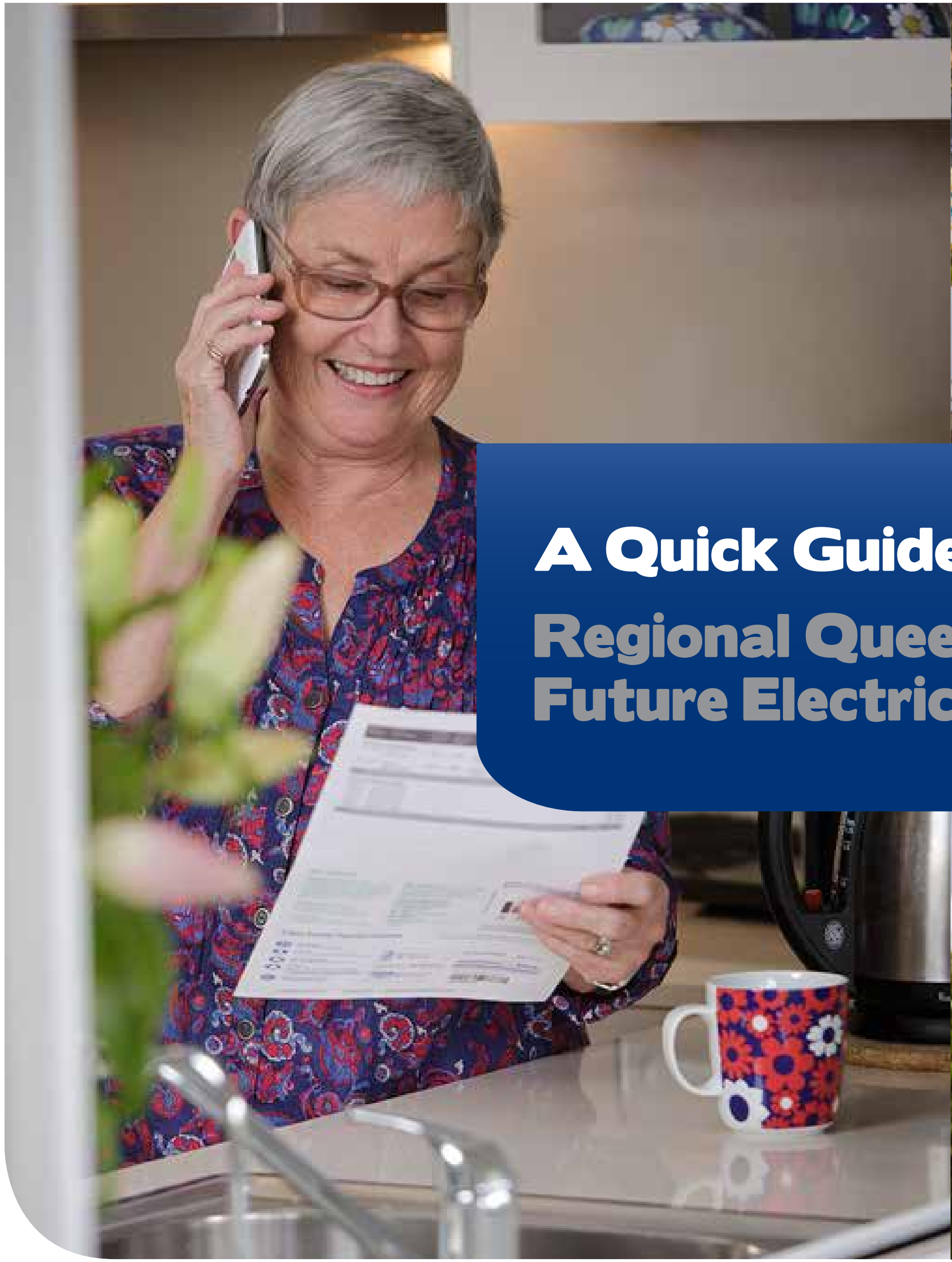


A Quick Guide to Our Plans

Regional Queensland's Future Electricity Service

Thank you for taking the time to consider Ergon Energy's future investment plans

In line with our strategic goal for a sustainable and affordable electricity supply for our customers, our plans are all about delivering on our service commitments for the best possible price, and powering the Queensland economy.

Our Regulatory Proposal should keep any increases to what we charge (in aggregate) for the use of the network – the part of the bill we are responsible for as a distributor – below inflation over the next five years. We are forecasting our distribution revenue to be $1,717 million in 2019-20. This is lower than our anticipated 2014-15 revenue of $1,753 million.[1]

We have done a lot already to achieve this outcome.

With consumption falling for the first time in 2010-11, in parallel with peak demand flattening, we took prudent steps to reduce our capital investment program and focus on our efficiency and effectiveness as an organisation. This along with our growing demand management capability has supported a reduction of more than 20% in our total expenditure when compared to our regulator's approved allowances for 2010-15. As a result we were able to reduce our revenue requirement by $99 million and absorb the cost of Cyclone Yasi and Oswald. Looking forward into 2015-20, we expect to reduce our overall expenditure by a further 11% on top of the reductions we have already achieved in the current period.

Together these outcomes, coupled with a drop in our financing costs, have delivered the positive, sustainable revenue requirement we have put forward in our Regulatory Proposal for 2015-20. If we are able to maintain and grow efficient energy consumption, then we should see a positive influence on network prices.

1 Nominal dollars. The Distribution Use of System revenue calculations between 2015-16 and 2019-20 exclude the forward revenues from metering services, which have been reclassified.

If we had not acted proactively, and financing costs had not dropped, customers would have been facing another double digit increase in network charges as we moved into the next regulatory control period.

We are also optimistic, as the AER works through its revenue determination, that the finance market parameters around the cost of capital will continue to improve relative to the assumptions in our proposal. This will deliver even better outcomes for customers in terms of what we ultimately charge.

Of course, we know it is not all about price. We appreciate that our customers value the peace of mind they receive from a safe and dependable service, and that they also increasingly want greater choice and control in their energy supply solutions.

It's about getting the balance right.

This has been at the centre of our discussions with our customers throughout the preparation of our Regulatory Proposal.

I trust you find we have been listening and that our investment plans are customer informed. We are confident, with our regulator's support, that our proposal will enable us to power economic prosperity in regional Queensland and support the objectives of The Queensland Plan.

Ian McLeod

Chief Executive

If we had not acted proactively... customers would have been facing another double digit increase in network charges as we moved into the next regulatory control period.

To ensure we manage the distribution network efficiently, Ergon Energy is regulated under the National Electricity Rules (NER) by a national regulator, the Australian Energy Regulator (AER). It is the AER's role to set the amount of money we're allowed to collect for the use of our electricity network. These network charges make up approximately half of the retail 'price' of electricity in Queensland.

To assist the AER in making the decisions it needs in determining our revenue allowance for 2015 to 2020, we have provided them with our future investment plans as a Regulatory Proposal. We have engaged with our customers to help inform our proposal and are confident, with the AER's support, that our investment plans will enable us to deliver the best outcome for regional Queensland into the future.

Our service commitments to regional Queensland

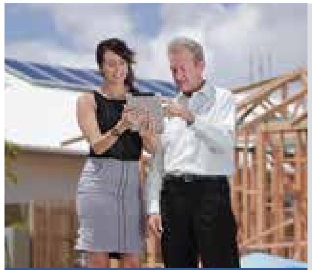
We asked our customers and the communities we serve what they expect from us. This saw us refresh our service commitments to regional Queensland, which in turn has helped inform our investment plans in our Regulatory Proposal.

PEACE OF MIND

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

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

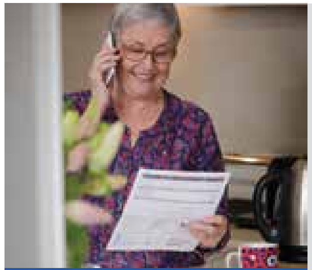
   Our commitment means our customers living in our urban centres will experience on average less than two outages per year, with an average time without supply of 2.5 hours per year. For the majority of our customers, who live throughout rural Queensland, we'll aim to keep power outages on average down to four per year, and the average time without supply to seven hours per year. For our more remote areas, we'll aim to keep power outages on average to 7.4 per year, with the average time without supply to 16 hours per year.
3. **We'll be there after the storm, prepared and with the resources to respond to whatever Mother Nature delivers.**
4. **We'll meet our guaranteed services commitments. If we don't, we'll pay you.**



CHOICE AND CONTROL

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

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



FOR THE BEST POSSIBLE PRICE

8. **We're targeting to reduce what we charge for the use of our network in 2015-16, and keep increases overall in network charges under inflation for the next five years.**

Where we plan to invest

To build, maintain and operate the network and ensure we deliver on our service commitments we have developed comprehensive five-year investment plans. We have reduced our expenditure overall. In 2015–20 we are seeking a capital investment allowance of $3.6 billion to build and renew the poles and wires, and other assets. For our day-to-day operating investment we are seeking $1.8 billion.

FOR EVERY $100 IN CAPITAL INVESTMENT...

$38
WILL GO TO RENEWING THE NETWORK

Asset Renewal

To maintain the safety and reliability of the network we need to continually refurbish and replace assets as required. We have made big strides in understanding the state of the network and targeting this investment to deliver the greatest value.

$22
TO MEETING GROWTH IN DEMAND

Augmentation for Growth (Corporation Initiated)

While demand for electricity has stabilised, we are still planning investment in areas of the state that are experiencing ongoing economic growth, largely associated with the resource sector.

$18
TO CONNECTING NEW CUSTOMERS

New Connections (Customer Initiated Capital Works)

Overall we expect requests for new or upgraded connections to remain relatively stable. We have developed robust forecasts across all of the connections categories, from new commercial or industrial connections to metering.

$5
TO TARGETED IMPROVEMENTS

Reliability And Other Targeted Improvements

We are targeting investment where we know the network is not meeting our customers' expectations (as reliability has improved we've been able to cut this expenditure). To respond to the changing needs of our customer, we are also progressively investing in new operational technologies that will allow us to better manage the network.

$17
ON OTHER NON-NETWORK ASSETS

Other Non-Network Assets

In order to service our vast area we also invest in fleet, property, equipment and tools. This is critical to maintaining our response capability day-to-day and in times of natural disaster when the strength of our regional presence is critical.

FOR EVERY $100 IN OPERATING INVESTMENT...

$73
WILL GO TO INSPECTIONS, MAINTENANCE AND RESPONSE

Network Maintenance

We are continuing routine asset inspection and maintenance programs. Clearing vegetation from around powerlines also remains a priority, both from a safety and reliability perspective. In addition, this expenditure category covers our outage/emergency response efforts.

$10
TO OUR DAILY OPERATIONS OF THE NETWORK

Network Operations

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

$17
TO CUSTOMER SERVICE AND OTHER COSTS

Other Operating Costs

These range from managing service requests, from our customer contact centre to our service order dispatch teams, to other non-network activities.
We are increasing our operating expenditure on alternative non-network solutions to better manage demand on the network, and looking at a new form of cyclone insurance cover.

For the best possible price

We're targeting to reduce what we charge for the use of our network in 2015-16 – a significant part of our customers' electricity bill – and keep increases overall in these network charges under inflation over the next five years. This commitment is at the centre of our Regulatory Proposal.

Our best possible price commitment means that what we charge overall for the use of our network will fall by around 3.5% in the first year of the period. Then over the course of 2015-20, our forecast is for our distribution charges to remain lower than what we are currently charging in 2014-15. This holds true even until 2020. This price path is a dramatic turnaround from what was experienced from 2007 to now.[2]

The actual price impact on individual customers will vary based on energy consumption and tariff class, as well as the approach the Queensland Competition Authority takes in setting Notified Prices in the future, and the impact of network tariff reforms.

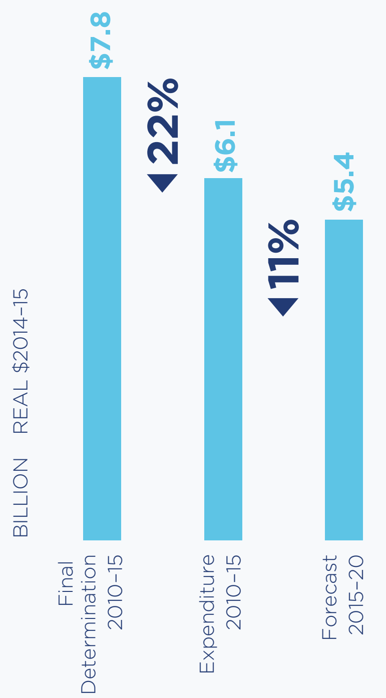
Taking the pressure off prices

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

As a result of changes to our capital program and our efficiency drive, our total expenditure for the 2010-15 period is likely to be at least 22% below the level approved by the AER. We believe we can reduce our expenditure even further, by another 11% in 2015-20, to play our role in stabilising prices.

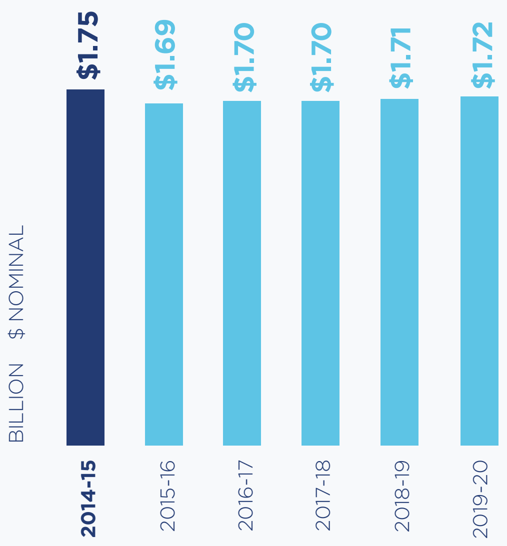
2 Based on revenue cap calculations, not inclusive of Feed-in Tariff recoveries or default metering services. Refers to the total Distribution Use of System revenue to be recovered from customers in a financial year. Individual circumstances may differ depending on consumption, demand or revenue allocation.

WE HAVE REDUCED OUR TOTAL EXPENDITURE DRAMATICALLY



As a result of changes to our capital program and a company-wide efficiency drive, our total expenditure for the 2010-15 period is likely to be at least $1.7 billion or 22% below the level approved by the AER. We believe we can reduce our expenditure further, by another 11% in 2015-20.

DISTRIBUTION USE OF SYSTEM REVENUE DOWN



We have been able to reduce our revenue requirements. This could see us charging customers less in five years' time than what we are charging now – our Distribution Use of System revenue of $1,753 million in 2014-15, is forecast be $1,717 million in 2019-20.

Note: forward revenues exclude reclassified metering services.

Changed financial market conditions support price reduction

The positive 'price' outcome illustrated here is also supported by a reduction in the cost of capital since our revenue allowance was last determined in 2010.

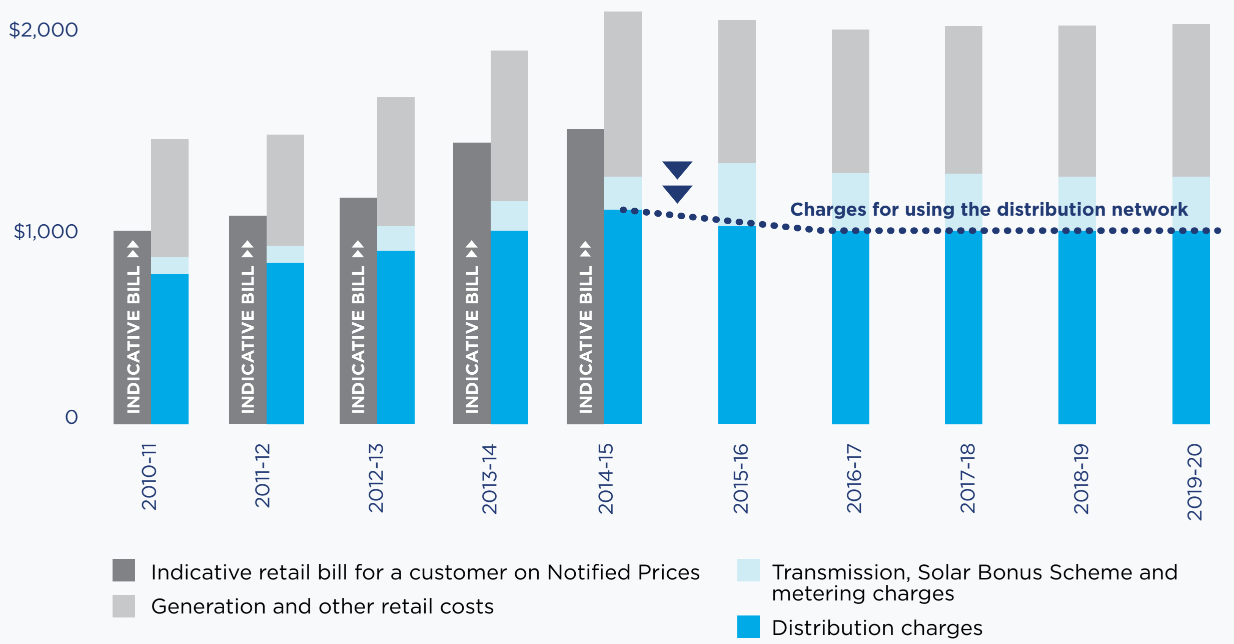
Like any business we need to make a fair return on what has been invested to ensure the business is sustainable. This is determined by forward looking market rates of financing similar businesses.

This cost is by far the biggest component of our revenue requirement. The financing cost associated with the $10.1 billion already invested in the regulated network accounts for 58% of the revenue requirement detailed in our proposal. Our future investment plans account for 32% (the additional financing costs associated with the new capital investment we have planned for 2015-20 and the expenditure required for operating and maintaining the network and running the business). The remaining 10% is for the recovery of other costs, such as corporate income taxes and other adjustments.

We recognise our journey is not over in setting our expenditure targets. Delivering on these plans, and achieving the customer savings, will be challenging, but we believe it is what our customers are asking for.

FOR MORE INFORMATION ON OUR PROGRESS, THE CHALLENGES AND HOW WE PLAN TO DELIVER ON OUR SERVICE COMMITMENTS GO TO OUR OVERVIEW DOCUMENT ONLINE.

PLAYING OUR ROLE IN STABILISING PRICES AS A DISTRIBUTOR

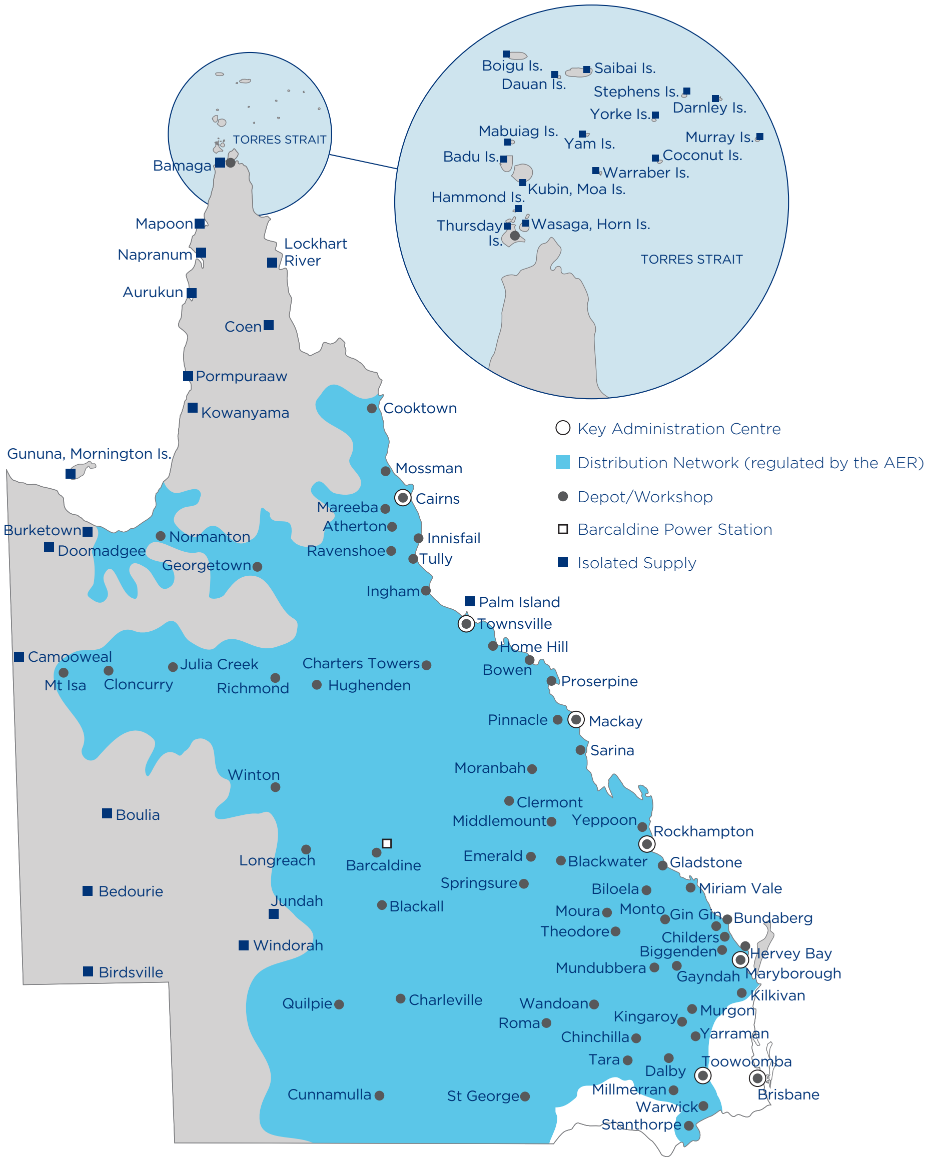


What do our forecasts mean for our customers? This graph shows a reduction for a typical annual residential customer using 4,091kWh per annum of around 6% in 2015-16 in the Distribution Use of System charge passed on to the customer's retailer.

An indicative price stack and trend has been shown in nominal dollars to illustrate all of the charges that are allocated to an average electricity bill for a residential customer on a market retail contract. Forward forecasts are indicative only.

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

Our service area



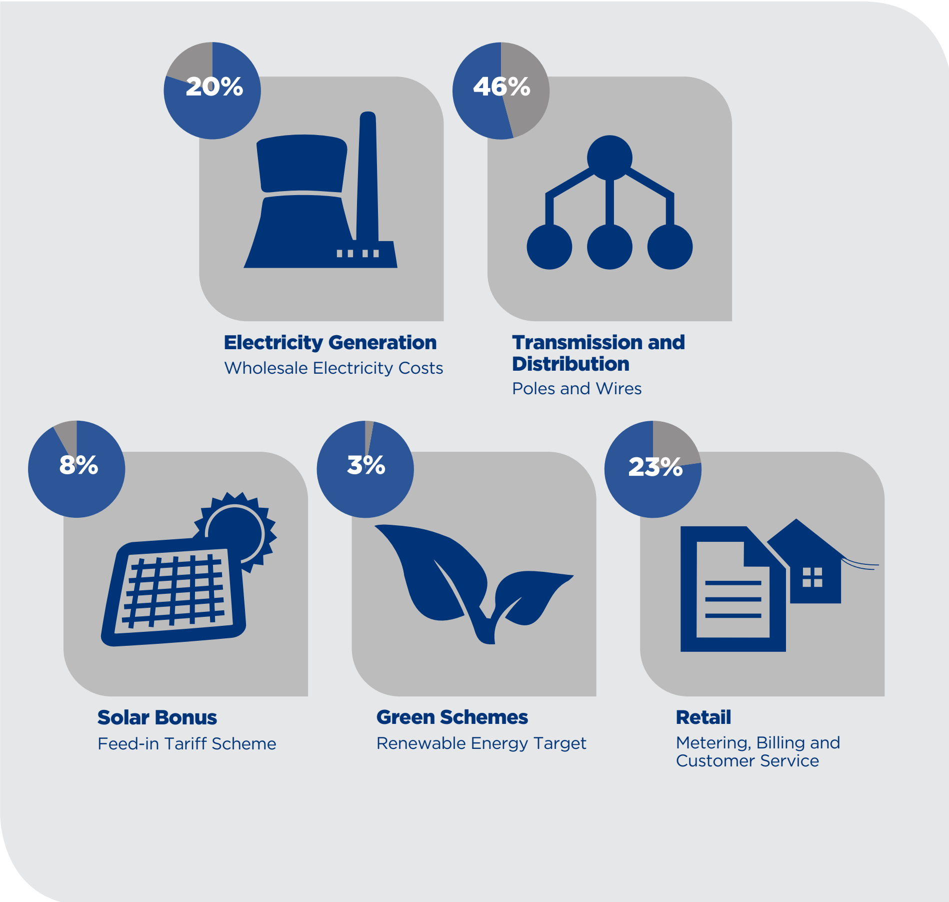
Ergon Energy supplies electricity across a service area of more than one million square kilometres – across 97% of the state of Queensland.

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

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

What makes up the electricity price?

The cost of transporting electricity (both distribution and transmission) makes up the largest part of a retail electricity bill. This document is referring to distribution costs. The other costs are shown here. The Queensland Government's Solar Bonus Scheme is also discussed in our Regulatory Proposal.[3]



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

For more information on our Regulatory Proposal go to:

www.ergon.com.au/futureinvestment

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

You can also submit feedback to the Australian Energy Regulator.

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