lines in our less populated areas.

In response, we continue to trial and implement various technical solutions. An initiative this year saw us fit out eight homes in a Townsville street with solar panels and inverters, to trial the activation of the reactive power functionality available in modern inverters, in order to vary the system’s power factor and help reduce voltage issues. We also carried out trials involving other voltage regulator technology with good results.

During the year, we also consulted with the solar industry in order to develop standards to more readily allow customers to install solar energy systems up to 30kVA, provided they do not export into the network. These new standards have the twin advantage of allowing customers who may not have previously been able to take advantage of solar (due to network limitations) to do so, while providing the opportunity for the energy produced by the system to be stored in batteries in the future, for use during peak demand periods.

This work is about giving customers greater choice and control over how they source and use power.

From a business-model perspective, our efforts are about changing the value proposition we offer customers, from one of an essential service, to a provider of essential infrastructure that connects buyers and sellers of energy services. This will see the network increasingly used as an open access platform for distributed energy resources.

To do this we are engaging with the solar industry to keep up with the technologies, and the direction the industry and customer desires are taking. We are also developing tariff structures to send the right price signals to customers (p13).
Integrating battery technology an opportunity

The greatest potential for solar energy systems to benefit the network and our customers will come as battery-power storage becomes financially viable – we aim to take advantage of this opportunity.

During the year our Grid Utility Support System (GUSS) – the medium scale ‘battery’ application that we have developed over recent years – has moved through business case approvals and is now ready for commercial implementation. This is the first known application of its type in Australia to move beyond the trial phase based on a positive business case. In most areas where other utilities are deploying energy storage, it is being done as a demonstration project or with government seed funding.

Our focus on reducing costs, managing demand and improving supply quality in our more remote sections of the network has led to us deploying this technology, which in turn has helped us to develop our energy storage skills and knowledge more broadly. This know-how has seen us internally develop the control algorithm to be used in this commercial application, which is more advanced than the ones typically being used in the control functions of the battery systems currently in the market.

We plan to install more than 16 GUSS units throughout the state to both enhance the local capacity of the network and manage voltage issues. We are also looking at using battery technologies in our isolated communities (p33).

During the year we wrapped up a research study to assess the benefits of our Residential Utility Support Systems (RUSS) in helping to manage the network during peak times. These units feature Lithium-ion batteries, which take energy from the network during non-peak times and use it to supply the house and network during times of peak demand. The trial has provided significant value in determining how distributed small energy storage systems could interact with the network.

Together, our growing knowledge will position us well for the inevitable mass-market integration of batteries into the network. There are already over 50 different types of residential energy-storage systems on the market in Australia for grid connection that our customers are already installing. We are currently monitoring these storage technologies – their capabilities, costs and applications and the enabling technologies. This, and our understanding of the behaviour of customers using Electric Vehicles (EVs), gained through an earlier 18-month real-life trial, will be valuable if EV sales suddenly escalate.

The potential penetration of battery-related technologies is an area where we worked closely with CSIRO. We are investing in our understanding of the likely market uptake under different tariffs and incentive scenarios, as well as other considerations that need to be looked at to ensure that ‘batteries’ deliver positive outcomes for the sustainability of the network, the uptake of renewable energy, and for our customers.

We are currently trialling a renewable energy version of our Grid Utility Support System near Chinchilla to test the integration of solar energy with the battery storage application, and improve the quality of the supply for the properties on SWER lines experiencing poor power quality.
To us, being a high-performance organisation is all about being agile and responsive to the changes taking place in our operating environment, as well as being more effective across all areas of our delivery. This section explains our approach – how we have aligned our structure to our strategy, how we are becoming technology enabled, and how we are developing our people. We also outline our workplace safety and environmental performance.

### Enabling our people

#### A skilled, safe workforce

#### Protecting the environment

- **Strategic Initiative**
  - Resize the organisation, and establish a new business model, while ensuring efficient, safe delivery of the works program.

- **Achievement**
  - Significant organisational restructuring was completed and our workforce resized to the current works program. p27 Productivity outcomes have been delivered throughout the works program. p28

- **Strategic Initiative**
  - Develop an ‘agile energy retailer’ with a focus on commerciality and results.

- **Achievement**
  - The stand-alone retail business unit has also undergone restructuring and added capability in a number of key areas. p27

- **Strategic Initiative**
  - Establish an information-enabled organisation with spatially structured, information-improving decision making.

- **Achievement**
  - Progress has been made towards introducing Field Force Automation, upgrading our Contact Centre technology and updating our customer information systems. p27

- **Strategic Initiative**
  - Continue the company-wide efficiency and effectiveness program commenced in late 2011.

- **Achievement**
  - An ongoing focus on workforce optimisation and strategic sourcing, as well as targeted productivity improvements, has delivered significant savings. p28

- **Strategic Initiative**
  - Deliver asset management savings and benefits through a collaborative and shared cost approach with Energex Limited.

- **Achievement**
  - Collaboration with Energex has continued, with significant progress in aligning our information and technology systems. p28

- **Strategic Initiative**
  - Achieve the most cost-effective property solutions by co-locating and minimising site leases.

- **Achievement**
  - We consolidated our Townsville properties and now operate from two main sites. p28

- **Strategic Initiative**
  - Build a resilient, adaptable and efficient workforce with the skills and culture required to manage increasingly sophisticated networks, information systems and energy solutions.

- **Achievement**
  - We placed a focus on empowering our people, increasing leadership effectiveness, and improving our talent and performance management. p28

- **Strategic Initiative**
  - Make sustained progress towards ‘no one gets hurt today’; achieve safety results in the top quartile for our industry by 2015.

- **Achievement**
  - Work, health and safety performance moved towards our target of industry best practice. However, tragically an employee lost his life in a car accident. p32

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Above: We have progressed Field Force Automation, as one of our many technology-supported organisational transformation projects, to enable our people to deliver efficiently and effectively into the future.
Since then it has undergone further Government reform announcements. following a number of Queensland single point executive accountability, organisation in the previous year, with separate stand-alone business within the Ergon Energy Retail was established as shareholders.

Transforming into an agile retailer

Our focus has remained on enabling our people to respond to the changes taking place in our operating environment.

A new strategy-aligned organisational structure

We continue to build on the organisational changes made in the previous financial year as part of a strategic focus on transforming into a more efficient, effective and adaptable business. This year’s changes were led by the downsizing and renewal of the Executive Leadership Team (p41), with significant restructuring undertaken in order to create the right business model to deliver our strategic objectives.

This work is in line with the October 2012 decision to scale back our five-year capital and operating expenditure program. p22

To support the Office of the Chief Executive, a new business unit, Strategy, Revenue and Transformation, was established. Its role is to develop and outwork the corporation’s strategic direction. Importantly, this group is driving the development of the Regulatory Proposal, which will fund the works program for 2015-20 (p37).

Significant restructuring was also undertaken to establish the two refocused business units, Network Optimisation (largely a merger of Asset Management and Major Projects) and Customer Service (previously Operations). These efforts were designed to improve asset management outcomes and move field-service delivery from a regional focus to one aligned to key functions. The focus has been on delivering clear lines of accountability, reducing duplication, improving consistency and lowering costs. Other teams have been merged in part or in full within the newly named corporate-support business units: People and Shared Services, and Finance and Corporate Services.

The new structure is important, as it provides us with the flexibility to meet future industry challenges.

Transforming into an agile retailer

We also continue to transform our retail operations into an agile energy retailer with a focus on commerciality and results for customers, employees and shareholders.

Ergon Energy Retail was established as a separate stand-alone business within the organisation in the previous year, with single point executive accountability, following a number of Queensland Government reform announcements. Since then it has undergone further restructuring and added capability in a number of key areas.

“Our success in the future relies on harnessing the efforts of our almost 4,500 people”

Retail’s customer service capability and performance efficiency is also being supported by modernising our customer-information system and contact-centre technology (below).

We are building our retail capability to preserve value in the customer base and improve customer loyalty, and complete the separation of retail and distribution functions to position both our retail and distribution businesses for the potential of full retail competition.

A technology-enabled organisation

Our aim is to increasingly become an information-enabled organisation, one where information is readily available to our employees for enhanced decision making, business processes and organisational performance.

As a result, we are delivering a large, inter-related suite of information technology projects as part of our strategic enablement program.

Business information at our finger tips

The most significant initiative progressed this year has been Field Force Automation (FFA) – the automation of the dispatch of customer service orders and fault response work, using mobile devices that crews take into the field. After road testing a range of devices for robustness and ease-of-use, the project is now in the implementation stage.

The devices will enable field staff to enter data on site, and the technology platform chosen (and also used by Energex) will then automatically collate and integrate the data. Employees will also be able to access the information they require while in the field, including service orders from a centralised dispatch. This initiative will improve our responsiveness to customers’ requests and the consistency of delivery standards, as well as provide for a greater level of flexibility and efficiency in the field.

During the year we planned the roll out of a new technology suite in our Contact Centre, designed to improve the experience of customers and give more choice in how they contact us. This joint project with Energex, to be implemented in early 2015, includes establishing the multi-channel environment, with a more user friendly, simpler interface, and a smart-routing strategy (allowing a customer to speak to the person they spoke to previously), as well as other improvements.

We also progressed a project to replace our distribution customer and market systems. This will see us move off our outdated customer premise and billing system, FACOM, currently used by both our distribution and retail operations. It will see our distribution operations move to the systems solution currently used by Energex, which will improve the functionality for customers, retailers and electrical contractors. Retail will then move to a new customer-information system that will help streamline our billing and customer-interface activities and build our retail products and services capability for the future.

A range of other systems improvements are also progressing to support our business reporting capability and deliver greater efficiencies.

Understanding the state of the network

To better inform network asset management and operational decisions, we are also continuing to use information technology to improve our understanding of the network, and the environment we operate in, and integrating these insights into our business decisions and practices, from outage management to network planning.

Earlier in the report, we discussed how we are rolling out advanced operational technologies to provide real-time information on the state of the network. Being information enabled is critical to increasing the efficiency in our operations and optimising network investment.

This year, we also expanded our Geographic Information System (GIS) and integrated our data with Google Earth, and are in the process of upgrading the GIS to improve its capability further.

The operationalisation of ROAMES also continues. We are exploring new ways to use the network data collected by aerial survey, not only for managing vegetation clearances, but for managing line to ground clearances and the associated load on the line, as well as other efficiency opportunities (p28). Under a contract with the new owners of the ROAMES capability, the aerial surveys are continuing annually so that we can utilise up-to-date data to realise these benefits (p38).
DRIVING EFFICIENCY AND EFFECTIVENESS

Ergon Energy began a formal company-wide efficiency and effectiveness program in late 2011. This has seen an ongoing business-wide focus on improving workforce optimisation and strategic sourcing. The efficiency-related benefits delivered from this program this year are in the order of $44 million, building on the $113 million in benefits achieved in the previous year.

Efforts to right size the organisation have delivered much of this gain. By critically assessing our operating model and associated organisational accountabilities, we have been able to adjust the workforce from the June 2012 peak when we were resourced for an anticipated growth in demand. p30

Savings are also being achieved in other ways, most notably through productivity improvements in a range of works delivery areas; in vegetation, line inspection and pole defect management.

Vegetation costs peaked in 2011-12 at $104 million when we were addressing a major backlog – this expenditure is now down to $69 million a year. Further savings will be realised through integration of ROAMES (p27) and continued improvement in contract arrangements. Line inspections also peaked in 2011-12 at $62 million, due to the inspections required following Cyclone Yasi – line inspection expenditure is now down to $43 million, largely due to changes in strategy and improved contracting arrangements. This year also saw pole inspections fully compliant for the first time. In pole-defect management we streamlined our processes to deliver efficiencies, reduce waste and reduce costs – with expenditure now $100 million a year, down from $117 million in 2012-13.

We have continued collaborative workings with Energey (our government-owned south-east corner counterpart) to deliver efficiencies. This year’s focus was on increasing the alignment of our information and technology systems (p27) and establishing a joint asset-management framework – including shared maintenance and other network standards. We also achieved greater alignment of equipment and materials to enable resource-sharing opportunities across procurement, design, construction, commissioning and maintenance practices.

We continued to deliver greater efficiencies through our property strategy. This year saw the consolidation of our Townsville properties into two main sites, with our white-collar employees – previously located in five leased-accommodation sites and at our Garbutt site – now located in one leased CBD site (p33). During the year we also commenced work on the redevelopment of our facilities in Garbutt, as well as in Glenmore Road, Rockhampton. This will allow further consolidation, taking our Rockhampton sites from six properties to three, and deliver improvements to these operational work spaces.

Together these efforts have supported improvements in our key efficiencies measures – delivering a result of 2.2% for Network Maintenance Costs/Regulated Asset Base (compared to 2.7% in 2012-13) and $2,208 for Operational Expenditure per Route Kilometre (compared to $2,364 in 2012-13). We are also delivering against our targeted reduction in regulated operating expenditure for the current five-year regulatory control period. At the end of the fourth year of the period, our expenditure is at 78.6% of the allowance, despite being above the allowance earlier in the period, due to costs associated with major disasters.

We are also looking to realise the benefits from a focus on optimising network investment. These efforts, which range from an improved planning approach (p22) to the use of new technologies (p27), are central to delivering prudent and efficient investment plans as part of our Regulatory Proposal for 2015-20 (p37) and our commitment to delivering for the best possible price.

INVESTING IN OUR PEOPLE

Empowering our people

Our success in the rapidly shifting energy environment, most notably the increasing complexity of the future distribution model, requires new skills and a material shift in the culture of the organisation. This challenge has seen us refresh our people strategy, and place it at the heart of the organisational transformation underway.

The strategy will see us leverage off technological advances over the coming years to build an agile, information-enabled organisation, with a business model that reflects simplicity and accountability. The strategy will also see a strategic focus on increasing the effectiveness of our leadership and on industrial reform.

Our vision for our people is that they are empowered to behave as the owners of our business, are highly engaged, and act commercially to deliver the best interests of our customer and government shareholders.

We engaged a new research provider, Aon Hewitt, to measure employee engagement through a 2014 ‘yourView’ survey. This provider measures engagement for hundreds of large, global, geographically-dispersed organisations each year.

The survey provided insight into improving engagement and aligning our people to the culture required to deliver on Ergon Energy’s strategic objectives. The below-target survey result – an overall engagement score of 45% - endorsed our focus on leadership effectiveness and on creating a high-performing culture. It also highlighted that our people are looking for career opportunities, and want access to learning and development opportunities.

Increasing leadership effectiveness

The foundation for our organisation’s success is leaders who motivate, inspire and engage our people. During the year our leadership–development framework has evolved with a focus on embedding performance leadership within our Customer Service group. This initiative addresses the challenge all organisations face in translating learning investments and experiences into improved performance outcomes.

By embedding learning through business experiences, we believe our leaders are better equipped to drive change, build talent, deliver results and ensure customer outcomes are met. In setting the leadership capability and performance expectations for the different levels in the organisation, we are also better defining the talent pipeline and leadership pathways. Supported by a robust, practical framework, the business change initiatives, and business as usual, become the levers for developing an effective leadership team.

Building our organisational talent

Our focus is on aligning talent to business needs, ensuring our people have the skills and capabilities to deliver now and meet the challenges of the future.

In line with our investment in developing our core leadership capability, people development more broadly is being delivered through experience, exposure and education within the organisation and externally. New tools were developed this year to assist managers in identifying the training requirements for field staff undertaking particular roles, and to track training and skill levels across the organisation.

We continued to deliver a diverse range of technical and non-technical training. A significant investment was made in developing statutory training to align to national competencies, while providing additional organisational benefits with regard to first aid and risk management. Training was also used to support the roll out of specific safety-related initiatives (p37).
Approximately 2,700 training sessions were delivered to more than 17,000 participants. In addition, more than 23,000 benefited from online training sessions, covering a broad range of topics from diversity awareness to weed management.

Building the pipeline of future leaders and securing the right talent is also integrated into our graduate, apprentice and trainee programs, as we continue our commitment to ‘grow our own’ talent.

Our graduate and undergraduate program is made meaningful through business rotations and targeted formal development programs delivered by Engineering Education Australia. The strong response to the program’s recruitment campaign in 2014 reflects the reputation of the program. This year, as part of the recruitment process, we utilised video-interview technology as an innovative way to progress pre-screening activities for decision-makers.

In February, we welcomed 79 new recruits as part of the 2014 apprentice intake. This year’s apprentices come from a diverse range of backgrounds, and include four female and eight Indigenous recruits, as well as a good proportion of mature-age candidates (including 21 existing employees) and school leavers. Our apprenticeship intake demonstrates our continued commitment to retaining front-line employees in our local communities.

Managing people performance

During the year we continued to embed our performance-management framework with a focus on supporting and coaching managers in defining and setting clear performance expectations, and effectively engaging their teams to drive high performance. Better alignment of key-performance indicators and performance objectives to the corporate strategy will take the performance management to the next level of maturity.

Reward and recognition is also seen as critical to our ability to continue to attract, motivate and retain key talent. Recognition drives employee engagement, leading to higher discretionary effort and stronger business performance. In April 2014 we launched ‘Say Thanks’, an initiative where employees recognise colleagues by sending a thank you card via an e-card or hand-written note. A timely and sincere ‘thank you’ serves to reinforce positive behaviours aligned to our values and performance objectives.

Diversity contributes strong business value

For Ergon Energy, diversity is part of the fabric of the people strategy. Our aim is to create an ‘inclusive workplace culture’ that embraces diversity and enables everyone to fully contribute and be valued for their distinctive skills, experiences and perspectives. Valuing and capitalising on workplace diversity provides us with a broad range of ideas and insights for our decision making, helps us to better understand and serve the needs of our customers, and creates a more effective and productive organisation.

In March 2014, we launched a new online diversity-awareness course aimed at increasing awareness of our corporate values and behavioural expectations, while assisting employees to recognise and act against inappropriate behaviours, including bullying and discrimination.

Our diversity program is supported by a network of almost 30 trained volunteers called Sexual Harassment and Anti-Discrimination Officers (SHADOs). The role of the SHADO is to assist in promoting appropriate standards of workplace behaviour, and to act as a confidential and impartial contact point for employees.

Activities in our diversity program continue to focus on attracting a diverse pool of applicants for job positions, and increasing the recruitment rate of candidates from under-represented groups.

Each year we identify specific apprentice positions for Aboriginal and Torres Strait Islander (A&TSI) candidates. This year, we launched the EmPowering Indigenous Pathways program – a pre-employment program to assist Indigenous candidates to prepare for the apprenticeship assessment process. Ergon Energy partnered with federal and state government agencies, and a north Queensland business, to deliver a 20-week development program providing participants with the education, skills and confidence to undertake an electrical apprenticeship. Fourteen participants successfully completed the program and obtained a Certificate II in Electrotechnology – with six securing an apprenticeship position with Ergon Energy. A further two Indigenous candidates, from outside the program, were also successful in securing apprentice positions.

Our goal of building a workforce that reflects the diversity of regional Queensland and our customers saw the launch of the EmPowering Indigenous Pathways program at Barrier Reef TAFE’s Boile campus in Townsville.

The graduate program was ranked 43rd in a list of the Top 75 Graduate Employers, as voted by graduates across the nation. Shani Boag, an Ergon Energy graduate based in Townsville, praised the program.

In 2014, 79 recruits embarked on an apprenticeship with Ergon Energy, including 21 current employees who took the step to further their careers.
Promoting constructive workplace relations

Throughout the organisational change this year, significant employee and industry union engagement and consultation was successfully undertaken.

The wages and conditions for the majority of our employees are set through Ergon Energy’s enterprise agreement. Formal negotiations for a new agreement will commence during the first quarter of the next financial year. We seek to establish a simplified agreement that supports our strategic direction, and helps us develop as a modern, agile and responsive organisation. Our proposal is in line with Queensland Government expectations and our expenditure forecasts in our Regulatory Proposal for 2015-20 (p37).

To foster reasonable and effective relationships, representative unions have the opportunity to escalate concerns and outwork solutions through Ergon Energy’s Consultative Committee structures.

Workplace safety remains a priority

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

Our Health Safety and Environment Improvement Plan 2012-17 is being implemented to take the organisation’s safety performance into the top quartile of the electricity distribution industry’s recognised benchmarks. To reach our safety goals we are targeting safety leadership, implementing programs that tackle identified high-risk activities, developing stronger governance frameworks, and continuing to promote health and wellbeing.

Leadership strengthens positive safety culture

In order to strengthen our positive safety culture, throughout the year we have been focussing on leadership and behavioural change as key drivers for a healthy and safety-conscious workforce.

One of the most important initiatives was a mandatory, company-wide ‘Stop for Safety’ forum in January, which was held following two successive road tragedies, including an employee fatality. This investment was not taken lightly; it was seen as vital to reinforcing our commitment to safety, and for employees to take time to reflect on their individual workplace risks and hazards and to make a personal resolve towards protecting themselves and their family.

Another major initiative reinforcing our safety culture was our annual Field Safety Day Championships. Crews from across the state met in Townsville to put their technical and safety rescue skills to the test.

Our statistics

<table>
<thead>
<tr>
<th>OUR STATISTICS</th>
<th>2013-14</th>
<th>2012-13</th>
<th>2011-12</th>
<th>2010-11</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Employees</td>
<td>4,415</td>
<td>4,614</td>
<td>5,060</td>
<td>4,752</td>
<td>4,630</td>
</tr>
<tr>
<td>Full Time Equivalent</td>
<td>4,308</td>
<td>4,435</td>
<td>4,869</td>
<td>4,624</td>
<td>4,513</td>
</tr>
<tr>
<td>Staff Turnover (annualised)</td>
<td>8.9%</td>
<td>14.3%</td>
<td>8.1%</td>
<td>6.8%</td>
<td>7.2%</td>
</tr>
<tr>
<td>Women in the Workforce</td>
<td>1,126</td>
<td>1,204</td>
<td>1,337</td>
<td>1,197</td>
<td>1,132</td>
</tr>
<tr>
<td>Women in Upper Management</td>
<td>16%</td>
<td>16%</td>
<td>17%</td>
<td>20%</td>
<td>21%</td>
</tr>
<tr>
<td>Women in Middle Management</td>
<td>22%</td>
<td>21%</td>
<td>20%</td>
<td>21%</td>
<td>19%</td>
</tr>
<tr>
<td>A&amp;TSI in Entry Level Positions</td>
<td>58</td>
<td>58</td>
<td>67</td>
<td>77</td>
<td>66</td>
</tr>
</tbody>
</table>
Involvement in the competition is a form of recognition, and provides an opportunity for employees to share their safety success with the organisation as a whole. Contestants are selected based on their ranking against the organisation’s Comprehensive Safety Indicator (CSI).

Using the CSI measures to recognise and reward employees’ achievements, for both field and office-based employees, is central to our safety engagement efforts. The initiative, now in its fourth year, uses lead (proactive) and lag (reactive) indicators to highlight the safety performance of teams across the organisation. The CSI puts line management responsibility and employee engagement proactively in the safety management system, as opposed to reactively, after an incident or injury has occurred.

Other initiatives are also embedding a safety culture and developing future safety behaviours. For example, the participatory ergonomics for manual handling initiative, known as PErforM, uses the skills and experience of employees to develop effective controls around manual handling, which will reduce the risk of injury.

Communications supporting the over-arching ‘Always Safe’ campaign also continued to foster a health and safety conscious workforce. Communications also promoted safety around higher-risk activities, from driving and fatigue, to working in the heat waves we experienced this summer.

Tackling areas of high risk

Ergon Energy’s employees encounter a wide spectrum of work conditions. We travel over 35 million kilometres each year to service our vast region – making driving a high risk activity. To respond to this, a series of safe-driving workshops for employees was implemented across the organisation, through a partnership with Queensland University of Technology’s Centre for Accident Research and Road Safety Queensland (CARRS-Q) and Suncorp. The interactive workshop educated employees about work-related road safety, and equipped them with the necessary tools to monitor and improve their own driving safety.

Another initiative supporting our employees in recognising unsafe road and driving behaviours was the trial of fatigue-monitoring technology installed in fleet vehicles. These driver distraction monitoring and mobile eye detection devices are enabling employees to make better on-road decisions and stay safe.

High voltage live line work and network switching are also areas of risk that receive ongoing attention. These are complex, high-risk activities that rely on a chain of decisions and are subject to human error.

This year, high voltage network switching in particular, was identified as an area to target behavioural and cognitive change programs. This saw the implementation of a Switching Incident Risk Mitigation program. Based on established research – and successfully implemented in other Australian states – the program emphasises the high reliability behaviours in a safety-critical environment, and aims to reduce the number of switching incidents. Parallel to the program was a range of initiatives such as reviewing training, equipment, and operating manuals. A key learning was the role of communication, which led to the introduction of an incident outcome communication form to further enhance learning. In addition, after an incident left an employee hospitalised, Ergon Energy banned the practice of transitioning from one methodology to another, while working on high voltage live lines.

We also worked hard to reduce the risk of dog attacks on meter readers. With one incident every week, it was decided to undertake a public campaign to remind customers of their safe-access obligations.

Developing stronger governance frameworks

To ensure we operate effectively as a learning organisation, we modified our risk governance framework. Tools were developed to map the outcome of incident investigations and to support our operational risk committee in assessing the high risk activities. Using the risk ‘tolerability envelope’ tool we can now better monitor trends in incidents and severity, and the effectiveness of the control measure established.

Governance is also supported by our consultative forums. They provide a mechanism for employees to access management and progress any improvements needed to make our safety systems more robust. Forums exist for high voltage live work, overhead and underground standards and practices, switching and access, and personal protective equipment and clothing. Ergon Energy is also represented on a number of external safety related forums, such as Dial Before You Dig, and has close working relationships with the Electrical Safety Office and Workplace Health and Safety Queensland.

The independent Electrical Safety Office-approved auditor endorsed our compliance with our obligations under the Electrical Safety Act 2002 (Qld). The auditor also confirmed that Ergon Energy has developed a solid platform for continuous improvement. We have retained certification against AS/NZS 4801, BS OHSAS 18001 and AS/NZS ISO 14001 standards for our integrated health, safety and environment management system.

Employee health and wellbeing

Ensuring employees are physically, mentally and emotionally well, and ‘fit for work’ remains a high priority for Ergon Energy.

During the year our Drug and Alcohol Program was further enhanced with the introduction of supervisor education sessions. This initiative focused on the supervisor’s role in understanding the impact that drugs and alcohol can have on being ‘fit for work’, and taking appropriate steps to manage that.

Since the 2012 introduction of Health Matters, an online health and wellbeing portal, over 1,500 employees and their family members have taken advantage of the free information service. This year, we built on this holistic approach to employee wellbeing through our participation in the Queensland Government’s Workplace for Wellness initiative, providing further proactive health management programs to assist employees with managing their own health and fitness for work.

In the face of ongoing organisational and industry change, our Employee Assistance Program also continued as an important service to employees. It provides free, confidential counselling to employees and their immediate family members, with an enhanced online support system.

To help guard against winter ills, our free flu-vaccination program continued, with 1,735 employees participating. And to provide the highest quality of care and safest working environment for both employees and visitors, a 12 month trial commenced for the placement of defibrillators in our largest workplaces.

Employees also received support to quit smoking with a new program operated through Quitline, which includes telephone counselling and access to nicotine replacement therapy.

The Emerald depot, led by Operations Area Services Manager Central West Cary Challacombe, celebrated the achievement of 15 years without a lost time injury. Pictured: Steve Leighton (right) and Cary Challacombe (left) congratulate some of the Emerald depot employees for achieving their milestone.
Tragically, in January 2014, a Hughenden based employee lost his life in a single-vehicle accident while returning from a worksite. This incident, and others that have occurred, remain as sombre reminders of the dangers associated with the large distances employees are required to travel, to service regional and remote Queensland.

More broadly, Ergon Energy’s workplace health and safety statistical performance continued to improve, including our Lost Time Injury Frequency Rate (LTIFR). Our result of 1.4, a significant improvement from last year, was well within our target of less than or equal to 2.2 injuries per million labour hours. It is also in line with our commitment to taking the organisation’s work, health and safety performance into the top quartile of the benchmarking undertaken annually by the Energy Networks Association (ENA). We will participate in this year’s benchmarking to identify if we have achieved our top quartile status.

We also achieved an 18% improvement in our All Injuries Frequency Rate (AIFR) for employees, with a result of 6.4. This indicator includes both LTIFR and the frequency rate for medical treatment injuries.

Performance also improved against the Dangerous Electrical Event Frequency Rate (DEEFR) for employees’ measure. However, the result is still above the desired target of 2.5. Our Compensable Claim Frequency Rate (CCFR) increased by 13% to 2.6, although it still remains favourable when compared to the target of 3.3. Contractor safety performance also declined, with an increase in the LTIFR to 3.2, which exceeds the desired target of less than or equal to 2.8. These remain areas of management focus.

Ergon Energy incorporates the AIFR, along with other lag and lead indicators, into a Comprehensive Safety Indicator (CSI) to give our people at the work-group level a meaningful score of how they are performing from a holistic safety perspective. The organisation overall is performing at the silver benchmark, with 542 total points allocated against a range of areas, out of a possible 600.

FOR MORE ON COMMUNITY ELECTRICAL SAFETY SEE PAGE 19.

<table>
<thead>
<tr>
<th>SAFETY PERFORMANCE</th>
<th>2013-14</th>
<th>2012-13</th>
<th>2011-12</th>
<th>2010-11</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lost Time Injuries Frequency Rate – Employees</td>
<td>1.4</td>
<td>2.6</td>
<td>2.6</td>
<td>3.2</td>
<td>6.1</td>
</tr>
<tr>
<td>All Injuries Frequency Rate – Employees</td>
<td>6.4</td>
<td>7.8</td>
<td>9.8</td>
<td>13.7</td>
<td>14.1</td>
</tr>
<tr>
<td>Compensable Claims Frequency Rate</td>
<td>2.6</td>
<td>2.3</td>
<td>3.0</td>
<td>2.9</td>
<td>4.3</td>
</tr>
<tr>
<td>Lost Time Injuries Frequency Rate – Contractors</td>
<td>3.2</td>
<td>2.2</td>
<td>1.8</td>
<td>2.2</td>
<td>0.6</td>
</tr>
<tr>
<td>Total Dangerous Electrical Events (DEEs)</td>
<td>1,116</td>
<td>956</td>
<td>1,050</td>
<td>888</td>
<td>896</td>
</tr>
<tr>
<td>- Unassisted Asset Failure (within Ergon Energy’s control)</td>
<td>423</td>
<td>323</td>
<td>359</td>
<td>377</td>
<td>395</td>
</tr>
<tr>
<td>- Assisted Asset Failure (outside Ergon Energy’s control)</td>
<td>693</td>
<td>633</td>
<td>691</td>
<td>511</td>
<td>501</td>
</tr>
<tr>
<td>Dangerous Electrical Events Frequency Rate – Employees</td>
<td>3.1</td>
<td>4.4</td>
<td>2.5</td>
<td>4.9</td>
<td>5.3</td>
</tr>
<tr>
<td>Community Electrical Safety Incidents</td>
<td>452</td>
<td>323</td>
<td>284</td>
<td>303</td>
<td>310</td>
</tr>
</tbody>
</table>

13. 2012 results and historical DEEs were adjusted due to changes in the status of a number of injuries since the previous reporting period.
PROTECTING THE ENVIRONMENT

A high standard of environmental performance is central to being a high-performing organisation.

Throughout the past year we have been active in participating in the Queensland Government’s review of 12 pieces of important environmental and planning legislation. Our focus was to ensure appropriate consideration is given to the environmental risks associated with our operations in regional Queensland.

We believe we have a corporate responsibility to play a role in conserving the world’s resources (whether energy or materials) through the adoption of efficiency and waste minimisation initiatives or, more broadly, through operational improvements and better asset investment decisions. We also have a responsibility to protect the environment we operate in.

Mitigating greenhouse gas emissions

Reducing our electricity use

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

As anchor tenant for a new landmark Townsville CBD building in Flinders Street, which is now accommodating Townsville CBD building in Flinders As anchor tenant for a new landmark and helping to address indirect operations – this is both reducing costs and the risk of fluctuating diesel prices. Reducing our diesel use also delivers significant environmental benefits.

During the year, as part of this strategy, we finalised the commissioning of a new solar farm at Doomadgee, an Aboriginal community located in the Gulf of Carpentaria. The new 264 kW system of fixed flat plate solar panels has, since August 2013, successfully supplemented the existing diesel generation plant (established in 1992) without adversely affecting the stability of the power supply. As this report was being finalised, the project received the 2014 Clean Energy Council award for industry innovation.

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

During the year, as part of this strategy, we finalised the commissioning of a new solar farm at Doomadgee, an Aboriginal community located in the Gulf of Carpentaria. The new 264 kW system of fixed flat plate solar panels has, since August 2013, successfully supplemented the existing diesel generation plant (established in 1992) without adversely affecting the stability of the power supply. As this report was being finalised, the project received the 2014 Clean Energy Council award for industry innovation.

In addition, across our existing buildings, we are incorporating energy efficiency services and features in any redevelopment or refurbishment, and implement a range of energy conservation initiatives to reduce electricity usage. Included this year was the installation of energy efficient lighting and control systems, and the end of life replacement of inefficient air conditioning plant. Our employees are instrumental in supporting our efforts to reduce our electricity use and operate equipment responsibly.

These efforts are not limited to our own operations. We also support our customers to reduce their electricity use, by leveraging other business imperatives, to achieve positive environmental outcomes. p13

Reducing our reliance on diesel

We continued to focus on reducing our reliance on diesel and increasing our capacity to generate using renewable energy.

In Windorah, a high proportion of the electricity needs of the community are also continuing to be supplied by renewable energy through our five solar concentrator dishes.

We also aim to increase our renewable energy output in the Torres Strait. The Thursday Island community is supplied via diesel generation, supplemented by two wind turbines; and we are currently looking at options to expand this wind generation capacity.

We are also continuing to explore funding and technical options around expanding our geothermal electricity generation. This includes looking at the replacement of our ageing geothermal power station at Birdsville, the only wet geothermal power station in Australia, and at new opportunities.

Our isolated communities’ energy saving program, powersavvy, also continues as an important diesel reduction strategy – to date we have reduced greenhouse gas emissions by approximately 9,800 tonnes. In addition to the program’s energy efficiency measures, we have incentivised the uptake of solar systems in the isolated communities we supply. To date, over 200 kW of solar energy has been installed through the program, and a further 200 kW is funded and ready for installation. p18

This success led to us seeking Australian Government funding to support the expansion of these facilities. This expansion will deliver our first high penetration integration of solar photovoltaic generation into our stand-alone supply networks – it will allow for full, instantaneous penetration of the solar energy generated – taking the reduction in the diesel used from 8% to 33% overall. The project will remove the development barriers, and ultimately provide the industry with knowledge and experience, to enable a wider and accelerated rollout of higher penetrations of renewable energy in isolated communities across Australia.
Our carbon footprint

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

**Direct Emissions (Scope 1)** – the operation of our 33 diesel-fired power stations, which we use to supply electricity to our communities isolated from the main grid, accounts for about 10% of our direct, or Scope 1, greenhouse gas emissions, the rest being mostly from vehicle fleet fuel use.

**Emissions associated with the use of electricity (Scope 2)** – these emissions are largely unavoidable network energy losses, comprising around 77% of our total emissions inventory. This is consistent with the previous year. This figure includes real network losses and losses associated with unmetered supplies.

**Indirect Emissions (Scope 3)** – these are associated with other entities, including the operations of joint venture SPARQ Solutions. This category also includes air travel but this represents only about 0.2% of our emissions inventory.

The total emissions across these categories is 873,597 tonnes of carbon dioxide equivalent. This data is based on available 2012-13 emissions data (2013-14 data was not available at the time of publishing).

Renewable energy

We continued to support the establishment and growth of renewable generation sources. Significant activity is underway in this area for the supply of our isolated communities (p33). For our grid connected customers, we purchased just over 10.5% of our energy requirements directly from renewable sources. Through the Solar Bonus Scheme, we credited customers for 290GWh of renewable energy, which their systems exported back into the grid for use by other customers. p13

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

Our GEC compliance requirements were equivalent to the purchase of 15.00% of our customers’ energy requirements from Queensland gas-fired generation. This scheme was terminated by the Queensland Government, and as result only applied to six months of the financial year.

For RECs, our Large-scale Generation Certificate requirements for 2013-14 were equivalent to sourcing 10.26% of our customers’ energy requirements from renewable generation. We also met a RECs liability under the Small-scale Renewable Energy Scheme for Small-scale Technology Certificates, equivalent to sourcing 15.09% of our customers’ energy requirements.

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

For the grid, the largest renewable energy source used for electricity generation remains bagasse, a by-product of sugar production. Ergon Energy has contracts in place with the local sugar industry to supply into the network across the state. The ongoing increase in solar energy systems has boosted the contribution of solar this year, the electricity that is exported from the 339MW of capacity now connected is supplying 13% to the renewable energy for the grid.

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**OUR CARBON FOOTPRINT**

- Network losses 77%
- Operational electricity use 3%
- Electricity used by street lights 7%
- Transport and other 3%

**OUR STATISTICS**

<table>
<thead>
<tr>
<th></th>
<th>2013-14</th>
<th>2012-13</th>
<th>2011-12</th>
<th>2010-11</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diesel generation</td>
<td>100,774MWh</td>
<td>96,841MWh</td>
<td>95,213MWh</td>
<td>104,757MWh</td>
<td>104,254MWh</td>
</tr>
<tr>
<td>Renewable generation</td>
<td>2,283MWh</td>
<td>1,964MWh</td>
<td>1,602MWh</td>
<td>1,837MWh</td>
<td>1,977MWh</td>
</tr>
<tr>
<td>Emission Reduction</td>
<td>1,454 tCO₂-e</td>
<td>1,396tCO₂-e</td>
<td>1,139tCO₂-e</td>
<td>1,232tCO₂-e</td>
<td>1,326tCO₂-e</td>
</tr>
</tbody>
</table>

**RENEWABLE ENERGY IN ISOLATED COMMUNITIES**

- Wind 52%
- Solar 23%
- Geothermal 2%
- Biodiesel 4%

**RENEWABLE ENERGY FOR THE MAIN GRID**

- Bagasse 62%
- Solar 31%
- Wind and Hydro 5%
Our network is increasingly operating as an open access platform for distributed energy resources – with the local sugar industry (through the generation of electricity using bagasse), solar energy exports from homes and businesses across regional Queensland, and other renewable energy sources now contributing over 10% of the electricity for our main grid.

Over the past year, we increased the electricity we generated from renewable sources in our isolated communities by over 16%.

Hervey Bay tops our list with 10% of the electricity on our main grid is from renewable sources.

96,000 solar energy systems are connected to the grid across regional Queensland.

Solar data representative only based on post code.
Best practice use of materials

The scale of our capital infrastructure program largely dictates our material requirement. This makes our network optimisation efforts (p20) as central to our ability to improve our use of resource materials, as they are to minimising cost pressures for our customers.

This year’s works program saw the purchase of around 9,895 poles (compared with 10,800 in 2012-13) and 2,269 transformers (compared with 3,068 in 2012-13).

Over recent years we have owned and managed a number of native forest properties, as part of an in-house initiative designed to ensure a sustainable pole supply. While we continued to manage these properties throughout the year, as non-core assets, we also progressed plans to divest these properties in line with the Queensland Government’s Commission of Audit recommendations.

Improving waste management

To address used timber power-pole disposal, Ergon Energy worked with the Department of Environment and Heritage Protection during the year. This engagement allowed the consideration of this matter in the current review of the Queensland Government’s State Waste Strategy, which is looking at how regulated waste is defined. Recycling options for used timber poles continue to be investigated but to date have not been found to be cost effective.

However, we have continued our recycling efforts for other materials. This year, we recovered 1,065 tonnes of scrap metal, including copper, aluminium, steel and brass, for recycling (compared to the five year average of 1,011 tonnes). A further 803 tonnes of scrap metal from old transformers was recovered and recycled (compared with the five year average of 647 tonnes).

We recovered 98,850 litres of oil from our assets, for processing through licensed facilities for reuse or disposal (compared to 101,700 in 2012-13). We also started investigations into the potential use of different types of transformer oil that may deliver environmental benefits, including those associated with the reprocessing of waste oil.

Weed and pest control activities sustained

This year, new pest threats emerged in areas where our network is located, including fire ants, red witchweed and Bovine Johnes disease. Ergon Energy’s weed and other pest management strategies remain particularly focused on limiting the introduction of declared plants and other priority pests into new areas of the network, and preventing the spread of existing infestations. The strategy includes the deployment of effective risk assessment, the use of site-specific environmental management plans, and monitoring compliance with vehicle wash-down protocols. A sustained focus on control activities, undertaken as part of our construction and maintenance programs, is a key area of our field inspections.

Working sensitively to protect biodiversity

In addition to our standard weed and vegetation management practices, we have specific biodiversity protection initiatives.

To ensure minimal impact from the operation of our infrastructure located in environmentally sensitive areas, this year we completed a major powerline corridor mapping program that commenced in 2006. This included ecological surveys of 300 powerline routes that traverse through protected areas across the state, such as in National Parks, World Heritage Areas and State Forests.

We also continued to take measures to minimise environmental impact when planning our work. This year, a number of proposed line routes were modified when threatened species were found during field investigations. These species included the white goshawk, yakka skink, Major Mitchell cockatoo, wallum froglet, wandering peppercress, golden tailed gecko and goodward gum. However, two projects involved offsetting the loss of Melaleuca cheelii plants (the offset consisted of 180 plants) and one project involved the net residual marine plant loss of 400 square metres in a tidal fish habitat.

Building cultural heritage awareness

Ergon Energy remains committed to minimising the impact of our works program, and protecting the diverse cultural heritage artefacts found in our region. This year, we continued to invest in building employee awareness of the importance of cultural heritage, largely through training. All new starters, as well as contractors, undergo mandatory cultural heritage awareness training.

Environmental incidents

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

During 2013-14, Ergon Energy had no major environmental incidents (Class 1 or 2 incidents) or breaches of the Environmental Protection Act 1994 (Qld). We continued to focus on contaminated land management, with the initiation of a second business-wide contaminated land project, which is examining historic uses and local knowledge, to further define the potential for contamination at potentially high-risk sites.

We maintain certification of AS/NZS ISO 14001 Environmental Management System.
Delivering economic value

The ongoing delivery of a prudent and efficient service is at the heart of the economic contribution Ergon Energy makes. To ensure this, in developing our investment plans, we are focussing squarely on finding the most economical and sustainable path for supplying electricity to regional Queensland.

During the year we also prioritised efforts to deliver against our current financial commitments and to support the Queensland Government’s debt reduction objectives. Ergon Energy represents a significant investment for the government and we recognise that the return on this investment needs to be maximised.

OUR FINANCIAL PERFORMANCE

Preparing our future investment plans

As this report was being finalised, we were also finalising our Regulatory Proposal for the next regulatory control period. This proposal will be submitted at the end of October 2014 for the AER to determine our revenue allowance for the period from 2015 to 2020. This allowance dictates the network charges we can pass on to our customers, in order to recover the costs of providing the regulated services of our network business.

An appropriate revenue allowance is both central to the economic sustainability of our business, and long-term price stability for customers. To ensure Ergon Energy’s Regulatory Proposal is aligned with the long-term interests of our customers and communities, we have undertaken a significant customer/ community engagement (p11). Through listening to our customers, we refreshed our service commitments in order to best inform our investment plans.

Our commitment to delivering the best possible price has provided a framework for our expenditure forecasts. Our aim is to ensure we can reduce on average what we charge for the use of our network in 2015-16, and keep increases in these charges under inflation over the period.

Being in a position to achieve this goal remains dependent on us delivering our current capital and operating expenditure program 20% below our current regulatory allowance, as we move into the final year of the five-year regulatory control period (p23, 28). Delivering price relief is also dependent on future financing costs being lower, as anticipated, than in the current period.

Delivering price relief is also dependent on future financing costs being lower, as anticipated, than in the current period.

Delivering on our financial targets

Our commitment to deliver on our financial targets, as agreed with our shareholding Ministers, saw sound underlying results across our key financial measures.

However, the group’s consolidated Net Profit After Tax (NPAT) of $403 million was below budget, as a result of the accounting treatment of electricity hedges. The Earnings Before Interest and Tax (EBIT) result was $947 million (compared to the target of $1,051 million).

The strength of the underlying result, however, provides for an above budget dividend of $392 million (compared to the target of $374 million). Together with the $55 million competitive neutrality fee paid, the dividend that Ergon Energy pays the shareholding government only partly offsets the government’s $519 million Community Service Obligation (CSO) payment (p38).

The strength of this result was achieved through our efficiency and effectiveness efforts (p28) and a substantial STPI reward (accounting for $30 million).

These results were achieved while delivering an $812 million capital investment program. p23

Understanding the retail results

Our retail business, Ergon Energy Queensland Pty Ltd, remains sound and of considerable value. The deterioration of the retailer’s balance sheet is largely due to the accounting treatment of electricity hedges, which declined in value due to the current downward trend in the forward market price of electricity, and impacted because of the adoption of hedge accounting following changes to the Deed for the CSO (p38).

The retailer enters into hedges to manage its price and volume risk in accordance with the risk appetite of the Board. The hedges are revalued against the forward curves, in accordance with Australian Accounting Standards, and the revaluations are reflected in the income statement as non-cash unrealised movements. However, Accounting Standards do not permit the recognition of the forward revenue associated with that risk-management policy, as an offsetting amount in the income statement.

During 2013-14, market expectations that falling demand would continue, and that the carbon legislation would be repealed, resulted in an unrealised $123 million downward revaluation of those hedges and drove a Net Loss After Tax of $22 million. As the underlying hedges settle, these unrealised revaluations will reverse, and the financial result will reflect the realised revenue and the realised hedges.

On 1 July 2014, we adopted Hedge Accounting, allowing revaluations of qualifying hedges to be reflected in a reserve rather than flowing through the income statement.

Contributing commercial value

Our subsidiary Ergon Energy Telecommunications Pty Ltd (trading as Nxium), continued to provide wholesale and retail high-speed fibre-optic connectivity to the resource, transport, energy and government sectors, as well as internal support to our own operations. Highlights for the year included the renewal of the Peabody Energy contracts, executing the NBNCO Wholesale Broadband Agreement, and increasing the number of services supplied to Queensland Health. Nxium contributed a $2.5 million NPAT to the 2013-14 financial results.

Our Energy Solutions team also continued to realise sound commercial returns as a provider of electrical and data infrastructure (and associated design, engineering, project management, installation, test and commissioning services). The team has developed a reputation in the utilities sector as a forward thinking business partner with their innovative and cost effective solutions – positioning them well in the rapidly evolving utilities market.
A. WHERE DOES OUR REVENUE COME FROM?

Ergon Energy’s revenue for the financial year totalled $2,594 million, down by $410 million compared to the prior financial year.

This is largely due to a change in the accounting treatment of the CSO payment, to align to the intention of the CSO Deed. The Uniform Tariff Policy, and the associated CSO payment, ensure that most Queenslanders have access to the same cost of electricity, regardless of where they live. The CSO payment is the difference between the costs to supply energy in metropolitan Brisbane and surrounding districts, and the costs to supply regional Queensland customers. Effectively, the payment allows Ergon Energy Queensland to sell electricity to its customers for the same prices that are charged in metropolitan Brisbane. Hence, its reimbursement is now being treated as an offset to the network charges incurred, rather than as revenue for the retail business.

Our revenue includes increases in retail electricity sales (£1,961 million); in distribution revenue from our non-retail customers (£365 million); and in customer contributions to the electricity distribution network (£161 million). The increase in retail electricity sales is primarily due to the increase in regulated retail prices, which are set each year by the QCA. The revenue collected from customers for the use of our electricity distribution network (network charges) is regulated by the AER. These charges are billed to both our retail business and the retailers of customers, who entered the contestable market in regional Queensland. The AER also regulates certain payments by our customers for capital contributions towards network extensions and other services.

B. WHAT ARE OUR MAIN EXPENDITURES?

Our operating expenses for the year totalled $678 million, up by $63 million. Operating costs have been the focus of our efficiency and effectiveness efforts – payroll costs were contained at $580 million, and we reduced contract payments to $132 million, while still adhering to procurement policy and encouraging local sourcing (p50).

Major expenses included electricity purchases totalling $675 million, and transmission charges paid to Powerlink Queensland, totalling $326 million.

The Community Service Obligation (CSO) payment – $519 million for 2013-14 – now treated as an offset expense, reduced overall cost of network charges (Network/Electricity Purchases p39). The operating costs include the unrealised $123 million downward revaluation of our market hedges (p37).

C. WHAT ASSETS DO WE OWN?

In 2013-14, our total asset base increased in value by $27 million to $11,488 million. Property, plant and equipment are the major components of our asset base, at $9,879 million, which includes mostly regulated electricity network assets.

Ergon Energy devalued its property, plant and equipment assets as at 30 June 2014, resulting in a decrease of $449 million. The directors approved the valuations, following a review by management of the net present value of all asset categories. At the end of June 2014, $224 million was held as cash, consistent with normal business operations.

D. WHAT DO WE OWE (OUR LIABILITIES)?

Ergon Energy’s total liabilities increased to $8,029 million this year, with funds drawn down used for our capital works programs and cash flow requirements.

Our largest individual liability is the interest-bearing loan with Queensland Treasury Corporation of $5,115 million. Our debt-repayment plan, which has reduced the year’s net draw down of this loan, was supported by the reduction in our capital expenditure program, as well as other actions.

In line with the Queensland Government’s Commission of Audit recommendations, we worked closely with government to divest non-core business arrangements. This saw our ROAMES capability divested, offering development opportunity to its private owners, who will continue to provide Ergon Energy with ROAMES services (p27). Future debt-reduction options are being explored.

Our second largest liability is the net deferred income tax liability of $1,792 million. Some of our other key liabilities include current payables due to trade creditors ($318 million) and current employee benefits ($153 million).

A prudent gearing ratio has been maintained despite the asset revaluation taking the ratio to 59.7%.

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

E. WHAT WAS OUR CAPITAL INVESTMENT?

Ergon Energy delivered an $812 million total capital investment program. The regulated component of our capital works program was within the five-year regulatory control period allowance – this $716 million investment, associated with our Standard Control Services, included providing new connections, increasing the capacity of the network and improving reliability (p23).

F. WHAT RETURN DO WE GIVE TO OUR OWNERS?

Ergon Energy’s profit result will enable dividends of $392 million to be paid in 2014-15 to our shareholding Ministers, and through them to the Queensland Government, ultimately benefiting the people of Queensland.

Our dividend policy requires the Board to recommend – taking into account the investment return its shareholders expect – a dividend of 80% of profit, adjusted for unrealised fair value gains or losses on financial instruments. This adjustment mechanism means the loss from the accounting treatment associated with the current downward curve in the forward market price of electricity, does not impact on the calculation of the dividend provided for. The dividend is paid on the basis of the shareholding Ministers agreeing to provide the necessary funding for approved projects, the maintenance of Ergon Energy’s approved capital structure, and the organisation’s operational viability.
**FINANCIAL SUMMARY FOR ERGON ENERGY CORPORATION LIMITED (CONSOLIDATED)**

### A. OUR REVENUE

<table>
<thead>
<tr>
<th></th>
<th>2013-14 $million</th>
<th>2012-13 $million</th>
<th>2011-12 $million</th>
<th>2010-11 $million</th>
<th>2009-10 $million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue and Other Income</td>
<td>2,594</td>
<td>3,004</td>
<td>2,693</td>
<td>2,539</td>
<td>2,204</td>
</tr>
</tbody>
</table>

### B. OUR EXPENDITURE

<table>
<thead>
<tr>
<th></th>
<th>2013-14 $million</th>
<th>2012-13 $million</th>
<th>2011-12 $million</th>
<th>2010-11 $million</th>
<th>2009-10 $million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Network/Electricity Purchases</td>
<td>(481)</td>
<td>(995)</td>
<td>(853)</td>
<td>(846)</td>
<td>(926)</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>(678)</td>
<td>(615)</td>
<td>(682)</td>
<td>(634)</td>
<td>(509)</td>
</tr>
<tr>
<td>Depreciation Expenses</td>
<td>(488)</td>
<td>(430)</td>
<td>(380)</td>
<td>(314)</td>
<td>(291)</td>
</tr>
<tr>
<td>Finance Charges</td>
<td>(372)</td>
<td>(369)</td>
<td>(321)</td>
<td>(294)</td>
<td>(243)</td>
</tr>
</tbody>
</table>

### C. OUR PROFIT

<table>
<thead>
<tr>
<th></th>
<th>2013-14 $million</th>
<th>2012-13 $million</th>
<th>2011-12 $million</th>
<th>2010-11 $million</th>
<th>2009-10 $million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings Before Tax</td>
<td>575</td>
<td>595</td>
<td>457</td>
<td>451</td>
<td>235</td>
</tr>
<tr>
<td>Tax Expense</td>
<td>(172)</td>
<td>(172)</td>
<td>(137)</td>
<td>(129)</td>
<td>(68)</td>
</tr>
<tr>
<td>Net Profit After Tax</td>
<td>403</td>
<td>423</td>
<td>320</td>
<td>322</td>
<td>167</td>
</tr>
</tbody>
</table>

### D. OUR ASSETS

<table>
<thead>
<tr>
<th></th>
<th>2013-14 $million</th>
<th>2012-13 $million</th>
<th>2011-12 $million</th>
<th>2010-11 $million</th>
<th>2009-10 $million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Assets</td>
<td>1,153</td>
<td>1,063</td>
<td>1,124</td>
<td>1,012</td>
<td>1,128</td>
</tr>
<tr>
<td>Non-current Assets</td>
<td>10,335</td>
<td>10,398</td>
<td>9,481</td>
<td>8,963</td>
<td>7,570</td>
</tr>
<tr>
<td>Total Assets</td>
<td>11,488</td>
<td>11,461</td>
<td>10,605</td>
<td>9,975</td>
<td>8,698</td>
</tr>
</tbody>
</table>

### E. OUR LIABILITIES

<table>
<thead>
<tr>
<th></th>
<th>2013-14 $million</th>
<th>2012-13 $million</th>
<th>2011-12 $million</th>
<th>2010-11 $million</th>
<th>2009-10 $million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Liabilities</td>
<td>1,345</td>
<td>1,290</td>
<td>1,192</td>
<td>967</td>
<td>1,035</td>
</tr>
<tr>
<td>Non-current Liabilities</td>
<td>6,684</td>
<td>6,456</td>
<td>6,119</td>
<td>5,693</td>
<td>5,002</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>8,029</td>
<td>7,746</td>
<td>7,311</td>
<td>6,660</td>
<td>6,037</td>
</tr>
<tr>
<td>Net Assets</td>
<td>3,459</td>
<td>3,715</td>
<td>3,294</td>
<td>3,315</td>
<td>2,661</td>
</tr>
</tbody>
</table>

### F. OUR INVESTMENT

<table>
<thead>
<tr>
<th></th>
<th>2013-14 $million</th>
<th>2012-13 $million</th>
<th>2011-12 $million</th>
<th>2010-11 $million</th>
<th>2009-10 $million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Capital Investment</td>
<td>812</td>
<td>972</td>
<td>870</td>
<td>831</td>
<td>806</td>
</tr>
</tbody>
</table>

### F. DIVIDENDS

<table>
<thead>
<tr>
<th></th>
<th>2013-14 $million</th>
<th>2012-13 $million</th>
<th>2011-12 $million</th>
<th>2010-11 $million</th>
<th>2009-10 $million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends Provided For</td>
<td>392</td>
<td>326</td>
<td>256</td>
<td>253</td>
<td>138</td>
</tr>
<tr>
<td>Dividends to Net Profit After Tax</td>
<td>97%</td>
<td>75%</td>
<td>80%</td>
<td>79%</td>
<td>83%</td>
</tr>
</tbody>
</table>

14. Comparative amounts have where necessary been reclassified in line with changes to accounting policies and current year disclosures.

15. There was a change in accounting disclosure during 2013-14 where Community Service Obligations were reported as a reduction to expenses rather than as revenue. Historical figures have not been restated.

### FINANCIAL RATIOS

<table>
<thead>
<tr>
<th></th>
<th>2013-14</th>
<th>2012-13</th>
<th>2011-12</th>
<th>2010-11</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on Average Assets: Reflects the efficiency of our assets to generate earnings. = Earnings Before Interest and Tax / Average of opening and closing asset balances x 100.</td>
<td>8.3%</td>
<td>8.7%</td>
<td>7.6%</td>
<td>8.0%</td>
<td>5.7%</td>
</tr>
<tr>
<td>Return on Average Equity: This represents the returns generated on the money the Queensland Government, as our shareholder, has invested in Ergon Energy. = Net Profit After Tax / Average of opening and closing equity x 100.</td>
<td>11.2%</td>
<td>12.1%</td>
<td>9.7%</td>
<td>10.8%</td>
<td>6.4%</td>
</tr>
<tr>
<td>Gearing (including reserves): Our gearing demonstrates the prudential level to which our activities are funded by owner’s funds versus borrowed funds. = Debt / Debt + Equity x 100.</td>
<td>59.7%</td>
<td>57.3%</td>
<td>59.3%</td>
<td>56.6%</td>
<td>59.8%</td>
</tr>
<tr>
<td>EBITDA to Interest Cover (times): Shows our ability to adequately meet the interest on current borrowings. = Earnings Before Interest and Tax, Depreciation and Amortisation / Finance charges.</td>
<td>3.7x</td>
<td>3.7x</td>
<td>3.6x</td>
<td>3.6x</td>
<td>3.2x</td>
</tr>
</tbody>
</table>
While we experienced increases in retail electricity sales revenue and customer contributions to new connections, overall revenue decreased due to a change in the accounting treatment of the CSO payment from the Queensland Government (shown in grey to allow comparison).

Ergon Energy’s total asset base increased marginally to $11,488 billion. The value of property, plant and equipment was devalued in 2013-14, following a review of the network’s net present value.

The below-budget profit result (due to the accounting treatment of electricity hedges) saw the return on average assets drop back to 8.3%, and the return on average equity drop to 11.2% - both below the targets set in our Statement of Corporate Intent (p7).

The scaled-back capital program reduced the year’s net draw down on our loan with Queensland Treasury Corporation, mitigating the growth in total liabilities.
OUR CORPORATE GOVERNANCE STATEMENT

Ergon Energy’s corporate governance practices are in line with the Australian Stock Exchange (ASX) Corporate Governance Principles and Recommendations, where applicable, as well as the Queensland Government’s Corporate Governance Guidelines for Government Owned Corporations.

Additional information is available online at www.ergon.com.au/about-us/who-we-are/our-company/corporate-governance

**Principle 1 – Lay solid foundations for management and oversight**

**Our companies**

Ergon Energy Corporation Limited has two operating subsidiaries, Ergon Energy Queensland Pty Ltd and Ergon Energy Telecommunications Pty Ltd, as well as a joint venture with Energex Limited – SPARQ Solutions Pty Ltd. p42

Ergon Energy Corporation Limited, a wholly government-owned corporation, is governed by the provisions of the Corporations Act 2001 (Cth), except as otherwise provided by the Government Owned Corporations Act 1993 (Qld). The company’s electricity distribution responsibilities are outlined under its Distribution Authority and the Electricity Act 1994 (Qld).

During the financial year, ROAMES Asset Services Pty Ltd was incorporated as a non-operational subsidiary to house our ROAMES capability, and then subsequently divested in March 2014. p38

**Board charters**

The responsibilities of the Ergon Energy Corporation Limited Board are outlined in the Board Charter (summarised p43). The Board delegates functions to management. However, certain matters are reserved for the Board, as detailed in the Charter, and a policy document, Delegation of Powers. These documents are available online.

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

**Board committees**

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

The membership of each committee and the committee charters, along with their key focus areas during 2013-14, are summarised in the table on page 43. The Directors’ Report, online in the Annual Financial Statements, provides the committee meeting attendance. The subsidiary company boards also utilise sub-committees, such as the Ergon Energy Queensland Pty Ltd Board Risk Management Committee.

**Executive Leadership Team**

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

In 2013-14, as part of the organisational restructure (p27) – and in line with Ergon Energy’s strategic direction – we renewed the Executive Leadership Team with the new appointment of Gordon Taylor and David Edmunds, through an external recruitment process.

The number of positions was reduced by three, with a focus on providing clear executive accountability. Mike Hutchens is currently acting in the position of Chief Financial Officer.

The performance of the team is evaluated annually. The Board sets the key performance measures for the Chief Executive for the year, in line with the SCI (p7), and reviews the performance of the Chief Executive and the Ergon Energy group based on these agreements. This process then cascades through the Chief Executive to the Executive Leadership Team.

**Investment review functions**

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

The IRC operates at a business-wide, strategic level to ensure an appropriate balance exists within the investment portfolio between asset investment; customer service initiatives; and product, technology and system development, and that due consideration is given to business transformation priorities. NIRC facilitates the efficient and effective management of all network asset-related capital expenditure.

During the year, the governance in our investment decision improved, using a gated-decision making process and our developing portfolio optimisation capability, to prioritise the capital investment program for our Regulatory Proposal. p37
Our governance framework

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

Boards of the Ergon Energy Group
Ergon Energy Corporation Limited
Subsidiaries
• Ergon Energy Queensland Pty Ltd
• Ergon Energy Telecommunications Pty Ltd (Nexium Telecommunications)
Incorporated Joint Ventures
• SPARQ Solutions Pty Ltd (50% owned)

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

Chief Executive

Executive Leadership Team

Business units
Strategy, Revenue & Transformation
People & Shared Services
Customer Service (Distribution)
Network Optimisation (incl Nexium Telecommunications)
Retail
Finance & Corporate Services

SPARQ Solutions (Office of the Chief Information Officer)
Internal Audit, Business Risk & Compliance
# Focus of the Board and the Board Committees

<table>
<thead>
<tr>
<th>MEMBERSHIP</th>
<th>SUMMARY OF CHARTER</th>
<th>FOCUS IN 2013-14</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ergon Energy Corporation Limited Board</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>M Hall-Brown(^{ca})</td>
<td>Responsible for the strategic direction of the organisation.</td>
<td>Maintain the focus of the strategic direction on addressing electricity affordability, and its impact on the long-term viability of the business.</td>
</tr>
<tr>
<td>G Humphrys</td>
<td>Ensures the corporate governance required to monitor operational, safety, environmental, social and financial performance and reports to the Shareholding Ministers.</td>
<td>Driving the organisational restructure, and operational efficiencies through the business.</td>
</tr>
<tr>
<td>A Dolphin</td>
<td>Delegates authority to the Chief Executive, management and employees.</td>
<td>Ensuring a focus on delivering major customer connections.</td>
</tr>
<tr>
<td>J Gardner</td>
<td></td>
<td>Supporting the Queensland Government’s industry and market reform agenda.</td>
</tr>
<tr>
<td>J Love</td>
<td></td>
<td></td>
</tr>
<tr>
<td>R McNally</td>
<td></td>
<td></td>
</tr>
<tr>
<td>H Stanton</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## Audit and Financial Risk Committee

| G Humphrys\(^{CC}\) | Approves and monitors Ergon Energy’s in-house internal audit program. | Endorsed the Regulatory Information Notices return submitted to the Australian Energy Regulator. |
| M Hall-Brown\(^{ca}\) | Provides ongoing assurances to the Board that its obligations are being met in relation to: - financial integrity - financial risks - regulatory reporting - compliance issues. | Reviewed the external audit report and recommendations. |
| A Dolphin | | Recommended to the Board that it adopt the Annual Financial Statements and Directors’ Report. |
| J Gardner | | Oversaw compliance with the conditions of the Australian Financial Services Licence. |

## Regulatory Committee

| J Gardner\(^{CC}\) | Assists the Board to fulfil its corporate governance and oversight responsibilities by reviewing and reporting on the due diligence process conducted in relation to the preparation and outcomes of regulatory proposals. | Provide oversight to responses and submission in relation to pricing and regulatory compliance issues (this included the network tariff strategy). |
| M Hall-Brown\(^{ca}\) | | Oversaw progress in the preparations of the 2015-20 Regulatory Proposal; including the customer engagement program; response to the AER Framework and Approach; the finance strategy for shared assets and benchmarking strategy; and the capital contribution and connection policy. |
| G Humphrys | | Received reports on key regulatory issues, including matters associated with the next distribution determination and the broader regulatory framework. |
| H Stanton | | |

## Operational Risk Committee

| H Stanton\(^{CC}\) | Assists the Board in its response to business and operational risks and oversight responsibilities in relation to: - health and safety, including community safety - environmental risks - risk exposure - insurance and claims management. | Oversaw the implementation of a new corporate risk capability and management maturity framework. |
| M Hall-Brown\(^{ca}\) | | Ongoing monitoring and management of safety and network risk associated with internal organisational change and external industry reform agendas |
| J Love | | Reviewed the corporate risk profile, considering emerging issues and regular reports on health, safety and environmental issues. |
| R McNally | | Validated the risk appetite statements for health and safety, and for procurement, as well as the insurance program for the transfer of risk. |

## Establishment and People Committee

| A Dolphin\(^{CC}\) | Assists in developing a strategic, long-term and sustainable approach on issues relating to people working for Ergon Energy. | Monitored the establishment right-sizing efforts to ensure delivery of improved efficiencies. |
| M Hall-Brown\(^{ca}\) | Fulfils the Board’s oversight responsibilities in relation to remuneration; performance management; industrial relations; employee engagement; organisational culture; and learning and development. | Monitored key talent and succession planning risks. |
| J Love | | Endorsed the Employment and Industrial Relations Plan. |
| R McNally | | Received regular management reports on human resource and diversity issues. |

**CB = Chairman of the Board  CC = Chairman of Committee**
The Board of directors

MALCOLM HALL-BROWN
BEcon BCom FCPA
CHAIRMAN
Independent Non-Executive Director
First appointed May 2012
Term in office 2 years
As Chairman, Malcolm Hall-Brown brings to Ergon Energy a strong, proven track record in public practice accounting and commercially-oriented enterprises. He has extensive practical, commercial experience across a diverse range of fields – including marina, resort and other commercial developments – and a deep understanding of Ergon Energy’s regional operating environment. Malcolm is the foundation director of the Port Binnli group of companies, with a development portfolio that includes the Mackay Marina, Mackay’s Clarion Hotel and North East Business Park, located north of Brisbane. He has also served on several prominent industry development boards, including Brisbane Marketing.

GARY HUMPHRYS
CA GAICD
DEPUTY CHAIRMAN
Independent Non-Executive Director
First appointed October 2009
Term in office 5 years
Gary Humphrys brings more than 35 years of experience in the energy and mining industries to Ergon Energy’s Board. A chartered accountant, he has held senior executive roles in both the private and public sectors across a range of disciplines, including finance and accounting, treasury, taxation, information and technology, procurement, risk management and audit. In recent years, Gary held board and related committee roles in the water, energy, mining and health industries. He is currently a director of St Vincent’s Health Australia Ltd and Electricity Supply Industry Superannuation (Qld) Ltd.

ANNABEL DOLPHIN
BBus Mgt AAICD CAHRI
INDEPENDENT NON-EXECUTIVE DIRECTOR
First appointed October 2011
Term in office 2 years
As a qualified business management practitioner with 16 years’ experience in senior leadership and human resources roles across a diverse range of industries, Annabel Dolphin brings a wealth of knowledge to Ergon Energy’s Board. She is currently the Director of Miles Dolphin Consulting Group, where she leads a team specialised in management applications, including business strategy, organisational design, culture and change management, leadership and talent management. Annabel is a regional committee member for the Australian Institute of Company Directors and a certified member of the Australian Human Resources Institute.

JOHN GARDNER
FAIM MAICD Grad Dip (Mgmt)
Harvard
INDEPENDENT NON-EXECUTIVE DIRECTOR
First appointed December 2012
Term in office 21 months
John has an extensive background in the private and public sectors, covering finance, governance, information technology, utilities, business services and economic development, with appointments ranging from senior technical management to chief executive roles in the Northern Territory, Queensland and Victoria. He has completed overseas assignments in Canada and the USA, where he undertook formal studies at Harvard University. John is currently involved in residential property development and public sector consulting. Previous board appointments include treasury, superannuation, utility services, gas supply and research related functions. He is a Life Member and former non-executive Director of the Charles Darwin University Foundation.
JOHN LOVE
GAICD
INDEPENDENT
NON-EXECUTIVE DIRECTOR

First appointed December 2012
Term in office 21 months

John Love is a licensed electrical contractor with extensive experience in the fields of electrical contracting and reticulation, as well as in the management of large-scale commercial and industrial construction projects. He was the founding director of John Love Electrical, which grew to be one of Queensland’s largest privately-owned electrical contracting companies. John is currently the Managing Director of Steppe Pty Ltd, a residential, commercial and industrial development company. He is also involved, as business advisor to Autres Pty Ltd, in pharmaceutical research and patent development. He is active in humanitarian organisations locally and overseas.

ROWENA MCNALLY
FIAMA LLB AFAIM MAICD
INDEPENDENT
NON-EXECUTIVE DIRECTOR

First appointed November 2011
Term in office 2 years

Rowena McNally is an experienced company director, having previously served on the boards of various infrastructure companies. She is currently the Chair of the Mount Isa Water Board, the National Chair of the Institute of Arbitrators and Mediators Australia, Chair of Catholic Health Australia, and a Trustee of Mary Aikenhead Ministries. Previously she chaired the Cerebral Palsy League and Australian Corporate Lawyers Association, and served on a range of other board positions and committees. Rowena has a background in law, specialising in litigation, intellectual property and corporate law.

HELEN STANTON
BE GAICD
INDEPENDENT
NON-EXECUTIVE DIRECTOR

First appointed July 2005
Term in office 9 years

Helen Stanton brings strategy, risk and governance expertise to Ergon Energy’s Board through a career spanning operating, leadership and commissioning roles in the mining industry, and more recently as a consultant, supporting organisations to formulate strategies for bottom-line improvement and the execution of their plans to ensure results are sustainable. Helen is a member of the Townsville Regional Committee for the Australian Institute of Company Directors, and is a non-executive Director of Northern Territory Power and Water Corporation, Townsville Mackay Medicare Local, Mater Health Services North Queensland, and Townsville Enterprise.
Our Executive Leadership Team

IAN McLEOD
FAIM GAICD
CHIEF EXECUTIVE

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

GORDON TAYLOR
BSc(ElecEng) BCom GAICD FIEAust
EXECUTIVE GENERAL MANAGER, STRATEGY REVENUE AND TRANSFORMATION

Gordon Taylor is responsible for developing Ergon Energy’s corporate strategy, and outworking a significant portfolio of organisational transformation initiatives. His current focus is on developing our future expenditure proposals for consideration by the Australian Energy Regulator, to secure the organisation’s revenue for 2015-20. Gordon brings commercial and engineering expertise to the executive and a strong focus on people and team building. In his 23-year career, he has held senior roles in a range of industries, including power, construction, major projects, engineering and financial investment and most recently with executive level accountabilities with Thiess Pty Ltd.

DAVID EDMUNDS
BEng(Electrical)
EXECUTIVE GENERAL MANAGER, NETWORK OPTIMISATION

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

PETER BILLING
EXECUTIVE GENERAL MANAGER, CUSTOMER SERVICE

Peter Billing is responsible for the customer service elements of our distribution business and for the safe, efficient operation and maintenance of the network. He is also responsible for supply to our isolated communities, and the commercial delivery of modular infrastructure and generation solutions. He brings a wealth of industry, leadership and change management experience to the executive, from trade roles to management. Peter was directly involved in the deregulation of the electricity industry in South Australia in the 1990s. He is on the board of Energy Skills Queensland.
Mal Leech is responsible for ‘people-relations’ and the shared services functions of the organisation, including stakeholder engagement and communications (with employees, customer/community and government); health, safety and environment; human resources (including training and development); property services; and administration. Mal has more than 16 years’ experience in the electricity industry, following a diverse career in management consulting, human resources and engineering.

Roslyn Baker is responsible for Ergon Energy’s franchise retail business and oversees retail strategy, energy procurement, retail corporate services, retail operations and customer service. She has ‘18 years’ experience in managing transformational change across a diverse range of industries. During her career, Roslyn has held senior management and board positions within the education, dairy and petroleum sectors. She is currently Chair of the Risk Management Committee for the Board of Ergon Energy Queensland Pty Ltd.

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

Peter Effeney is the Chief Executive Officer of SPARQ Solutions, Ergon Energy’s Information and Communications Technology (ICT) joint venture with Energex. As the Chief Information Officer, his responsibility is to ensure Ergon Energy’s ICT strategy, architecture and investment, and SPARQ Solutions’ ICT services, are aligned with the business’ strategic priorities, and deliver maximum value. Prior to leading the formation of SPARQ Solutions, Peter held various management, engineering and ICT roles within Ergon Energy.
**Principle 2 – Structure the board to add value**

**Independence of directors**

Ergon Energy Corporation Limited’s Board consists of seven non-executive directors. p44

All the directors are considered to be independent. This assessment is made by the Board on a case-by-case basis against the five criteria listed in the ASX Corporate Governance Principles and Recommendations that reference relationship materiality.

The directors of Ergon Energy Queensland Pty Ltd, and Ergon Energy Telecommunications Pty Ltd, are executives of the Ergon Energy group, and as such are not independent. While the Board has a number of committees, discussed in detail in this statement, it does not have a nomination committee, as the directors are appointed for a set term of office by Queensland’s Governor-in-Council, in accordance with the Government Owned Corporations Act 1993 (Qld). This acts as a review mechanism for enhancing Board performance, allowing new members to be selected on a regular basis, for their expertise and ability to contribute on behalf of our regional Queensland customer base.

**Assessing Board performance**

Ergon Energy’s governance framework requires that the Board reviews its own performance, and that of the Board committees, on a regular basis, to ensure they are working effectively. In light of ongoing industry structural reviews, and the recent organisational restructure, the Board did not undergo an external review of its performance during the year. However, internal reviews into the effectiveness of its operations are continuing to be undertaken. These reviews are covering overall Board performance, roles, functions, relationships, processes and other continuous improvements, as well as the role of the Board in setting direction and monitoring achievement of strategic objectives.

**Access to information and quality advice**

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

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

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

**Principle 3 – Promote ethical and responsible decision-making**

It is a fundamental principle of Ergon Energy to conduct all business activities legally, ethically and with strict observance of the highest standards of integrity and propriety.

**Code of conduct and disclosure of interests**

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

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

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

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

**Reporting breaches of conduct**

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

All allegations lodged using the FairCall Service are referred to the Senior Internal Auditor for investigation and, where these are substantiated, appropriate disciplinary measures are applied. During the year, 11 allegations were received, but after investigation only two were substantiated and required disciplinary action.

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

**Supporting diversity at board level and in the workplace**

As part of the board-appointment process, shareholding Ministers consider diversity when reviewing the register of suitable board candidates.

In the workplace, Ergon Energy has a diversity policy, which is implemented through the diversity program as a part of Ergon Energy’s people strategy, to support an inclusive workplace culture. Details on the initiatives and the diversity of the profile of our workplace can be found on page 29.

**Principle 4 – Safeguard integrity in financial reporting**

Ergon Energy has a robust structure to independently verify and safeguard the integrity of our financial reporting, as well as a comprehensive internal and external audit process, of which the Audit and Financial Risk Committee has oversight. The committee’s charter and focus for 2013-14 is provided on page 42.
The Chief Executive provides representation, through the Audit and Financial Risk Committee, to the Board that the Financial Statements and Directors’ Report are a true and fair view and in compliance with reporting standards.

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

**Principle 5 – Make timely and balanced disclosure**

**Disclosure to shareholders**

The Board has reporting and disclosure obligations under the Government Owned Corporations Act 1993 (Qld) and Corporations Act 2001 (Cth). These obligations are outworked through Disclosure to Shareholders Policy, and a Communications Strategy Guideline, ensuring the Queensland Government is kept informed of material matters.

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

**Strategic planning and reporting cycle**

Ergon Energy documents its corporate performance commitment for each financial year within the SCI (see summary p7). These commitments form the basis of quarterly reporting to our shareholding Ministers.

Our strategic planning framework is illustrated here, as it relates to the SCI and the key public documents that support transparent public disclosure of Ergon Energy’s performance commitments and outcomes. Ergon Energy’s longer-term strategic planning cycle aligns with the distribution business’ five-year regulatory control period. This year was the fourth year of the current period, under the AER’s Queensland Distribution Determination. We are currently preparing the Regulatory Proposal to present to the AER for 2015 to 2020 (p37).

Our Distribution Annual Planning Report, which is published at the same time as this report, details our rolling five-year asset management plan. Published online, it details how Ergon Energy is managing and developing its network, with the objective of delivering an adequate, economical, reliable and safe connection of electricity supply to our customers. It provides further analysis of the network’s performance for 2013-14.

**Privacy and right to information**

Ergon Energy has an obligation to protect the personal information of individuals collected and used during its operations, in accordance with the Privacy Act 1988 (Cth). To prevent misuse, interference, loss, unauthorised access, modification or disclosure, strict data security systems and procedures are in place around the collection, access, use, disclosure and storage of personal information. Recent amendments to the Privacy Act 1988 (Cth), and the implementation of the new 13 Australian Privacy Principles and Credit Reporting Code, resulted in a review and update of our systems and procedures, including staff training, to ensure continued compliance.

During 2013-14, Ergon Energy received six complaints relating to customer privacy matters: four were not substantiated and the remaining two were resolved.

Ergon Energy manages applications for access to documents in accordance with the Right to Information Act 2009 (Qld) and the Information Privacy Act 2009 (Qld). Also, in accordance with the Right to Information Act 2009 (Qld), Ergon Energy publishes on its website disclosure log access decisions, which are considered to be of significant interest to the wider public and do not contain personal information. The process for individuals to apply for information and summary information of documents released is found at www.ergon.com.au/about-us/contact-us/right-to-information
Principle 6 – Respect the rights of shareholders

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

Government shareholder communications

The Chairman has regular meetings with shareholder Ministers and their representatives, as part of a broader government engagement program, to ensure there is active dialogue throughout the year. This ensures the operation and strategic direction of the business is consistent with the Queensland Government’s energy policy and broader objectives, and generally meets shareholder expectations.

We also have a comprehensive reporting regime, prescribed by the Government Owned Corporations Act 1993 (Qld) and GOC Amendment Regulation (No. 2) (2009), as well as other mechanisms. This is supported by teams dedicated to managing the business’ government and regulatory relationships, and to responding to reporting requests.

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

Directions and notifications

Under the Government Owned Corporations Act 1993 (Qld), the reserve powers of the shareholder Ministers provide that they may, in the public interest, notify Ergon Energy of a public sector policy that is to apply to the corporation (section 114). The government may also give a written direction (under section 115), request information (under section 158), or make a direction to amend the SCI (under section 108). Directions can also be given under the Electricity Act 1994 (Qld).

There was one notification from the government this year under Government Owned Corporations Act 1993 (Qld) (section 114). This notification, applying from February 2014, removed the obligation to operate under the Queensland Procurement Policy (formerly the State Procurement Policy). Our current Sustainable Procurement Policy and business rules are closely aligned with the Queensland Procurement Policy so this has not had a financial impact.

During the year, Ergon Energy also responded to various requests for information, made through Government Owned Corporations Act 1993 (Qld) (section 158), to progress the governments deliberations about state-debt reduction options, including the potential sale of our retail business and the prospect of private sector investment in electricity infrastructure.

The government has given a public commitment that it will only move on these options with an electoral mandate.

The earlier directions relevant to the financial results of the corporation in 2013-14 include:

- a direction given in May 2013, under the Electricity Act 1994 (Qld), to implement new wholesale electricity supply arrangements for Ergon Energy’s retail electricity load. The new market-based wholesale energy procurement arrangements were implemented for a term of up to four years from 2013-14. The precise financial impact of the direction is considered to be commercially sensitive information.
- a direction, given in February 2012, not to seek revenue associated with the expected reduction in capital expenditure, arising from the implementation of the recommendations of the Electricity Network Capital Review, by excluding it from our annual network pricing proposal. Over the period up to the end of 2014-15, this revenue would have been approximately $99 million.

Principle 7 – Recognise and manage risk

Our risk management framework

Ergon Energy recognises that effective risk management and compliance frameworks are necessary to meet the expectations of its shareholding Ministers, customers, the community and other stakeholders. Fundamental to this is that our directors and management are able to demonstrate an understanding of the business risks and compliance obligations and that these are being efficiently and effectively managed.

All board committees play a role in assisting the directors in fulfilling their oversight responsibilities in respect to business risks.

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

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

Risk management activities and compliance

During 2013-14, the following risk management and compliance activities were undertaken by Ergon Energy:

- Organisational Resilience Framework: The company’s organisational resilience framework was reviewed and updated to reflect an increased focus on standards relating to organisational resilience.
- Risk Management Framework: A review of the framework for managing material business risks was undertaken. This supported assurances to the Board by the Chief Executive and Chief Financial Officer, in accordance with section 285A of the Corporations Act 2001 (Cth), that the framework is founded on a system of risk management and internal control and that it is operating effectively in all material respects in relation to financial reporting risks.
- Insurance Program: The review and renewal of Ergon Energy’s 2013-14 Insurance Program was undertaken to ensure cost-effective coverage of the organisation’s insurable risks.
- Risk Profiles: Ergon Energy’s Corporate Risk Profile and Business Unit Risk Profiles were reviewed and updated. As part of this process a review of the profiles against Ergon Energy’s Corporate Plan and Business Unit Plans was performed to ensure alignment.
- Risk Appetite and Risk Assurance: Work continued on developing risk appetite statements, which will set the level of risk Ergon Energy is prepared to accept in pursuing its corporate objectives. Risk assurance maps were also used to show the assurance activities performed in relation to key corporate risks and also to assist with the three-year internal audit plan.
The key compliance matters for 2013-14, which are discussed elsewhere in the report, include network service standards (p14); Guaranteed Service Levels (p16); network planning (p22); safety performance (p32); renewable energy targets (p34); and environmental incidents (p36). Further, Ergon Energy Queensland Pty Ltd complied with the risk appetite of the Board, as detailed in the energy commodity risk management policy.

External and internal audit

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

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

The scope of our internal audit function covers all of Ergon Energy’s operations, either directly or through auditors contracted by the organisation or its subsidiaries. Our internal audit function helps us accomplish our objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The Ergon Energy Internal Audit Charter is established by the authority of the Ergon Energy Audit and Financial Risk Committee.

This year’s plan included audits of executive-at-risk payment process, accounts receivable, Guaranteed Service Level processes, life support customers, payroll, engineering supervision processes, pole inspections, retail business unit separation, Solar Bonus Scheme, network billing, and network asset utilisation. These reviews focused on documenting and testing key management controls. Other audit work was undertaken throughout the year in response to management and/or Board initiated requests, including in the area of vegetation management.

The Group Manager Risk and Assurance reports for administrative purposes to the Chief Financial Officer but retains unrestricted access to the Chief Executive to discuss any matter relating to the finances or operations of Ergon Energy. Internal Audit also ensures its independence by reporting to the Audit and Financial Risk Committee on progress against the Internal Audit Plan and resolution of issues raised in reports. The Group Manager Risk and Assurance also has access to the Board through the Audit and Financial Risk Committee Chair.

Principle 8 – Remunerate fairly and responsibly

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

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

Performance agreements are based on the strategic objectives of the organisation as per the SCI agreed with our shareholding Ministers. Executive compensation, including at-risk payments, is disclosed in the Annual Financial Statements, along with the performance payments made to other employees (Note 29).

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

The Board’s Establishment and People Committee assists in developing a strategic, long-term and sustainable approach on issues relating to people working for Ergon Energy, p26–32

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

Entertainment and hospitality

In furthering Ergon Energy’s business interests, and working to achieve its corporate goals, from time to time entertainment and hospitality is provided to employees, clients, customers and community groups. Reasonable limits have been observed during 2013-14 for aggregate event expenditure and expenditure per head, taking into account the nature of the event.

At the request of shareholding Ministers, the SCI includes information on Corporate Entertainment and Hospitality. For 2013-14, the following entertainment and hospitality expenses over $5,000 were:

<table>
<thead>
<tr>
<th>Event</th>
<th>Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southern Employee Christmas Party – Toowoomba</td>
<td>$7,700</td>
</tr>
<tr>
<td>North Employee Christmas Party – Townsville</td>
<td>$7,217</td>
</tr>
<tr>
<td>Central Employee Christmas Party – Rockhampton</td>
<td>$7,140</td>
</tr>
<tr>
<td>Far North Employee Christmas Party – Cairns</td>
<td>$6,272</td>
</tr>
<tr>
<td>Brisbane Employee Christmas Party – Brisbane</td>
<td>$6,160</td>
</tr>
</tbody>
</table>

Our network statistics 2014

<table>
<thead>
<tr>
<th>Total Customers Served</th>
<th>724,264</th>
</tr>
</thead>
<tbody>
<tr>
<td>Network Area Serviced</td>
<td>1.7 million km²</td>
</tr>
<tr>
<td>Employees</td>
<td>4,415</td>
</tr>
<tr>
<td>Power Stations (grid connected and isolated)</td>
<td>34</td>
</tr>
<tr>
<td>Bulk Supply Points</td>
<td>26</td>
</tr>
<tr>
<td>Zone Substations</td>
<td>377</td>
</tr>
<tr>
<td>Major Power Transformers (33kV to 132kV)</td>
<td>610</td>
</tr>
<tr>
<td>Distribution Transformers</td>
<td>100,500</td>
</tr>
<tr>
<td>Power Poles</td>
<td>1 million</td>
</tr>
<tr>
<td>Overhead Powerline</td>
<td>15,400km</td>
</tr>
<tr>
<td>- Sub-transmission</td>
<td>118,200km</td>
</tr>
<tr>
<td>- High Voltage Distribution</td>
<td>20-25,000km</td>
</tr>
<tr>
<td>- Low Voltage Distribution</td>
<td>8,600km</td>
</tr>
</tbody>
</table>

16. Estimate of length only.

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

Common industry units of measure

**Reliability**

<table>
<thead>
<tr>
<th>SAIDI</th>
<th>System Average interruption Duration Index. Network reliability performance index, indicating the total minutes, on average, that customers are without electricity during the relevant period (minutes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SAIFI</td>
<td>System Average Interruption Frequency Index. Network reliability performance index, indicating the average number of occasions each customer is interrupted during the relevant period (interruptions)</td>
</tr>
<tr>
<td>MED</td>
<td>Major Event Days. MEDs are days where the customer minutes interrupted are an exceptionally large deviation from the normal day and are generally considered to be a result of events beyond the control of the distributor eg: Cyclones</td>
</tr>
<tr>
<td>Customer Minutes</td>
<td>Customer minutes is a measure of the number of customers interrupted multiplied by the duration of a power outage or outages, incorporating any staged restoration</td>
</tr>
</tbody>
</table>

**Safety**

<table>
<thead>
<tr>
<th>AIFR</th>
<th>All Injury Frequency Rate – measured as number of injuries per million hours worked. Last Time Injuries (LTI) + Medical Treatment Injuries (MTI) x 1,000,000 / Exposure Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>LTIFR</td>
<td>Last Time Injury Frequency Rate. Number of last-time injuries per million hours worked over the 12 month reporting period. Last Time Injuries (LTI) x 1,000,000 / Exposure Hours</td>
</tr>
<tr>
<td>LTIDR</td>
<td>Last Time Injury Duration Rate. Total days last due to injuries per million hours worked over the 12 month reporting period. Last Time Injuries Progressive Days Lost x 1,000,000 / Exposure Hours</td>
</tr>
<tr>
<td>DEEFR</td>
<td>Dangerous Electrical Event Frequency Rate. A safe work practice measure that tracks Dangerous Electrical Events (DEEs) associated with work done by our employees (DEEs x million / exposure hours). Dangerous Electrical Events (DEE) x 1,000,000 / Exposure Hours</td>
</tr>
</tbody>
</table>

**Electricity related**

| V | volt: the unit of potential or electrical pressure |
| VA | volt amper: volt amperes are the ‘apparent power’ and are the product of the voltage applied to the equipment times the current drawn by the equipment. The VA rating is limited by the maximum permissible current, and the watt rating by the power-handling capacity of the device |
| kW | kilowatt amper: one kW equals 1,000VA |
| MVA | megavolt amper: one MVA equals 1,000kVA |
| kV | kilovolt: one kV equals 1,000 volts |
| W | watt: a measure of the power present when a current of one ampere flows under a pressure of one volt |
| kW | kilowatt: one kW equals 1,000 watts |
| MW | megawatt: one MW equals 1,000 kilowatts |
| kWh | kilowatt hour: the standard ‘unit’ of electricity which represents the consumption of electrical energy at the rate of one kilowatt over a period of one hour |
| MWh | megawatt hour: one MWh equals 1,000 kilowatt hours |
| GWh | gigawatt hour: one GWh equals 1,000 megawatt hours or one million kilowatt hours |
| HV | high voltage: alternating current above 1,000V |
| LV | low voltage: alternating current above 32V and not exceeding 1,000V |
| GJ | gigajoule: a measure of energy, one million joules |
Delivering customer value
Details what we’re doing to address electricity affordability, and how we have measured up against our service commitments, and delivered as a responsible provider.

Optimising the network
Showcases how we are changing the way we operate the network to optimise the investment in the network and deliver more efficiently, and to respond to changes in technology and customer choice.

Striving for high performance
Outlines how we’re responding to our changing operating environment and ensuring our people are able to deliver into the future, as well as our focus on safety and the environment.

Delivering economic value
Our corporate governance statement
Looking for more information?
Additional information, industry measures and abbreviations are provided on page 52.

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

Key service centres
Cairns
109 Lake Street
CAIRNS QLD 4870

Townsville (Registered Office)
420 Flinders Street
TOWNSVILLE QLD 4810

Mackay
23 Cemetery Road
WEST MACKAY QLD 4740

Rockhampton
Cnr Fitzroy and Alma Streets
ROCKHAMPTON QLD 4700

Maryborough
97-99 Adelaide Street
MARYBOROUGH QLD 4650

Toowoomba
Cnr South and Hampton Streets
TOOWOOMBA QLD 4350

Brisbane
825 Ann Street
FORTITUDE VALLEY QLD 4006

Ergon Energy’s Annual Stakeholder Report 2012-13 was awarded Silver in the Australasian Reporting Awards.
Customer Service
13 10 46
7.00am – 6.30pm, Monday to Friday

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

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

Customer Advocate
PO Box 264 FORTITUDE VALLEY QLD 4006
customer.advocate@ergon.com.au

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

ergon.com.au