



# We Energise Queensland Communities

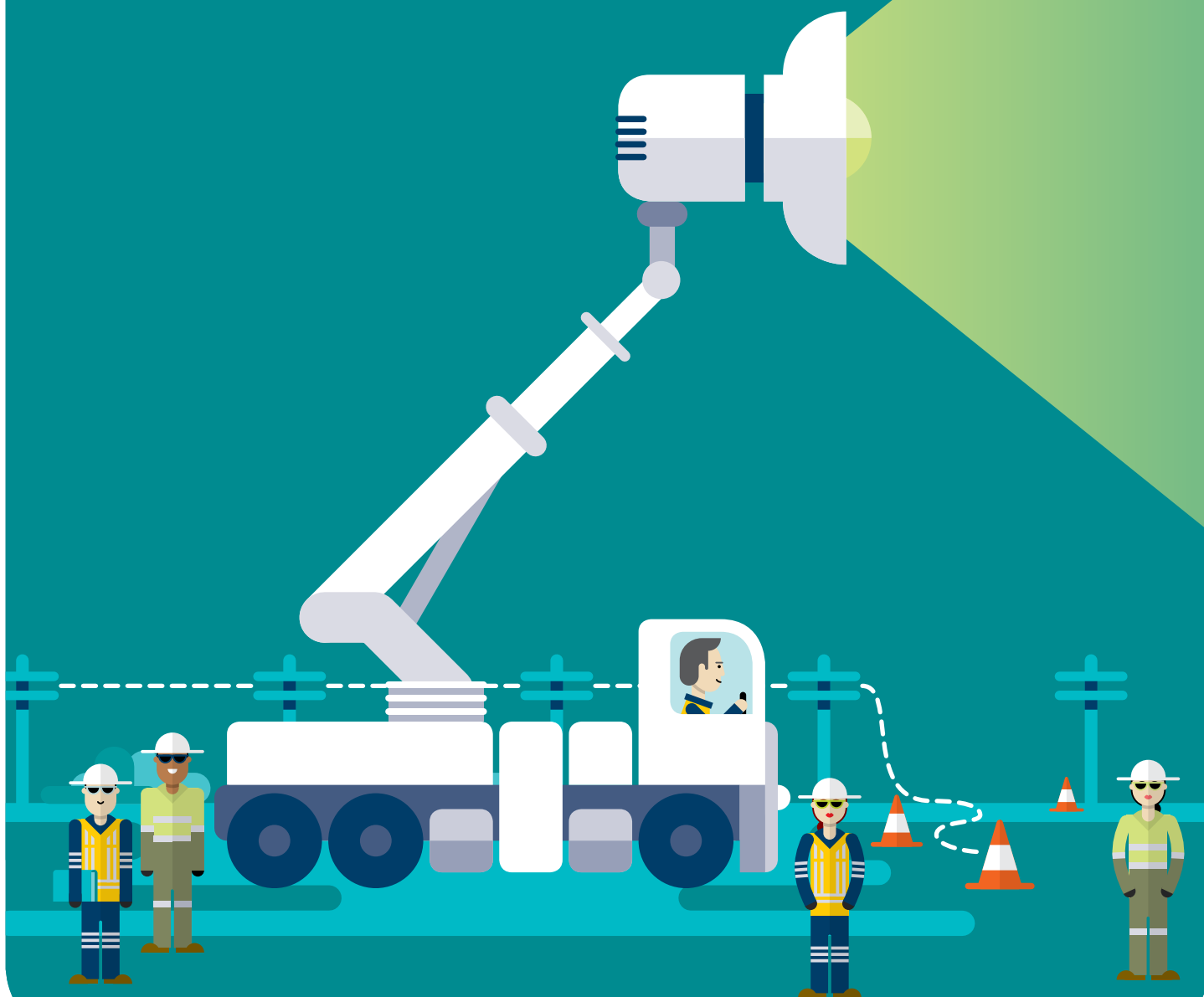


# Our Report

Energy Queensland Limited (Energy Queensland) was created on 30 June 2016.

This report covers the Energy Queensland Group's (the Group's) overall performance for 2016-17, our first year of operations as a united entity. It showcases the contribution of Energex Limited, Ergon Energy Corporation Limited and its subsidiary Ergon Energy Queensland Pty Ltd. Commentary is also provided on the Group's other subsidiary companies.

This report is presented as part of a suite of documents available online at [www.energyq.com.au/annualreport](http://www.energyq.com.au/annualreport)



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# About Energy Queensland

Energy Queensland came together as a Group in June 2016 to build on our proud history of powering Queensland and create a community-focused energy business ready for the future.

## Our business



### NETWORK

Our role as electricity distribution businesses – under the banners of Energex and Ergon Energy Network – is to safely and cost-effectively transport electricity along our 'poles and wires' across Queensland, while enabling distributed energy resources.

Our distribution networks, which are part of the National Electricity Market (NEM), are regulated by the Australian Energy Regulator (AER).

The regulator determines the revenue we are allowed to collect from customers for their use of the networks. These charges make up around half of the retail price of electricity.

We also operate under Queensland Government electricity industry laws and regulations.



### RETAIL

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

We sell electricity at the Queensland Government's notified prices, which are set by the Queensland Competition Authority (QCA).

This enables regional Queenslanders to access the same regulated electricity tariffs (with the support of the government's Community Service Obligation subsidy), wherever they are located, even though the cost of supply may be different.



### ENERGY SERVICES

To ensure we are able to meet the unique and diverse needs of our communities and customers we're evolving our unregulated or contestable products and services in the market.

Metering Dynamics, as one of Australia's largest metering businesses, delivers multi-utility metering, information and energy measurement solutions.

Nexium Telecommunications supports the Group's communications needs and, as a licensed carrier, also provides wholesale and retail high-speed data services to the market.

Energy Impact is enabling us to expand in a variety of ways beyond traditional electricity distribution and retail services through the use of distributed energy resources.



## The Year's Highlights

**Reduced our network charges further** – the average charge for the use of our network is 17% to 19% lower moving into 2017-18 (page 12)

**Supported 31,200 new solar energy connections** – 28% of Queensland's houses have solar, the highest in the world (page 23)



**PeakSmart air conditioning proved invaluable in the South East** reducing demand by 6.2MW (page 13)

**Established an Energy Queensland Council for Diversity and Inclusion** of leaders and team members passionate about diversity (page 25)

**Established a new technology innovation lab in Cairns** to continue battery and other innovative technology trials (page 14)

**Welcomed 97 new recruits into our apprenticeship programs**, including 13 female and four Indigenous employees (page 26)

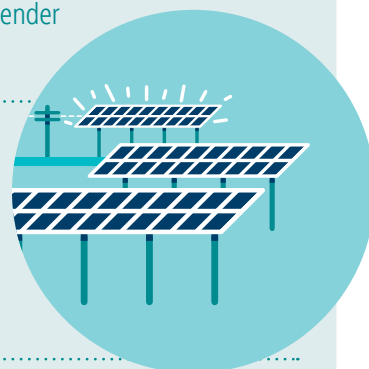


**Made it easier to pay in our isolated communities**, with a new card-operated meter trial delivering a range of financial and social benefits (page 15)

**United a high-performing leadership team** with strong regional representation and gender diversity (page 28)

**Expanded our school electrical safety education program** – 95% of the state's primary schools are now benefitting (page 16)

**Collaborated to harness our renewable energy resources** – connecting solar farms and purchasing clean energy (page 29)



**Launched the Energy Savvy Families program** to help low income households better understand their energy use and costs (page 17)



**Advanced an electric vehicle super highway**, to support the decarbonisation of the transport industry (page 33)



**Delivered a statewide disaster response effort** following Cyclone Debbie's destruction, restoring power in under 14 days (page 18)

**Achieved a strong profit result**, supporting an \$881 million dividend, and a \$598 million electricity subsidy for our regional retail customers (page 34)

## A statewide capability delivering for our communities

**7,355**

employees

**470**

graduates and apprentices

**3**

customer solutions centres

**220,000km**

powerlines

**1.7 million**

power poles

**137**

service depots and offices

**3**

network control centres

**34**

stand-alone and grid-connected  
power stations



**2.2 million**

connected customers

**700,000**

retail customers

**1.5 million**

customer calls a year



**34,600GWh**

electricity delivered a year

**4,814MW**

South East  
Queensland  
peak demand

**2,637MW**

Regional  
Queensland  
peak demand

**0.8 outages  
a year**

per Urban customer



**459,000**

solar energy systems connected

**355MW**

of medium to large scale  
renewables connected

## Our service area



### COMMUNITY-BASED SOLUTIONS

Across the state we operate 33 stand-alone power stations and a portfolio of renewable energy assets.

This investment supplies the communities isolated from the main grid; in western Queensland, the Gulf of Carpentaria, Cape York, various Torres Strait islands, and Palm Island.

Each of these community-based energy supply solutions is supported by our capability in electricity distribution, retail and metering services.

- Regional network - Ergon Energy Network
- Isolated supply - Ergon Energy Network
- Ergon Energy Retail
- South East Network - Energex

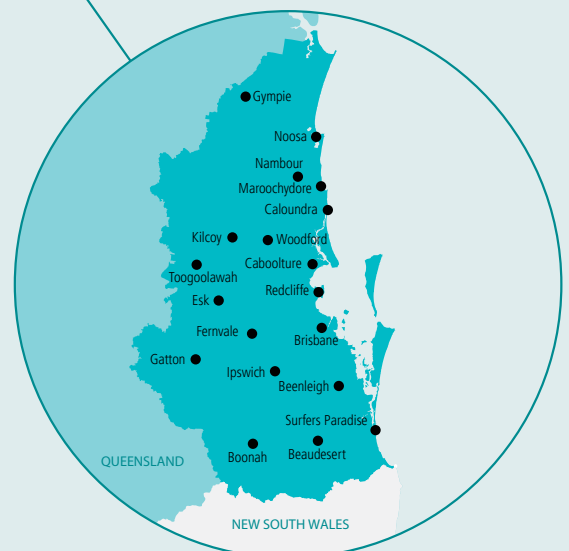
## Powering Queensland from the Tweed River to the Torres Strait.

### A STATEWIDE SERVICE PROVIDER

Our diverse networks service the state's South East, with highly interconnected systems, and regional Queensland, with infrastructure that is largely radial in design.

Three-quarters of our regional network is considered rural – traversing large distances between communities with only small numbers of customers for each kilometre of powerline.

Our retailer has a gas-fired power station at Barcaldine, which supplies the main grid.



## Our history

Electricity supply has always played an integral role in the development of the state. Through our predecessor organisations we have supplied Queensland's homes and businesses for more than 100 years.

Our proud history began with our pioneering forefathers creating electricity generation and distribution systems in their local communities. Then, as the networks grew, regional electricity bodies were created to coordinate the expansion of the electricity infrastructure across our vast service area – this started in the late thirties, then with reforms seven electricity boards were created in the seventies.

In the late nineties, the sector again went through major restructuring, this time to participate in the National Electricity Market. This saw the separation of our retail operations into stand-alone businesses and the creation of two distribution businesses – Energex and Ergon Energy – from the then seven Queensland electricity distributors. In 2007 our activities in the contestable retail market were divested.

In many ways, our journey parallels the development of electricity networks around the world where greater economies of scale have been sought to achieve increased security and efficiency of supply for our communities.

At the same time, however, in other ways the industry is coming the full circle and is now, thanks to advancements in technology, able to look again to community-based solutions as part of the overall supply solution.

**1882** The first electric street lights were installed in Adelaide Street, Brisbane.

**1896** Brisbane Electric Supply Company was established, later to become City Electric Light Company.

**1920** Townsville City Council started managing the local power supply.

**1925** Cairns City Council started supplying power, until the Barron Falls Hydro-Electricity Board formed.

**1938-1966** Regional distribution networks were formed across the state.

*Electrical appliances became very much part of the modern household. 1960s cooking demonstration.*

**1976-1977** Seven new electricity bodies created:

- The South East Queensland Electricity Board (SEQEB), later to become Energex
- South West Queensland Electricity Board (SWQEB)
- Wide Bay-Burnett Electricity Board (WBBEB)
- Capricornia Electricity Board (CAPELEC)
- Mackay Electricity Board (MEB)
- North Queensland Electricity Board (NQEB)
- Far North Queensland Electricity Board (FNQEB)

**1997-1999** Our retail operations were separated into stand-alone businesses and two distribution businesses – Energex and Ergon Energy – were created from the seven Queensland electricity distributors.

**2007** Full Retail Competition was introduced to the state. At this time, we exited the contestable retail market. We continued, through Ergon Energy Retail, to offer electricity to our regional customers at the Queensland Government's notified prices.

**2016** Ergon Energy and Energex merged to become Energy Queensland.





## Energy Queensland today

### Our **Vision**

We energise Queensland communities.

### Our **Purpose**

To safely deliver secure, affordable and sustainable energy solutions with our communities and customers.

### Our **Values**

Together we are '**SKILLED**'.



Safe



Knowledgeable



Innovative



Leading



Listening



Engaged



Diverse

### Our **Strategic Objectives**



Operate safely as an efficient and effective organisation



Community and customer focused



Strengthen and grow from our core



Create value through innovation

# Message from the Chairman and Chief Executive Officer

"We have achieved a number of key milestones in meeting our merger and transformation objectives – including establishing the Board and the senior leadership team to govern and lead the organisation into the future – all while continuing to deliver a strong operational performance. Our overall aim is to deliver on a new vision that places communities and customers at the centre of all of our activities."

The first year for our newly merged company has been a very successful start for Energy Queensland.

From the many achievements highlighted in this report you can see we were not only there for the community and our customers, but also able to set in place the foundations for future growth and success.

The year was characterised by change, opportunity and challenge. We have operated in a dynamic Australian market dominated by both debate and interventions on energy security, affordability and sustainability issues.

Energy Queensland plays a key role in providing secure, affordable and sustainable energy solutions across the vast state of Queensland. As a Government Owned Corporation we are ultimately owned by the people of Queensland, and as such we take our corporate and social responsibilities seriously and are committed to delivering holistically for the communities in which we serve.

## STRONG OPERATIONAL PERFORMANCE

The merger of Ergon Energy and Energex has allowed us to create a single integrated operating model that has already provided significant benefits to our Queensland communities as we have shared our skilled resources and broader organisational capabilities.

This was first evidenced during the successful response to Cyclone Debbie, when Ergon Energy and Energex jointly responded to the cyclone and its aftermath, safely restoring power to over 270,000 customers in record time. Given the statewide scale of the damage from the weather system and the challenging conditions in the days following the initial impact, getting the power back on in under 14 days required the capabilities of both organisations to be successfully harnessed in a coordinated way.

The year saw improvements across the state in our overall network reliability performance, with outage frequency and duration results meeting the required service standards across both of our networks. In regional Queensland we delivered the best average duration of power interruptions (which largely reflects our response capability) across all of our network categories since the standards were established over a decade ago.

Our Retail business, Ergon Energy Retail, launched an online portal 'My Account' to help customers manage their bills online and make other connection arrangements. This was an important step in our quest to deliver greater choice and control, one that has been well received by our customers. We also achieved improvements in the level of customer satisfaction with the service interactions through our call centres.

The increased focus we have placed on safety across the different areas of our business has also delivered encouraging performance improvement. Over the year we have reduced the frequency of injuries, as well as the average severity of injuries and the associated time absent from the workplace. We have, however, more to do here. The Board and Executive will ensure that safety remains an absolute priority for the organisation as we move forward.

## DELIVERING ON OUR MERGER AND TRANSFORMATION COMMITMENTS

The Government has previously committed to reducing cost of living pressures for Queensland customers, and Energy Queensland's near-term target in support of this is to reduce our costs by \$562 million through to 2019-20. We are pleased to share that significant progress has been made towards achieving this objective, with approximately \$193 million in net savings delivered in the first year through a combination of efficiencies and prudent deferrals of expenditure.

The Board and the Executive is determined that the business operates as efficiently and effectively as it can with the aim of contributing to improving electricity affordability. As further progress is made, sustainable savings will flow into prices in the next regulatory determination period 2020-2025.

We have taken foundational steps over the period, which have included forming a new Energy Services leadership team, bolstering our market-facing resources and lifting our commercial capabilities in order to prepare for future growth in our unregulated areas of business. These include delivering metering solutions to the market, leveraging our core capabilities in infrastructure services, and expanding our telecommunications services. We have also taken preliminary steps to establish Energy Services as a stand-alone subsidiary so that we can offer new and emerging technologies and services to the market.

Overall the strength of our financial performance across the Energy Queensland Group, with the increased focus on the efficiency and effectiveness across the Group's operations and the strength of our revenue position, delivered a consolidated Net Profit After Tax of \$881 million. This result was supported by the Queensland Government's \$598 million electricity subsidy, which benefits our retail customers across regional Queensland under the Uniform Tariff Policy. Energy Queensland will pay a dividend of 100% of the profit result to the Queensland Government in the coming year.

## BOARD AND EXECUTIVE ESTABLISHED

During the year the Energy Queensland Board has provided robust corporate governance around the strategic direction and the ongoing performance of the newly formed business. The Board now consists of seven independent non-executive directors with a diverse set of relevant skills and experiences to guide our activities and operations. The Board met throughout the year in four different regional centres to allow us to engage with business and community leaders and build our understanding of what is important to the community. This process was assisted by the strong regional backgrounds of a number of board members.

We would like to recognise the contribution of Clive Skarott, who completed his term on the Board at the end of the year. Clive is the former Chair of Ergon Energy, and has over the past year played an important role on the Energy Queensland Board in overseeing the merger and establishing the strategic direction for the new business.

A new executive team has also been established with eight Executive General Managers joining the Chief Executive Officer during the year. The majority of the team are located regionally, with five based in Energy Queensland's headquarters in Townsville. The new team remains focussed on establishing an effective and efficient business and leading its future.

## A NEW VISION FOR ENERGY QUEENSLAND

The creation of a new merged business triggered a strategic review of the businesses priorities. One of the outcomes of this review has been the strategic repositioning of the company.

Our new corporate vision, 'We energise Queensland communities', places communities and customers at the centre of our business and all of our activities. This vision is much more than just providing electricity and related energy services.

We have over 7,000 employees who live and work in communities across Queensland. These dedicated teams remain committed to serving our customers, delivering great outcomes, and making positive sustainable impacts to our communities to allow them to prosper and thrive. Our aim is to harness this overwhelming positive force, with a healthy and supportive workplace culture, to create the opportunity to realise greater value through innovation for our communities, customers, business and shareholders alike.

## THANK YOU FOR YOUR SUPPORT

It's been a challenging year for Energy Queensland and we are extremely proud of our people, and the collective commitment to making Energy Queensland a great organisation.

We continue to receive significant support from our stakeholders and we are extremely thankful for this.

Looking forward we will continue to endeavour to improve our business performance, deliver on our merger and transformation objectives, and importantly lead the future of energy solutions on behalf of all Queenslanders.



*Phil Garling*  
PHIL GARLING  
CHAIRMAN



*David C Smales*  
DAVID SMALES  
CHIEF EXECUTIVE OFFICER

## Performance Summary

To monitor our performance we have a range of targets shown in the table below with a summary of this year's results. These targets were set through our Statement of Corporate Intent, our formal performance agreement with our shareholding Ministers tabled in the Queensland Parliament. The results are discussed in further detail throughout the following sections of this report.

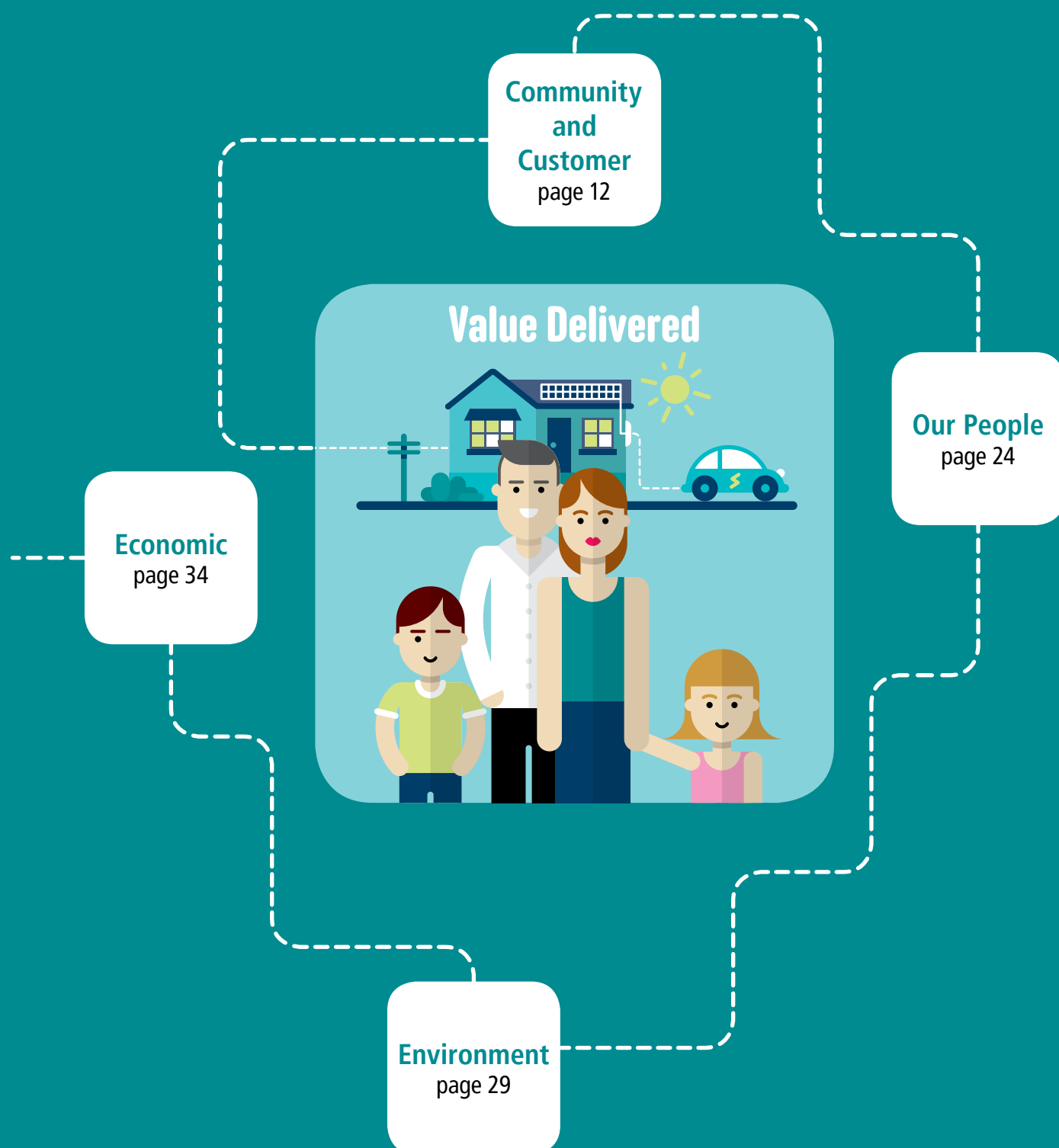
	MEASURE	TARGET	RESULTS
Community	Network Reliability Targets: p20		
	Energex's System Average Interruption Frequency Index	Standards Met	All Met ✓
	Energex's System Average Interruption Duration Index	Standards Met	All met ✓
	Ergon Energy Network's System Average Interruption Frequency Index	Standards Met	All Met ✓
	Ergon Energy Network's System Average Interruption Frequency Index	Standards Met	All Met ✓
	Program of Works: <sup>1</sup> p13		
	Energex's Delivery Index	≥90%	99% ✓
Customer	Ergon Energy Network's Delivery Index	≥90%	98% ✓
	Customer Indexes: p22		
	Energex's Service Performance Index	≥80%	84% ✓
	Ergon Energy Network's Customer Index	≥6.7	6.5 ✗
	Ergon Energy Network's Customer Enablement Index	≥5.6	5.2 ✗
Our People	Employee Surveys: <sup>2</sup>		
	Energex's Employee Survey Results	≥57%	Refer to p24
	Ergon Energy's Employee Engagement Survey Results	≥64%	Refer to p24
	Workplace Safety: <sup>3</sup> p27		
	Energex's Total Recordable Injury Frequency Rate	≤19.5	16.1 ✓
	Energex's Lost Time Injury Frequency Rate	≤2.0	4.7 ✗
	Ergon Energy's Total Recordable Injury Frequency Rate	≤6.2	6.2 ✓
	Ergon Energy's Lost Time Injury Frequency Rate	≤1.9	2.2 ✗
Economic	Net Profit After Tax p34	≥\$687 million	\$881 million ✓
	Standard Control Services Total Expenditure	≤\$1,872 million	\$1,722 million ✓
	Return on Capital Employed	≥7.8%	8.5% ✓
	Debt to Regulated Asset Base Ratio p35	≤70.3%	69.6% ✓

<sup>1</sup> Energex and Ergon Energy Network's Program of Works Delivery Indexes are based on different indexes. These measures are being aligned for subsequent years.

<sup>2</sup> We are moving to a single combined Energy Queensland Employee Engagement Survey – the results will be available in the next Annual Report.

<sup>3</sup> Energex and Ergon Energy currently include different events in the safety measures. These measures are being aligned for subsequent years.

# Performance Review



# Community and Customer

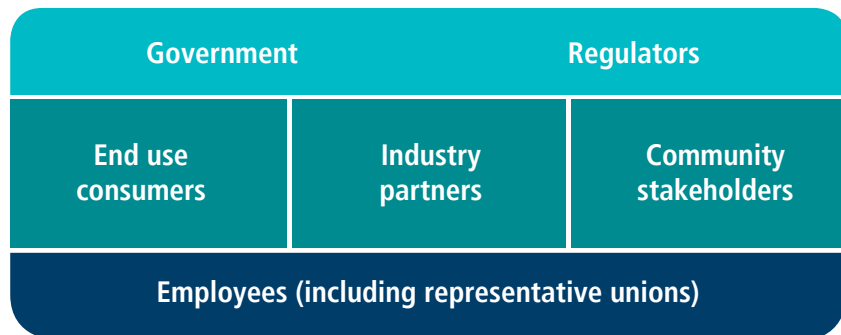
We are very much part of the fabric of life across Queensland. To deliver, we know our focus needs to be squarely on addressing electricity affordability, and on creating greater value for our customers as the energy market transforms. We also need to ensure we deliver more broadly for the whole community.

## LISTENING TO OUR MANY STAKEHOLDERS

We are continuing to monitor customer and community expectations through our engagement programs to better target our response. Maintaining a clear, business-wide view of the issues that matter most to our many stakeholders, and to our purpose as a Group, is seen as critical to our ongoing success.

To help us connect with our communities and ensure we are effective at the local level, as part of the move to Energy Queensland, we are establishing 17 operational areas across the state. We have also been focused on engagement with our industry partners. This has included statewide forums to listen and share knowledge with local electrical contractors, developers and major customers, something especially important as we move through this next period of change.

Proactive engagement has also continued through our Customer Councils. Ergon Energy's Customer Council, established in 2011, remained the listening forum to provide a customer's lens regarding initiatives or emerging issues around energy solutions to regional Queensland. Energex's Customer and Community Council and Commerce and Industry Panel, holding its first meetings in 2016-17, has also helped better inform our path to delivering greater customer outcomes and value.



Addressing electricity affordability remains a key priority, as it impacts the cost of living and Queensland's economic competitiveness. The other material matters discussed in this report range from electricity security, and the energy transformation underway, to support for local employment opportunities.

## PLAYING OUR ROLE IN STABILISING PRICES

### Keeping network charges down and stable out to 2020

With network charges being a component of retail electricity tariffs, both Energex and Ergon Energy Network continue to place a priority on safely delivering our core distribution services for the best possible price. Through our respective Regulatory Proposals, for the current five-year regulatory control period to 2020, we sought network revenue allowances that would deliver more sustainable electricity prices going forward.

The allowances, now set in place by the AER, frame what we charge overall for the use of our networks. This year, to build on this work, we put in place Tariff Structure Statements for 2017 to 2020; for the first time providing visibility of our network tariffs over the longer term. These documents, approved by the AER in February 2017, explain how we develop our prices and provide indicative rates for the remaining three years of the period.

They incorporate the network reform outcomes that we have been engaging our customers and other stakeholders on for an extended period of time.

### Wholesale markets impacting retail charges

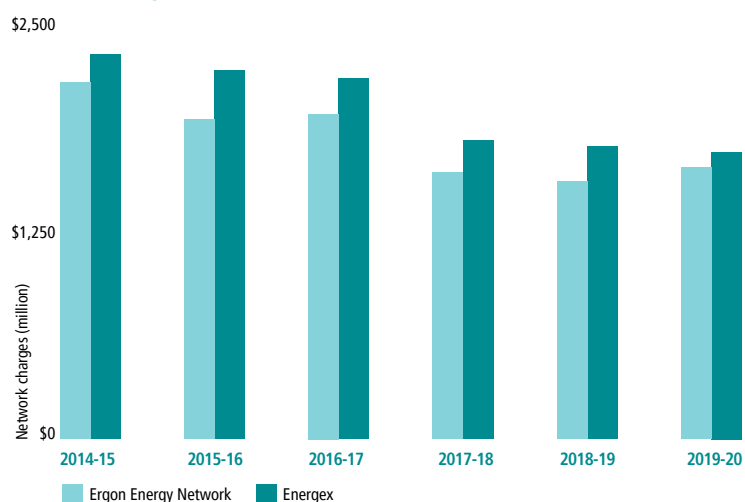
In setting the regulated retail tariffs that Ergon Energy Retail offers in regional Queensland, the QCA considers both Energex's and Ergon Energy Network's network tariffs, as well as the appropriate retail charges.

Rising wholesale energy costs have put upwards pressure on retail tariffs. As a regional electricity retailer, we buy from the wholesale energy market. To minimise the impact of the market on electricity prices in regional Queensland going forward, the Queensland Government has removed the costs of the Solar Bonus Scheme from our network charges until at least 2020 (p44).

**A CASE STUDY: NEW DEMAND TARIFF**

Crumpton and Sons and Kingaroy Blanching, family owned peanut growing and processing businesses based in Kingaroy, are now saving 27% on their network charges by making the switch to the new demand based tariffs.

### Network Charges Out to 2020



Moving into 2017-18, the average charge across all customer groups for the use of the distribution network will be a further 17% lower for customers on the Energex network and 19% lower for customers on the Ergon Energy network – in part thanks to changes around the Solar Bonus Scheme (p44). We aim to keep these distribution charges stable overall for the remaining three years to 2020.

## SUPPORTING COMPETITION IN METERING

Across the Group this year we have been preparing for the expansion of competition in metering and related services as part of the National Electricity Rule changes from the Australian Energy Market Commission's Power of Choice review in 2012. These reforms are intended to support the electricity market in meeting consumer needs over the next 15-20 years.

There has already been significant market activity from the contestable Retailers in this space, with the level of churn over the past year (predominately in the South East) taking the advanced meters in the market to over 70,000.

The reforms will support business growth around the provision of new products and services and will provide customers with more choice and control over their energy use. We are continuing to work with key stakeholders, such as electrical contractors, meter providers, consumer organisations and other retailers, to ensure a smooth transition.

## KEEPING THE LIGHTS ON

We are committed to managing the networks for the long-term interests of the communities we serve. Our focus is on ensuring a secure, highly resilient electricity supply, and being at the ready to respond if required.

Now united, we are working to align our network asset management practices with ISO 55000, the first international standard for asset management. Details of our asset management policies, strategies and specific initiatives are available in our respective Distribution Annual Planning Reports.

### Ensuring network resilience

We have continued to place a priority on our response capability for emergency and natural disaster events. Comprehensive scenario training and robust summer preparedness, bushfire risk and flood risk management plans seek to minimise interruption to our customers. In 2016-17 these plans paid off in our response following Cyclone Debbie (p18).

With the Gold Coast hosting the Commonwealth Games in April 2018 we placed a priority on assessing the network requirements across the state where events will be held and putting in place operational response plans. This 11 day event is the largest in Australia this decade, and will be broadcast to a global audience of 1.5 billion. We have more than 20 projects on track to be completed before the Games, which will provide a legacy benefit to the community into the future.

## Delivery of the works program

Despite delivery risks associated with Cyclone Debbie, both organisations delivered against their Program of Work Delivery Index, with Energex achieving 99% and Ergon Energy Network 98%. These indexes consolidate the delivery of customer and network initiated work within planned targets.

### MAJOR PROJECTS COMMISSIONED 2016-17

\$63 million underground and overhead powerline between Powerlink's Loganlea Bulk Substation and our Jimboomba Substation in Brisbane's South West.

\$8 million upgrade to the Toowong Substation in Brisbane's Central West.

\$3 million upgrade to the Sandgate Substation in Brisbane's Metro North.

\$11 million substation at Marian South in the Mackay region.

\$8 million in network powerline and substation enhancements in the Boyne network in Central Queensland.

\$3 million new powerline in Tanby in Central Queensland.

## COLLABORATING ON DEMAND

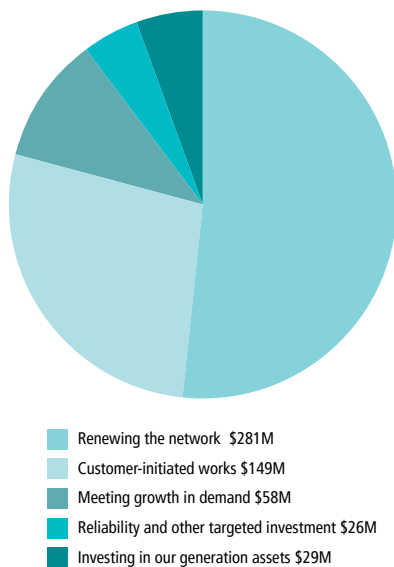
Both network organisations have continued highly successful demand management programs incentivising customers to reduce their energy use or shift it from 'peak' times on the network. Collaborating in this way not only allows us to avoid costly infrastructure investment, it also provides our customers greater choice, control and value. Energex's and Ergon Energy Network's respective demand management plans are available online.

### Positive Payback proved invaluable

As part of these plans, Energex's long established Positive Payback program continued. In 2016-17, residential customers in the South East connected over 20,000 appliances, like PeakSmart air conditioners and energy efficient pool pumps, through the program. This program proved invaluable during the heatwave in February 2017. On one of the hottest days, more than 55,000 of the PeakSmart air conditioners were signalled to reduce demand on the network. It was a powerful demonstration of the value of the technology in managing demand.



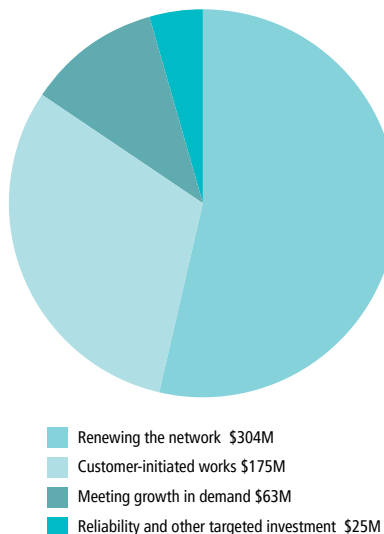
### Ergon Energy Network investment in the network



Our regulated capital expenditure associated with Ergon Energy Network's distribution system was \$514 million, compared to \$571 million in 2015-16. For Energex's distribution system it was \$566 million, compared to \$614 million in the 2015-16.

Network renewal remained the main investment area for both networks. Customer initiated work was the next biggest area of investment, although increasing, this remained lower than forecast (p22).

### Energex investment in the network



The reduction in spend associated with meeting growth in demand relates both to efficiencies and demand management (p13). Ergon Energy Network's investment in generation includes progress on a new power station on Palm Island.

We delivered our corporation initiated network capital works programs for 2016-17 with a focus on efficiency and effectiveness, while ensuring we addressed network risk (p34) – a combined investment of \$914 million, \$88 million below budget.<sup>2</sup>

Ergon Energy Network's demand management program transitioned to a new pricing methodology based on network risk. The Optimal Incremental Pricing methodology allows incentives to be offered earlier, so more customers can participate as part of their normal purchasing decisions, rather than requiring higher cost incentives to drive purchasing behaviour. Both regions continue to benefit from demand under control through the off-peak economy tariffs.

### THE FUTURE IS HERE

Customers now have more choice in energy resources, which is enabling them to manage their own energy needs and engage along the energy value chain. In response, we're modernising our networks to best meet our customers' needs in the future.

#### Customer-driven change

To assist our planning, we again commissioned the Queensland Household Energy Survey, as a joint initiative between Ergon Energy Network, Energex and Powerlink, to help us better predict how our customers will use our networks. This year, in addition to solar, it showed interest in battery storage and electric vehicles continuing to grow (p30).

### Solar take-up the highest in Australia

Since 2011 there has been a rapid take-up of rooftop solar energy systems by our customers – Queensland currently has the highest penetration in Australia, and of any state or country in the world. There are now 459,000 solar energy systems connected to our networks with a total generating capacity of 1.7GW.

The majority are exporting into the local grid during the day, after supplying the household's needs. In the commercial and industrial market, however, they are usually sized to support the site's daytime electricity needs.

*"28% of Queensland's detached houses now have solar, with penetration levels higher in new developments."*

While the networks are largely facilitating this two-way electricity flow, there is an ongoing need to focus investment into areas of the network with high solar penetration to manage the significant reverse power flows into the network.

The integration of solar is also being supported by advancements in inverter technology and the introduction of a new Australian Standard for inverter connections. This has enabled changes in our connection standards and processes.

In May 2017, after extensive industry consultation, we released a new joint Energex and Ergon Energy Network Connection Standard for Micro Embedded Generating Units up to 30kVA to better support the integration of new technologies, and we streamlined our processes for basic connections.

### Building an intelligent grid

In planning for a future of increasing distributed energy resources and other energy-related solutions, we have continued our work with the CSIRO and others, through the Energy Networks Australia (ENA), to develop a shared roadmap for the transformation of the electricity network.

To adapt and to optimise the value in the network we are in the process of building an intelligent grid with investment in technology and data innovation. This will allow us to operate the network in a more efficient and dynamic way.

We have also continued to build our understanding of how battery technologies could be best integrated into our network in the future. Energy storage systems have the potential to substantially change how we collectively use, share, distribute and cost energy – with both customer and network management benefits.



In June 2017, Queensland Treasurer, Curtis Pitt officially opened our new innovation laboratory facilities in Cairns – shown here talking to graduate Jaimee Hosking. By working with a range of product manufacturers in testing the interaction of the battery energy storage and solar photovoltaic systems with the network we're aiming to shape product development to benefit customers and manufacturers, and to support the network of the future.

<sup>1</sup> Standard Control Services system capital investment and Alternative Control Services capital investment.

<sup>2</sup> Standard Control Services system capital investment.



This year we established a new technology innovation laboratory in Cairns to continue trials of residential battery energy storage systems (Resi-BESS) and other emerging technologies. We are also testing energy storage systems in a number of 'real world' trials across our networks. Batteries were also the topic of conversation at our Smart Energy Education House at the Royal Queensland Show 2016.

## EVOLVING OUR RETAIL PRODUCTS AND SERVICES

We see the future of our retail business being about delivering an excellent customer experience with more choice through new products and service offerings, including online channels of engagement, the rollout of advanced digital meters and the bundling of products.

In December 2016, to provide more choice in how and when customers can interact with us, we launched a new 24/7 self-service portal. The 'My Account' portal allows our residential customers to easily check their account balance, view and pay bills and make arrangements to move house. It has proven popular with over 40,000 customers already benefiting.

### Technology the key to control

We are embracing technologies to give our customers greater choice and control around their energy solutions. A highlight here – showcased on page 17 – was the launch of our Energy Savvy Families program.

We are also working with Queensland Government and the Queensland Farmers' Federation to give farmers across regional Queensland the chance to test different electricity tariffs, or simply understand their energy use profile and options. The trial, which includes having an advanced meter installed, will provide a better understanding of the suitability of the new Tariff 24, and controlled load Tariff 33 for use by farmers.

We are working proactively with our large business customers on their energy management and tariff choices. For all business customers we've also continued to promote EnergyCheck, with 20,000 customers now benefiting from the online energy monitoring tool.

During the year our residential Hybrid Energy Service Trial was completed. This provided a solar energy and battery storage system for an affordable monthly service fee to 33 homes in Townsville, Cannonvale and Toowoomba. The customer feedback and technical know-how that we have gained through this and the other trials will help us evolve our service offering as the market continues to evolve.

## ASSISTING THOSE IN NEED

Ergon Energy Retail continues to work closely with customers experiencing financial hardship to help them manage their electricity bills and energy usage. We always consider disconnection for non-payment a last resort.

Our Customer Assist program, which has been operating for over 10 years, provides access to skilled representatives who support customers in need with personal payment plans, advice on how to reduce their electricity use, and information on available government assistance. This year, we increased the number of customers able to be supported through the program, allowing a more diverse range of customers to meet their energy debts in a sustainable and independent way.

On behalf of the Queensland Government, with 32 councils and three part council areas in regional Queensland currently drought declared, we continue to provide support to primary producers asking for assistance. We are also working with the many community groups and non-government organisations which support those in need.

This year saw the trial of new, cutting-edge, card-operated meters progress in a number of our isolated communities. These new meters are making it easier for our customers in the communities of Wujal Wujal and Hamond Island to add credit to their home's 'account' using the paywave technology. Importantly, the new arrangements have also increased the emergency credit available and extend the non-disconnect hours and have made it easier for the customers, who were eligible for concessions, to access the Queensland Government's Electricity Rebate. During the year, the new meters were also installed at Hopevale, Napranum and Mapoon. We are now looking to move these communities, and others to the smart card technology.

## EXPANDING OUR EFFORTS INTO NEW AND EMERGING MARKETS

From the strength of the Group, we are forming a new Energy Services business to provide a range of unregulated or competitive market products and services. This is building on our current suite of unregulated activities that give our customers greater choice and control over their energy use and access to new and emerging technologies.

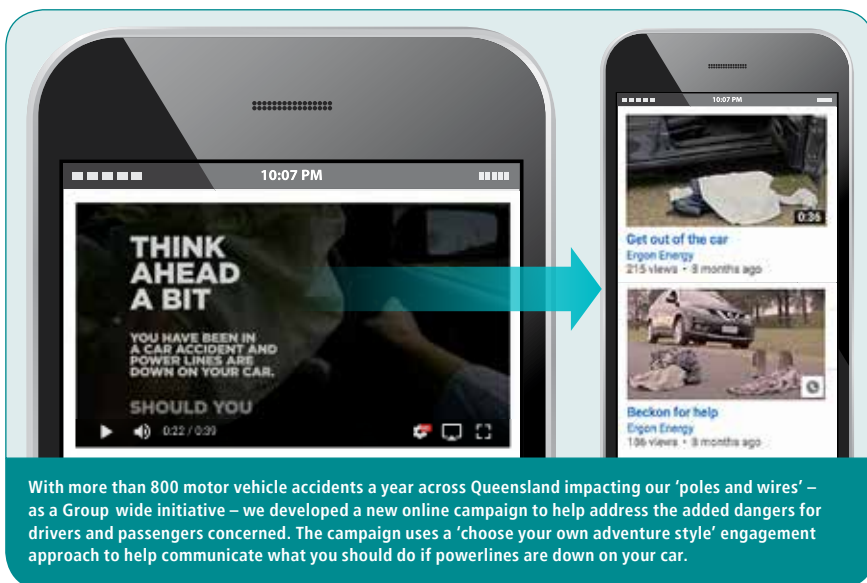
Under the banner of Metering Dynamics, we have strengthened our service offering as a Meter Data Agency and a Meter Provider for the commercial and industrial market. This area of our business collects, warehouses and distributes metering information for market operators and the different market participants, as well as end-use customers.

Throughout 2016-17 we also strengthened our presence in the telecommunication market through Nexium Telecommunications. This team is having success in providing wholesale and retail high-speed fibre-optic connectivity services to a range of sectors, from the resource industry to health, especially the government sector.

We also continued to offer electrical and data infrastructure and associated services, for the commercial and industrial market, the government sectors, and for utilities and generators. Here our expertise has seen us win major construction works along Queensland's high-voltage transmission infrastructure between Mackay and Townsville. This follows the successful delivery of high voltage works at Powerlink's Tully substation, and other electrical works.



In November 2016 we completed a commercial trial with the Department of Science, Information Technology and Innovation to aggregate a number of their telecommunication services in the South West into a single hub. The improved capacity and cost efficiencies delivered led to Nexium receiving five new contracts to construct services in Roma for the Department of Agriculture and Fisheries, the Department of Transport and Main Roads and the Department of Housing and Public Works.



## INVESTING IN COMMUNITY ELECTRICAL SAFETY AWARENESS

Together we have a strong legacy in building electrical safety awareness in the community – this investment has continued in 2016-17.

### Children as our Safety Heroes

In 2016 we expanded our school electrical safety education program, Safety Heroes, into the South East. This saw the program, launched in regional Queensland in 2015, go from strength to strength with over 95% of primary schools across the state now benefiting from the interactive teaching resource package.

Marketing campaigns were used to reinforce key electrical safety messages. In regional Queensland, Scout Queensland's 'Be prepared' motto remained the call to action to prepare for whatever nature might have in store through the storm season. The 'Think ahead a bit' around electricity campaign also continued, using the memorable Grim Llama character to reinforce other home electrical safety messages. In the South East, we continued to run safety advertisements using 'If you could see the dangers, you'd stop yourself' to encourage the community to stop and think about unsafe actions around fallen powerlines during storm events and when working near overhead powerlines.

This investment was supported by a suite of online safety messaging Group-wide (using new strategies to extend the messages into the digital market), as well as our media and community engagement efforts (p19).

### Targeting the 'at-risk' industries

We continued to target industries at risk, who frequently work in close proximity to powerlines, to raise awareness of the electrical safety dangers.

Information brochures were developed to build on our core 'Look up and live' and 'Dial before you dig' messaging. They are being used as part of our education programs targeting the agriculture, building and construction, road transport and aviation sectors, delivered through industry events and agricultural shows. Here we again worked closely with these industry's peak bodies and Dial Before You Dig. We also collaborated during the year with the Electrical Safety Office and Work Health and Safety Queensland to develop key safety messaging and progress important safety-related legislative reforms.

### Statistics are used to focus our efforts

During the year, 941 community electrical safety incidents associated with our two networks were recorded. The majority of these remain motor vehicle and road transport accidents, however, there were also a significant number of agricultural industry incidents, largely in regional Queensland, as well as vegetation management, construction and earth moving related incidents. Tragically, there were two fatalities.

In coming together as a Group, we are reviewing how we collect information around community safety incidents to ensure we are able to best target our future engagement strategies to deliver results.

## COMMUNITY INVESTMENT DELIVERING SHARED VALUE

As a portfolio we have refreshed our community investment program so that we can best support community identity and wellbeing, strong local economies, and access to future solutions, while also delivering commercial benefits for Energy Queensland. This program includes statewide partnerships, an employee volunteer program, our Community Funds, and an investment in local and business community initiatives.

Our partnerships with the Royal Flying Doctor Service (Queensland) (RFDS) continued. Through our involvement, their Local Hero Awards were able to involve the broader community. Thanks to the generosity of Ergon Energy Retail's customers, more than \$11 million has been donated to date to the RFDS through our long running partnership.

Our support for the volunteers continued within the Queensland State Emergency Services (SES) and the Queensland Rural Fire Service in the South East region.

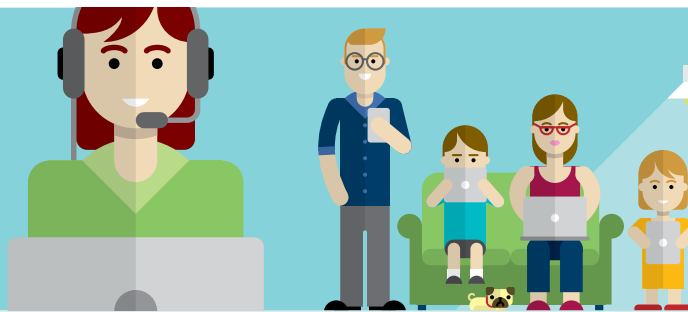
We had a major partnership with the World Science Festival, recognising the importance of exposing the next generation to STEM (Science, Technology, Engineering and Mathematics) thought leaders. We also supported the Queensland Ballet and the Queensland Theatre and a range of other statewide and local partnerships.

At the grass roots level, our grants programs continued with Energex's Community and Sustainability Fund and Ergon Energy's Community Fund – collectively supporting more than 30 local community groups across the state with more than \$100,000 provided in funding.

We also further developed our employee volunteer program currently being trialled within Ergon Energy Retail. More than 40 organisations have registered with the program, along with 35% of eligible employees.



Our volunteering program is helping our people – like Fiona and Crystal – to really connect with their communities. It builds on the time many are already giving to help charities, sporting groups, emergency services and events in our communities.



## CASE STUDY: Helping families to become 'energy savvy'

*"Through this program, families are able to access the information they need, with the monthly billing and new technology solutions, to help them make informed choices about their energy use."*

**Rose McGrath**

QCOSS Project Manager –  
Energy Savvy Families

**5,500** homes  
to benefit in ten regional centres



QCOSS's CEO Mark Henley and Project Manager Rose McGrath, with the local Shelter Housing Action Cairns (SHAC) team who are supporting the program's roll out.

**ENERGY  
SAVVY  
FAMILIES**

Locally the program is being supported by QCOSS champions, recruited from community organisations including neighbourhood centres across regional Queensland who deal with families on a day-to-day basis. These champions are on hand to help the participants to access all of the program's elements.

### SHAPING THE FUTURE TODAY

This program interfaces with the new advanced digital meters that will become the standard for new homes going forward. They are being installed with no upfront cost to the homes participating across the state – in Mareeba, Murgon, Toowoomba, Cairns, Townsville, Rockhampton, Hervey Bay, Bundaberg, Mount Isa and Charters Towers.

These new meters – as they have communications that link into our systems – give the families timely information on their energy use through the portal. They also enable the opportunity of monthly billing.

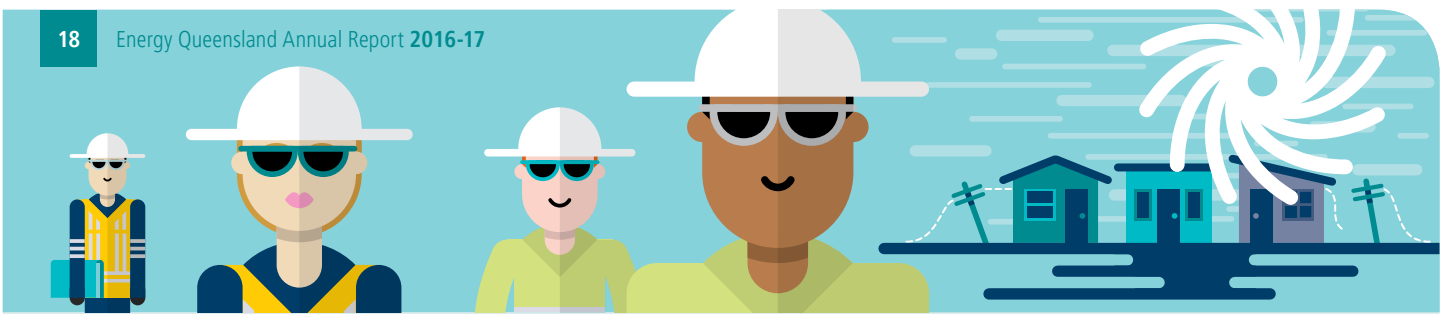
The insights gained through the trial will help us better shape our products and services for this customer group in the future.

The Energy Savvy Families program is a trial aimed at helping low-income families from across regional Queensland with their electricity consumption and bills.

It is a combined initiative of Ergon Energy Retail, Queensland Council of Social Service (QCOSS), CitySmart and the Queensland Government.

The families involved receive a monthly bill, which makes it easier to budget as they can pay in smaller and more manageable amounts. They can also access our online HomeSmart portal, which allows them to track their energy usage and set and track it against their budgets.

This is supported by an education package, CitySmart's 'Reduce Your Juice' program, which uses online game play and a series of 'power quests' to learn more about your energy use. Here participants have the chance to earn some great rewards, just by getting involved, including energy-efficient appliances.



## CASE STUDY: Cyclone Debbie – a statewide team effort

**24  
March**

Our pre-emptive plans are activated as we stand-up and prepare for our response.

**28  
March**

Cyclone Debbie crosses the coast around midday between Proserpine and Bowen.

24 hours later the destructive winds have left 67,000 homes and businesses without power.

**31  
March**

Moving south the system brings gale force winds and flash flooding to the South East.

Before crossing into NSW, it's left an additional 200,000 Queensland homes and businesses without power.

**5  
April**

In Rockhampton, the Fitzroy River peaks at 8.8 metres, impacting power supplied to the low areas of the city and surrounds.

**11  
April**

Just 14 days after the initial impact, power is fully restored to the community.



Across Ergon Energy's network there were over 780 power poles damaged or leaning badly as a result of the winds and land slides, and in total 800 lines were down. Here you can see the degree of the damage in Proserpine

Cyclone Debbie left a trail of destruction from North Queensland to the state's southern border, and into northern New South Wales – with the Whitsundays the hardest hit.

The system brought our state its strongest ever recorded wind gust – 263 kilometres an hour on Hamilton Island – during 24-hours of sustained wind speeds of over 100 kilometres an hour. And over 1,000 millimetres of rain in two days, concentrated mostly in areas south-west of Mackay.

From Bowen to Beenleigh, homes and businesses, and the state's essential infrastructure, were torn apart by wind and rain.

To best inform our preparations, we placed the Bureau of Meteorology's cyclone tracking map

*We were at the ready.  
At Cyclone Debbie's peak,  
270,000 customers were  
without power. It took under  
14 days to make it right again.*

over our spatial network data to get a clear picture of the key assets and critical community infrastructure in the cyclone's path.

We staged 800 Ergon Energy Network and Energex crews at the ready, mostly in Townsville and Rockhampton, and we strategically pre-deployed materials and generation. Five incident response teams were ultimately established to cover the scale of the event.

We utilised the Fugro Roames advanced aircraft-based laser and imaging capture system, alongside traditional means, to assess the network damage. For the first time in field technology solutions were used to capture the network assessments, and then to dispatch crews systematically throughout the event.

By the end of the response over 1,000 field and support personnel from across the Energy Queensland Group, and from external organisations, had been involved in the team effort.

The response had its challenges, from access to telecommunications, and even a crocodile danger alert. In the end the thanks received from the community made it all worthwhile for our dedicated responders.



Major flooding, and the damage to the roads, hampered efforts to access impacted communities and assess the network damage. Some areas, like Airlie Beach, were not accessible until five days after Cyclone Debbie hit.








The weather system caused severe network damage in the Sunshine Coast area, flash flooding in the Logan and Beenleigh areas, and landslides in the Gold Coast Hinterland – shown here – with lines down across the South East.

*"Our electricity field crews... deserve our eternal praise and admiration for a job well done. (They) worked in mud, torrential rain and around floodwaters and spent days away from their families to ensure communities could get their lights back on as soon as humanly possible."*

Premier and Minister for the Arts  
The Honourable Anastacia Palaszczuk

 5 million saw our social media

 43,000 phone calls were answered

 1.3 million used our Outage Finder

 **Alison Hale**  
To Energex

Thank you to all energex workers hopefully you can rest soon.

 **Delma Clifton**  
To Ergon Energy

So happy to arrive home to hot shower and flushing toilet. Thanks to tireless @Energex and @ErgonEnergy workers #TCDebbie

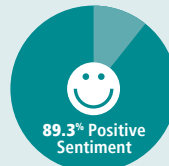
 **Courtney Lyons Cosgriff**  
To Energex

Thank you Energex! Your work is much appreciated ☺

 **Lynn Smith**  
To Ergon Energy

Thank you ☺ fantastic effort by all you guys. Ours has just come on and we are very grateful.

Keeping the community and our other stakeholders informed was a priority. Through Facebook and Twitter we put up over 500 posts in total during the event – reaching more than five million people with overwhelmingly positive sentiment. We also had community outreach teams, our contact centre, our Outage Finder tool on our website, the media and our stakeholder channels to keep everyone informed. And Ergon Energy Retail was there, helping those impacted with bill support and for those with their homes devastated, with debt waivers.



By using our advanced mapping capability, for Rockhampton, we were able to anticipate the flood levels for the Fitzroy River and keep the community safe with the proactive de-energisation of 350 homes and businesses in the areas at risk and then rapid re-energisation.

## SHAPING THE FUTURE TODAY

Core to our response was operating parts of the local network in the Whitsundays area using mobile generation.

Fast tracking stand-alone solutions, and not relying solely on repairs to the grid, was possible thanks to our investment over recent years in our response capability.

To enable islanded, microgrid type solutions, we had our three 'Pegasus' high voltage injection units on standby to connect large-scale generation directly into the local network, as well as a fleet of smaller generation units able to supply the low voltage network. This allowed us to restore the power to communities across the Whitsundays, like Midge Point, well before we could have by progressing the necessary repairs to the network.

The larger units can be monitored and controlled remotely – significantly reducing the logistical and safety issues of the smaller generation units.

Operating the grid like this provided an invaluable experience for the energy transformation.



Being the one Group allowed us to rapidly bring together an integrated state wide resourcing plan for the event. The response itself then provided a fantastic opportunity to learn from each other quickly – at the daily 'muster', in the field, and across our management response teams – to not only continue to improve our disaster response, but also 'fast track' a step change in our effectiveness day to day.

## Network Scorecard

### NETWORK RELIABILITY PERFORMANCE STANDARDS MET

Overall for the average number of outages for Urban Distribution customers (the majority of customers) was less than one – at 0.8 per customer for the year. For 2016-17 both Ergon Energy Network and Energex met all six of their Minimum Service Standards (MSS) limits for network reliability. These standards are set as part of our Distribution Authorities, and exclude the major power impact experienced following the devastation of Cyclone Debbie (p18).

For Ergon Energy Network overall the frequency of supply interruptions has improved by 16% compared to average performance for the past five years. With the exception of outage frequency on the Long Rural Network, the network reliability results against the MSS in 2016-17 were the best since the standards were established in 2005-06.

This reflects the significant focus and investment made over recent years to achieve the MSS and an ongoing focus on improving response times across all feeder categories. This result was achieved despite a number of major storms affecting supply to Warwick and the wider Darling Downs in early October 2016 and the Fraser/Burnett region in November 2016.

Within Energex's network the overall frequency of supply interruptions improved by 9% compared to average performance for the past five years.

For 2016-17 outages in Brisbane's CBD compared positively to the previous year's results. Here, although the average duration of outages was impacted by planned works on the network, there were fewer unplanned interruptions compared to the previous year. Outages in the Urban and Short Rural feeder network categories were also more favourable compared to 2015-16.

#### Network reliability

ERGON ENERGY NETWORK	2012-13	2013-14	2014-15	2015-16	2016-17	MSS
<b>System Average Interruption Duration Index (minutes of outage)</b>						
Urban Distribution	135	118	134	128	107 ▼	≤ 149
Short Rural Distribution	341	292	359	350	279 ▼	≤ 424
Long Rural Distribution	952	798	1,053	955	781 ▼	≤ 964
<b>System Average Interruption Frequency Index (number of outages)</b>						
Urban Distribution	1.5	1.4	1.3	1.3	1.1 ▼	≤ 1.98
Short Rural Distribution	3.0	2.8	3.2	3.0	2.6 ▼	≤ 3.95
Long Rural Distribution	6.2	6.1	6.8	6.8	5.8 ▼	≤ 7.40

ENERGEX	2012-13	2013-14	2014-15	2015-16	2016-17	MSS
<b>System Average Interruption Duration Index (minutes of outage)</b>						
CBD Distribution	1.7	3.6	3.7	4.7	3.8 ▼	≤15
Urban Distribution	72.7	74.9	90.9	76.7	76.3 ▼	≤106
Short Rural Distribution	160	173.4	178.8	180.8	164.6 ▼	≤218
<b>System Average Interruption Frequency Index (number of outages)</b>						
CBD Distribution	0.15	0.06	0.16	0.03	0.02 ▼	≤ 0.15
Urban Distribution	0.75	0.82	0.80	0.79	0.67 ▼	≤ 1.26
Short Rural Distribution	1.61	1.56	1.55	1.51	1.45 ▼	≤ 2.46

Reporting based on the Minimum Service Standards (MSS) exclusion criteria outlined in each network's Distribution Authority. Ergon Energy Network data includes our regulated main network and excludes our isolated networks.

## MANAGED RECORD ELECTRICITY DEMAND

Overall energy demand and consumption statewide continues to remain relatively steady. However, with sustained warmer temperatures across Queensland over the summer months, the networks did experience record peaks in demand this year.

Demand in the South East on Energex's network hit an all-time high of 4,814MW at 4.30pm on Wednesday, 18 January 2017. This was followed almost a month later in regional Queensland by a

record system-wide peak on Ergon Energy's network of 2,637MW at 7.30pm on Monday, 13 February 2017. The highest peak in demand to occur across the two distribution networks simultaneously reached 7,145MW at 5.50pm on Sunday, 12 February 2017.

During daylight hours the grid is experiencing reduced demand as a result of the solar energy being generated, however, without energy storage solar energy by itself is unable to reduce the evening peaks typically experienced in residential areas.

The electricity delivered across South East Queensland for 2016-17 increased with the summer conditions, however, the uptake of solar energy systems is helping to suppress energy growth – one in every three detached houses in the South East now has solar. In regional Queensland overall, the energy delivered was lower than previous years. The additional energy use during February's heat wave conditions was offset by the impact of Cyclone Debbie on the network and economic activity generally.

### Electricity distribution

ENERGEX	2012-13	2013-14	2014-15	2015-16	2016-17
No. Connected Customers	1,347,196	1,363,815	1,385,445	1,411,628	1,439,468 ▲
Network-wide Peak Demand	4,475MW	4,373MW	4,614MW	4,633MW	4,814MW ▲
Electricity Delivered	21,084GWh	20,853GWh	21,181GWh	21,139GWh	21,324GWh ▲

ERGON ENERGY NETWORK	2012-13	2013-14	2014-15	2015-16	2016-17
No. Connected Customers	712,634	724,264	733,261	740,881	747,183 ▲
Network-wide Peak Demand	2,380MW	2,441MW	2,382MW	2,481MW	2,637MW ▲
Electricity Delivered	15,097GWh	15,247GWh	15,140GWh	14,997GWh	13,330GWh ▼



We are increasingly using spatial data to improve the management of demand on the network and to help us proactively engage with stakeholders. Launched this year, this Network Capacity Map shows customers, developers and other market participants where network capacity is readily available to connect new loads to the network across regional Queensland.

## Customer Scorecard

### LISTENING TO THE VOICE OF THE CUSTOMER

To continue our customer experience improvements, this year we established a Voice of Customer program with 'real time' service performance monitoring. This led from earlier work around the strengths and pain points of our service delivery for each customer segment.

It has seen new indexes established as a corporate performance indicator, initially across Ergon Energy Network with plans to take them across the Group. The Customer Index measures satisfaction against the key drivers specific to each customer group, from our major customers to our residential customers. Alongside this is the Customer Enablement Index, which gathers employees' views on how to best support customer-driven outcomes.

For Ergon Energy Network this year's Customer Index benchmark result was 6.5. The Customer Enablement Index was 5.2. The last result for Energex's Service Performance Index was 84%. These insights continue to assist us in understanding what our customers expect now and in the future.

#### Meeting customer service expectations

Across the Group we have customer solutions representatives to manage enquiries in Townsville, Rockhampton and Brisbane, as well as in other regional centres. In 2016-17, together we attended to more than 1.5 million customer calls, as well as numerous other interactions.

#### Retail call service standards

Our performance for our Retail general enquiries 'number' is measured against a grade of service target and our customers' perception of the quality of the service they receive. While the average time to answer calls across the year was 123 seconds, slightly above the grade of service standard of

120 seconds, we have been able to achieve an average satisfaction rate of 91%, significantly up from the 78% in the previous year.

#### Network call service standards

For Ergon Energy Network and Energex's general enquiries numbers a service grade of 78.0% and 74.0% (respectively) of calls being answered within target was achieved – pleasingly both well above target.

Performance for the unplanned outage enquiries and emergency lines were also above target with an Ergon Energy Network grade of service of 79.2% and an Energex grade of service of 88.0%. Our service centres responded well to the surge in calls associated with Cyclone Debbie and the weather system that moved south over the South East.

### Customer contact statistics

		TARGET	RESULTS
Call Volumes	Ergon Energy Retail		1.00m
	Ergon Energy Network		0.04m
	Energex		0.49m
General Enquiries	Ergon Energy Retail	70% Calls Answered in 120 Seconds	62.3%
	Ergon Energy Network	70% Calls Answered in 120 Seconds	78.0%
	Energex	70% Calls Answered in 20 Seconds	74.0%
Unplanned Outage Enquiries <sup>1</sup>	Ergon Energy Network	Loss of Supply and Emergency Calls – ≥77.3% Calls Answered in 30 Seconds	79.2%
	Energex	Loss of supply – ≥85% Calls Answered in 30 Seconds	88.0%

<sup>1</sup> Targets as set for the AER's Service Target Performance Incentive Scheme.

### STANDING BY OUR SERVICE COMMITMENTS

As part of our service promise, we are committed to meeting our Guaranteed Service Levels (GSL) set out in the Electricity Distribution Network Code (for eligible customers).

GSL covers network reliability (outage restoration timeframes and the number of outages), the notification of planned power interruptions, appointments, new connection and reconnection timeframes, wrongful disconnections, and the resolution of hot-water supply matters.

Our network and retail businesses also have performance obligations under the National Energy Customer Framework (NECF).

This year, across the state GSL claims and payments were down considerably on 2015-16. The positive result was due to reliability improvements (p20), as well as an ongoing focus on process and system improvements around the other GSLs. We are continuing to focus on the notification of planned outages to minimise the impacts to our customers and reduce the potential for compliance issues.

### CONNECTING TO OUR NETWORKS

To respond to customer-initiated requests for network connections or upgrades in the South East, \$175 million was invested in the network in 2016-17, up slightly on the \$160 million invested in 2015-16. In regional Queensland, \$149 million was invested – this increase from the \$119 million in 2015-16 largely reflects the economic activity surrounding the growth in renewable energy sector<sup>2</sup>.

<sup>2</sup> Standard Control Services and Alternative Control Services capital investment.



## Guaranteed Service Levels

CLAIMS	ERGON ENERGY NETWORK		ENERGEX	
	2015-16	2016-17	2015-16	2016-17
Network reliability	6,343	3,588	6,110	2,415
Notification planned interruption	1,982	1,323	1,592	1,149
Other GSLs	1,181	293	536	731
<b>TOTAL</b>	<b>9,506</b>	<b>5,204</b>	<b>8,238</b>	<b>4,295</b>

### Managing a rise in major solar connections

Energy Queensland is currently actively managing more than 80 major embedded generation connection projects, at different stages of enquiry, that are expected to come online over the next few years, and we are aware of numerous other opportunities being explored. To support this wave of economic activity we are placing a priority on addressing any barriers to the connection of utility-scale renewable energy into the grid, and ensuring technical, policy, and regulatory improvement opportunities are realised to deliver for our customers. This will build on recent improvements in the major customer connections area – through our customer forums and satisfaction tracking we are seeing positive results.

### Managing increasing small solar connections

The number of new solar energy systems connected to the network during the year strengthened, after growth slowed in the years following the 2012 reduction in the state's solar feed-in-tariff.

During the year, more than 31,200 new solar energy systems were connected to our networks statewide, with an average system capacity of 6.2kW (excluding solar farms). The increase from the previous year's average capacity of 5.4kW is due to both larger residential systems and an increase in business installations.

In regional Queensland, advances in inverter technology have allowed Ergon Energy Network to approve more applications without requiring a technical assessment. More than 80% of applications are now being approved soon after lodgement.

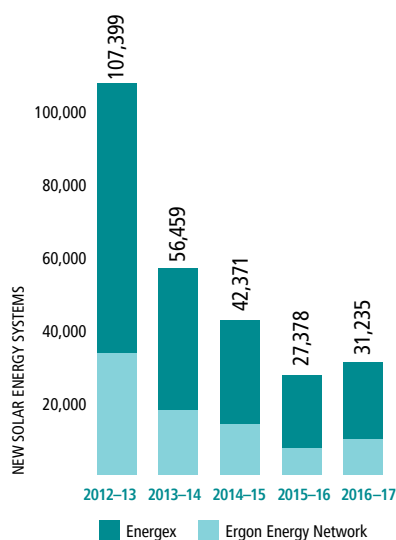
### CONNECTIONS OVERALL REMAIN STEADY

Throughout the year, 37,141 new customers were connected to Energex's network. This is almost double the low of 2012-13. A significant number of these were for multi-tenancy buildings, with the surge in new apartment complex developments especially in central and greater Brisbane and on the Gold and Sunshine Coasts.

Across Ergon Energy's network, the rate of new connections fell with 6,168 new connections made compared to 9,987 in 2015-16. Here we have maintained the service improvements made in recent years around our smaller customer-initiated connections and upgrades.

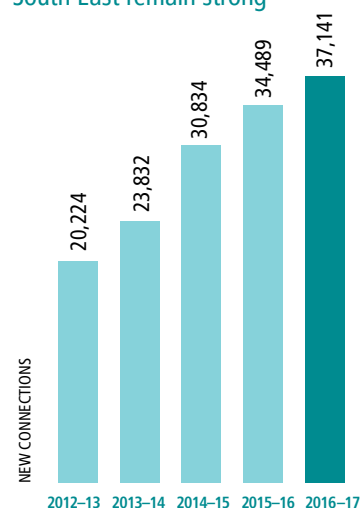
Our delivery performance for customer-initiated capital works is incorporated into our Program of Works Index. (p13)

#### New solar connections strengthen



The rate of new solar energy systems connected to the network has increased with the current strengthening of the market. We anticipate that this will continue as customers take up the opportunity to integrate solar with battery storage and electric vehicles.

#### New connections in the South East remain strong



In 2016-17 the number of new premises connecting to the network in the South East continued to grow – reflecting the level of construction activity taking place in the residential property market.

# Our People

We're embracing the changes taking place in our operating environment to ensure we are 'future ready'. In this section we share the priority we are placing on our safety performance, while building a high-performing portfolio of businesses and the foundations for organisational transformation. To deliver we're actively encouraging diversity and inclusion, and investing in our people.

## BUILDING THE FOUNDATIONS FOR TRANSFORMATION

Both Ergon Energy and Energex had well established people strategies in train prior to the merger. Over recent years we have been focused on developing adaptable, inclusive and engaged workforces, both ready to capitalise on the merger and able to deliver strong results for Queensland well into the future.

With our People Plans being largely aligned, throughout 2016-17 we have been able to maintain momentum across our plans' priority areas, while also directing our energies to the merger. The creation of Energy Queensland has required major organisational change with business-wide transformation critical to capitalising on our strengths as a portfolio of businesses. We are now well into the formation of Energy Queensland, and in many areas progressing through the process of harmonising practices.



Our industry is facing change at an unprecedented rate. Our ability to respond will rely on us being agile, open minded, innovative and collaborative in how we approach challenges and opportunities – with a clear vision to guide us.

Since the Executive Leadership Team (ELT) was put in place, in early 2017, we have been able to develop a clear vision of what we are aiming to achieve as a Group (p7). This has allowed us to finalise the corporate structure and appointment of the senior leadership team – and move to the structure for each business unit. To progress the transformation in a sustained way, we are focusing on revitalising our organisational culture around Energy Queensland's corporate values.

The next phase is around achieving the excellence at scale with the benefits to come as teams become established and are operating effectively together. From here we expect to gain momentum around our focus on the future.

The formal process of organisational restructuring is expected to be completed by the end of year.

In addition to this process, we are establishing, through our newly formed Digital Office, the digital enterprise building blocks needed to support the overall transformation of Energy Queensland.

### Keeping people informed

With the structural reforms it has been a challenging year for our people. Our focus has been on keeping our people informed and giving them the opportunity to provide feedback as the changes unfolded.

There has also been a focus on supporting employees in their careers. This has included providing tools and information on career planning, resume development and interview skills.

In Ergon Energy's last employee survey, undertaken in June 2016 as we were moving into the merger, we were achieving high levels of employee engagement. Energex's last survey, undertaken in March-April 2016, also showed positive results with growing employee alignment with the strategic direction. Our efforts have been building on this foundation.

Since then, anecdotally, employees have continued to recognise the need to adapt as an organisation. However, with the decision to move to a single, combined Energy Queensland Employee Engagement Survey, we do not yet have survey results to share for 2017. This will follow in our next Annual Report.

### Building constructive workplace relations

Energy Queensland's workplace relations approach seeks to build a collaborative industrial relations environment.

Together with the representative unions we have continued constructive dialogue, assisted this year by the ongoing operation of the Industrial Relations Consultation Group. Through the centralised consultative forum, with representation from Energy Queensland, the unions and the Queensland Government, as our owner, we are ensuring the people principles agreed on for the reforms are applied through the restructuring and that the process remains equitable and transparent.

The wages and conditions for the majority of employees continue to be covered by Ergon Energy Network and Energex's Unions Collective Agreements 2015, and the Ergon Energy Retail Enterprise Agreement 2014. These agreements are continuing to apply under the merged structure. Negotiations for a new Energy Queensland enterprise agreement framework will commence in the new financial year in accordance with the Government Owned Corporations (GOC) Wages & Industrial Relations Policy 2015.

## ENCOURAGING DIVERSITY AND INCLUSION

We recognise that a diverse and inclusive workplace contributes to employee engagement, greater innovation, improved productivity and overall improvements in organisational effectiveness.

This has led to the establishment of an Energy Queensland-wide Council for Diversity and Inclusion with representative from across our senior leaders, as well as a number of team members who are passionate diversity advocates. This initiative is being supported by a number of volunteer working parties and will contribute to the development of a portfolio-wide Diversity and Inclusion Strategy.

This work is building on the earlier commitment from both Ergon Energy and Energex to reinforcing the value in our visible differences, but also includes our invisible differences. This is supported by the ongoing roll out of unconscious bias awareness and diversity of thought training across the business – increasing our collective understanding of how hidden beliefs can unintentionally impact our decision making and inclusivity.

This year our support for diversity in the workplace included efforts to raise awareness of domestic and family violence, in partnership with our union stakeholders. This saw Energy Queensland launch domestic and family violence guidelines to refresh our commitment to providing a flexible, safe and rewarding workplace for all employees. It also saw employees speaking out in a number of high profile media campaigns across the state saying 'Not Now, Not Ever' to domestic violence.

Through our recruiting process for our apprenticeship program we also maintained a focus on diversity.

Ergon Energy's three week 'Introduction to the Electricity Supply Industry' helped boost a number of potential female candidates' exposure to trade related skills and confirm their fit for a career in the industry. This year across the Group 13 of our 97 new apprentice recruits were female, taking the total across the Group to 45 female apprentices now working towards trade qualifications.

Energex's 16 week pre-apprenticeship program, Bright Sparks offered potential, future Indigenous employees theoretical and practical trainings, health, wellbeing and self-awareness support and adventure-based learning activities, with the aim of preparing them for an opportunity of ongoing employment through our apprentice program. This program is supported by the Queensland Government.

This year four Indigenous Australians joined the Group's apprenticeship programs, taking the current total to 30.

Ergon Energy and Energex also participated in the Diversity in Infrastructure industry working groups in Townsville and Brisbane respectively. These forums enable groups across industry to connect and share their diversity activities with a view to elevating the collective efforts of all.

*"Safety is an absolute priority for Energy Queensland. It's critical to how we work, during business-as-usual operations and in an emergency response."*

## SAFETY AND WELLBEING

At Energy Queensland employee engagement is important for creating safer outcomes. As part of the introduction of Energy Queensland's corporate values, of which 'Safe' has been given pole position (p17), leaders and employees came together to talk about what safety means to them and how they could be more involved personally in leading safety into the future.

We also continued with a range of other cultural and leadership initiatives to grow positive safety behaviours across our workplace. Ergon Energy continued to embed its Safety Citizenship program and Energex continued to deploy its Leading Safety program and maintain focus on the safety principles of Care, Ownership, Trust and Learning. The core elements of these programs will continue to be embedded as Energy Queensland develops aligned cultural and leadership initiatives.

A great example of individual ownership of a health and safety solution is the Safety Is Defence program initiated by an Ergon Energy Work Group Leader. The program, that is continuing to be expanded, uses a rugby league analogy to focus teams on both defensive and attacking mind sets in their work to achieve safe and productive work outcomes.

### Taking a learning approach

A focus on safety in the field is never more important than in a major power restoration response. In this year's Cyclone Debbie response we placed a priority on safety and the wellness of our people and the community through every step of our response – from the initial efforts to make the situation safe to the long journeys that many of our crews had to take to return to their home base. Throughout we reinforced the importance of a learning approach to best support our crews working long hours in difficult conditions. We have since undergone a comprehensive review process of the response with a focus on ensuring we are doing all we can to keep our people and the community safe for future disaster events.

Safety conversations are also continuing to be given a priority day-to-day with a strong focus on coaching and listening. Learning from incidents has also continued. This is driving targeted communication campaigns in areas identified as high risk or opportunity for improvement, including a six month campaign targeting distraction, fatigue and complacency. We also remain supporters of external safety campaigns, including Fatality Free Friday, to address driving as a high risk activity.

An increased focus on reporting safety events in the year ahead will enhance our ability to roll out employee communication campaigns, and to implement the necessary controls for incident prevention.

### Supporting employee health and wellbeing

We have a strong focus on supporting employee health and wellbeing and fitness for work.

This year the mental health of our employees has been a significant focus with the formation of an Energy Queensland-wide project taskforce. This has led to a number of initiatives, including mental health awareness training for all leaders.

We have entered into a partnership with Mates in Construction to develop Mates in Energy. Here our business is taking the lead role, partnering with other industry organisations to build a robust model to foster mental health awareness and create a peer support network across Queensland.

A highlight of our efforts engaging employees on mental health was having rugby league star Darius Boyd share his own mental health journey, including the importance of seeking help and the difference it can make to your life. Darius has visited many locations to personally deliver his message and distribute health and wellbeing packs.

Across the business our Employee Assistance Programs continue to be promoted to employees. This support service offers employees and their families free confidential counselling for work and personal concerns.

Drug and alcohol testing also remains a key initiative to ensure that our employees are fit for work. A priority has been aligning the Alcohol and Other Drug Policies of Energex and Ergon Energy, through a working party with both business and union stakeholders. Testing is about ensuring that any person employed, contracted or visiting Energy Queensland does not compromise the health and safety of themselves or any other person by working under the influence of drugs and/or alcohol.

A number of proactive health programs have been rolled out including flu vaccinations, quit smoking programs, 10,000 steps and Fitness Passport. Fitness Passport provides a cost effective membership for employees and their families to access a variety of gyms, pools and fitness related activities.

Both Energex and Ergon Energy are maintaining Gold recognition from Queensland Government's Healthier. Happier. Workplaces initiative.



Field employees, Ricky Hiscock and John Jobe meet with rugby league star Darius Boyd at a session in Eagle Farm, as part of our focus in supporting mental wellbeing, where he shared his own mental health journey with employees.

## INVESTING IN OUR PEOPLE

Across the Group we made a significant investment in our people, both in supporting our leadership talent and offering training and development more broadly.

### Growing our leadership talent

Our talent and succession strategies are about identifying and developing the current talent across the portfolio to build a strong leadership pipeline for the future.

Here we continued to encourage discussions between leaders and team members to identify development opportunities specific to the individuals and their roles – from formal training to experiential learning.

Importantly, focus has remained on our operational areas where new and emerging frontline and workgroup leaders are being offered the opportunity to gain qualifications in leadership and management. To develop frontline leadership skills, in Ergon Energy Network, 80 field-based individuals-in-charge have taken part in the Field Leadership program designed to address day-to-day challenges and provide important leadership skills and insights.

To support our leaders with the organisation transition we also engaged external career transition expertise to deliver a range of development offerings, including coaching, e-learning, and toolbox talks. The focus here was on building leadership and professional skills, supporting our people to lead, adapt and perform through the transition.

We have also continued to promote the self-learning opportunities available through our online learning portals and extensive course databases.

We have developed a consolidated leadership competency framework to clearly articulate our leadership expectations.

## Looking to the next generation

Investing in the next generation of employees is an important part of preparing our business for change.

This year we recruited 97 new apprentices, from a large pool of applicants across the state, into our technical apprenticeship programs. These new recruits undertook technical training at our training facilities in Rocklea, Toowoomba, Maryborough, Rockhampton, Townsville and Cairns before moving to field placements across the state to gain practical experience with the latest technology and the core trade skills. This takes the Group's total apprenticeship program, including the technical trades of systems electrician, communication technician, fitter and turner, boilermaker, linesperson and sheet-metal worker, to 455.

We also continued to invest in our graduate programs. We are currently providing 15 graduates with the practical skills, experience and business knowledge they need to kick start their careers, through targeted rotations within the business, including field placements, relevant technical training and ongoing internal mentoring. We also continued to fund a number of university scholarships to help attract and retain emerging and diverse talent to the power and distribution engineering discipline.

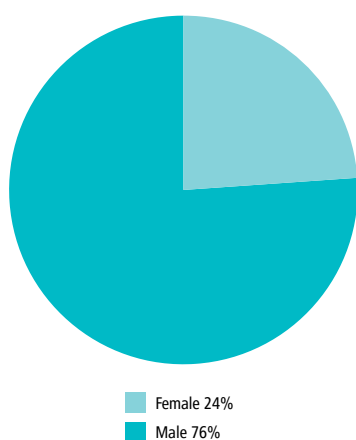


Ergon Energy Network and Energex apprentices undertaking on the job technical training exercises at our EsiTrain facilities at Rocklea, Brisbane. This year the Group took on 97 new apprentices statewide, a promising group of future leaders and innovators for what is now a quickly evolving power industry.

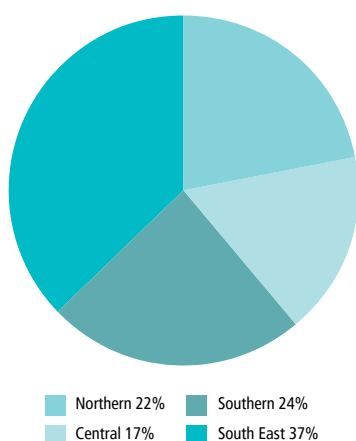
## Our people statistics

AT 30 JUNE	
Number of Employees	7,355
Full Time Equivalent	7,068
Staff Turnover (annualised)	5.7%
Women in the Workforce	24%
Women in Senior Management	36%
Indigenous Employees	2%
Employees from a Non-English Speaking Background	371
Employees with a Disability	177

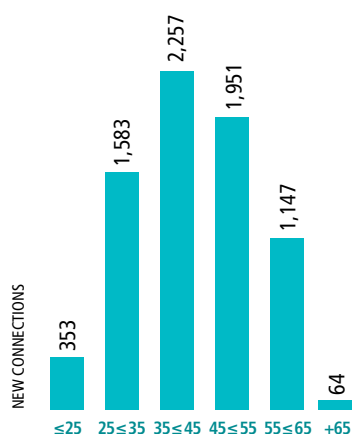
Our workforce by gender



Our workforce by region



Our workforce by age



## Our Work Safety Scorecard

### STRIVING TO BE AN INDUSTRY TOP PERFORMER

During the first year of operation as a Group, an increased focus on safety performance across Energy Queensland has resulted in a 15.4% improvement in Total Recordable Injury Frequency Rate (TRIFR), an 18.9% reduction in Lost Time Injury Frequency Rate (LTIFR), and a 30.3% reduction in Lost Time Injury days lost.

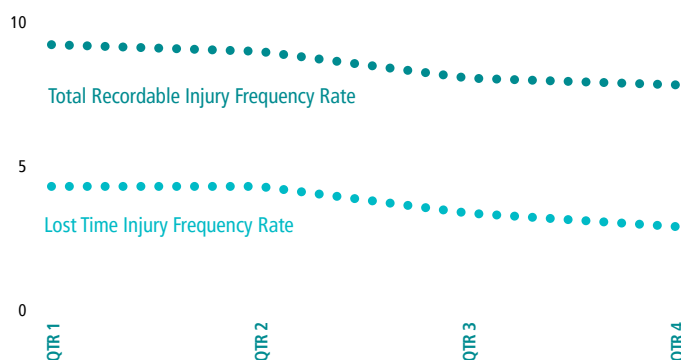
While this initial performance is encouraging, we remain committed to continually improving safety outcomes across our business.

Due to the different methods of reporting safety performance across Ergon Energy and Energex, the results for the two businesses individually are not directly comparable. Both leading and lagging safety measures and targets are being finalised as part of the Group's forward Health, Safety and Environment Strategy.

We are also currently working with the ENA to establish common measures to be able to assess our relative performance against other relevant organisations with similar activities and hazard exposures.

Ergon Energy's business-wide TRIFR was 6.2, an improvement on the 2015-16 result of 6.5, and positive to target. The businesses' LTIFR was 2.2, an improvement on the 2015-16 result of 2.3. Energex's TRIFR was 16.1, a strong improvement on the 2015-16 result of 22.6, and positive to target. The LTIFR increased to 4.7 compared to a 2015-16 result of 4.6. Energex's trend in the severity of its lost time injuries is improving.

### Safety results improving



The overall Energy Queensland result – a TRIFR at the end of the year of 8.0 and a LTIFR of 3.3 – and the trends graphed provide a single corporate perspective. These Group wide results have been created using normalised measures and results for our two areas of operation. The downward trend was supported by positive safety outcomes throughout our Cyclone Debbie response effort.

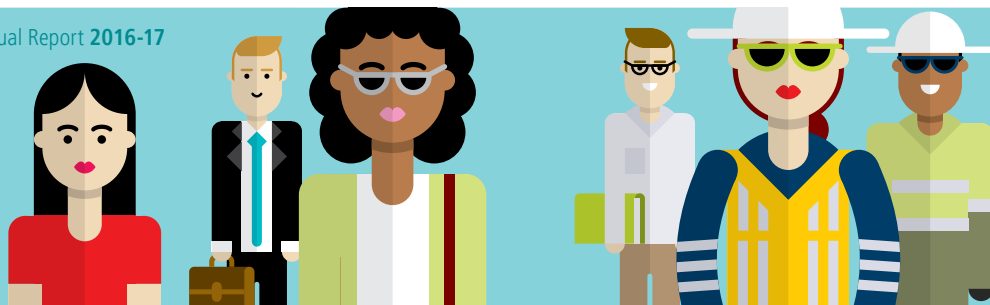
### Employee Safety

ERGON ENERGY	2012-13	2013-14	2014-15	2015-16	2016-17
Total Recordable Injury Frequency Rate	7.8	6.4	5.0	6.5	6.2 ▼
Lost Time Injury Frequency Rate	2.6	1.4	1.9	2.3	2.2 ▼

ENERGEX	2012-13	2013-14	2014-15	2015-16	2016-17
Total Recordable Injury Frequency Rate	32.1	22.5	20.2	22.6	16.1 ▼
Lost Time Injury Frequency Rate	5.0	3.7	4.4	4.6	4.7 ▲





## CASE STUDY: Building a united, high-performing leadership team

*"As a leadership team, we've been looking at how we can understand and connect with our customers to deliver value to them and their communities. Like our customers, we are a diverse team and we look forward to bringing our energy, experience and team spirit to how we work and engage with our customers and our community."*

### Linda Whatman

General Manager Process, Products and Customer Experience

Our leadership team:

**43%** regional

**36%** women

Since Energy Queensland came together mid 2016 we've been undergoing major organisational change, bringing together a strong leadership team to take the portfolio forward.

The transformation is about positioning the Group to best support the many local communities we serve, and achieve sustainable price-value outcomes for our customers going forward. Building the leadership team has been about getting the right people appointed to the right role, and making sure we have a real strength of leadership across the entire Group. This has been a major undertaking with well over 1,200 applicants, and 130 plus interviews to date.

We have made it a priority to have representation across Queensland, so that we have the necessary senior leadership located across the state to best understand and deliver for our communities. Our Chief Executive Officer is based in Townsville, with the rest of the executive either in Maryborough, Townsville or Brisbane. We have also achieved a high level of diversity across the team.

### SHAPING THE FUTURE TODAY

In March we brought the new team together in Townsville to think deeply and workshop how we should shape the business to best deliver for Queensland.

As we continue with the restructure, this commitment to delivering for the many communities we serve, and also to remaining an active statewide employer will continue. The structure of the organisation has been brought together in a way that positions Energy Queensland for growth and adaptation in the face of the rapid change taking place in the electricity sector.



Linda Whatman collaborating with Martin Seri, General Manager Retail Services and Operations.

The Group's three operational, customer-facing businesses – Network (which incorporates the business units Asset Safety and Performance, and Distribution), Retail, and Energy Services – are supported by four areas of common, shared, corporate services: Finance and Corporate Services; People, Culture and Safety; Digital Office; and Strategy, Portfolio and Innovation (p37). This structure has been developed to maximise internal efficiencies and to leverage the state's network asset to build a vibrant and thriving energy business.

The year ahead will see us fully united as one team under this structure; where everyone across the portfolio knows where they fit into the big picture; and, where there's a real sense of shared purpose and commitment to deliver on our vision.

# Environment

To Energy Queensland a high standard of environmental performance is an important element in meeting our corporate responsibility to our communities. We must continue to support the development of renewable and other low-carbon energy sources, focus on energy efficiency, and demonstrate operational leadership in protecting the environment and conserving resources.

## COLLABORATING TO HARNESS RENEWABLES

We are committed to taking Queensland's renewable energy story from strength to strength to harness the environmental and economic benefits for the state. As a network service provider, in addition to supporting roof top solar (p23) we are connecting numerous large-scale solar projects to the grid, and as a retailer we are purchasing the renewable energy output where we can. There is currently 355MW of medium to large scale renewables connected to our networks statewide.

### Supporting solar power utility-scale

In a first for the state, in May 2017, the new utility-scale solar farm in Barcaldine began exporting its 20MW electricity output onto the grid. Throughout the rigorous commissioning process we worked with the owners and their inverter manufacturer to test for any quality of supply issues or network stability risks.

This is now paving the way for future solar farm connections. The size of these systems requires significant technical assessment, to address any potential impacts on network performance and assess any capacity limitations, and rigorous testing at the commissioning stage.



Barcaldine, in the centre of Queensland, laid claim this year to being home to the state's first fully functioning, large scale solar farm, made up of 78,400 solar panel modules, totalling 20MW.

During the year the 5MW Normanton Solar Farm in the state's remote northwest Gulf country, which has been developed collaboratively by Scouller Energy, Canadian Solar and Ergon Energy Network, also moved through its final stage of commissioning. So did the 15MW Sunshine Coast Solar Farm at Valdora, the largest utility scale projects of its type built by a local government in Australia. It will allow the Sunshine Coast Regional Council to offset 100% of its electricity use across all its facilities, from its administration buildings to its sporting grounds.

In other fringe-of-grid projects, we are also collaborating on Conenergy's 13.5MW solar and battery storage project at Lakeland in Far North Queensland and the first phase of the Kidston Solar Project (50MW), in North Queensland at the site of the historic Kidston Gold Mine. Also progressing are Canadian Solar's 15MW Longreach Solar Farm and 25MW Oakey Solar Farm, and RATCH Australia Corporation's 42MW Collinsville Solar Photovoltaic Project.

### Purchasing green energy for our customers

Ergon Energy Retail entered into a new Power Purchasing Agreement with Fotowatio Renewable Ventures for the output of its proposed 100MW Lilyvale Solar Farm to be built north-east of Emerald. This 12-year contract will provide a significant new source of clean energy for our customers.

We are already the largest purchaser of renewable energy in Queensland. These new systems will build on the existing distributed energy resources already connected to the grid. Our agreements with Queensland's sugar mills, who generate electricity from bagasse, a by-product of sugar refining, contribute over 50% to the renewable energy we purchase. Our support for the generation of renewable energy by the

Queensland sugar mills saw a significant economic contribution to this industry over the past year.

## FINDING THE ENVIRONMENTALLY FRIENDLY ALTERNATIVE

### Helping to decarbonise the transport industry

Both Energex and Ergon Energy Network have been actively working with the transport industry and all levels of government around the development of electric transportation as a real solution for Queenslanders. Through trials and the use of vehicles in our own fleet, we have provided the leadership needed for the Electric Vehicles (EVs) market to grow in the coming years.

As the EV market develops in the capital cities, and private investment flows into charging infrastructure, we believe demand will develop in regional Queensland cities and with it the need to support charging infrastructure. This led to a review of the regional Queensland network's capacity to cope, and the launch of an electric super highway along the Queensland coast (p33). When supplied by renewable energy, electric vehicles have an enormous potential to reduce Queensland's greenhouse gas emissions.

The expected impact of plug-in electric vehicles is being included in our long-term forecasts.

### Reducing our reliance on diesel

We remain focused on increasing the use of renewable energy in remote isolated communities. Our goal is to reduce reliance on diesel as a fuel for generation, through both renewable generation and energy efficiency.

We are enabling customers to connect solar and batteries with a number of projects underway to mitigate the network limitations experienced at relatively low levels of solar penetration in the isolated power systems. In addition, a new solar connection standard for isolated network has been developed to overcome the challenges with intermittency of solar supply.

Currently customers have connected 1.5MW of rooftop solar photovoltaic capacity across the isolated systems. It is estimated that over a year this could be contributing up to 2,300MWh of renewable energy to isolated power systems, resulting in an emission reduction in the order of 1,600tCO<sub>2</sub>-e.

One of the main inhibitors of high solar penetration in isolated systems is the response capabilities of the existing diesel generation during the intermittency of supply associated with solar. To assist here, we are currently developing a wireless control solution to dynamically control the solar generation and system loads.

## CONSERVING ENERGY AND MITIGATING EMISSIONS

Energy conservation remains a focus across the portfolio, both in helping our customers save on their usage and within our own operations. Much of our Retail products and services are focused here (p15).

In another customer initiative, we have continued to work with the agricultural industry through our Energy Savers program. Delivered in partnership with the Queensland Farmers' Federation and funded by the Queensland Government, the 110 plus audits undertaken to date have identified tariff and energy efficiencies savings that could deliver bill savings of between 10% to 40%, and in some cases 70%. These best practice energy management strategies are not only benefitting the individual operations, they provide case studies to pass on practical advice to the wider farming community.

### Moving to more efficient street lighting

With the rapid advancements in technologies, LED (light emitting diode) street lights are set to deliver a more cost-efficient, greenhouse gas-friendly street lighting solution for Queensland.

A highlight this year in this journey was the launch of a LED smart street light trial for Surfers Paradise. The joint trial with the Gold Coast City Council is upgrading 890 conventional street lights with the latest LED technology, with smart control system functionality. It will provide a deeper understanding of how 'smarts' can improve efficiencies and reduce costs.

It builds on a number of other trials across the South East, with joint projects underway with the Ipswich City Council, the Brisbane City Council and the Department of Transport and Main Roads.

In regional Queensland, Ergon Energy Network's 'LED Streets' pilot is also rolling out the technology replacing 300 street lights in 50 pilot sites across the state. The aim is to exchange lights in each council area to better understand the implementation challenges and the performance of the technology in different locations.

While the cost per LED light is higher than a conventional light, this technology has the potential to deliver better public amenity and savings for our local communities. It will assist our councils in reducing their carbon footprint, and enabling us to provide our street lighting service more cost-efficiently. This work builds on earlier trials conducted by Energex and Ergon Energy Network.

Looking ahead Energy Queensland will be working with communities and customers to explore future street lighting opportunities utilising technology advances.

## Addressing our own energy efficiency

Through the organisational restructure we are continuing to seek greater energy efficiencies through our property strategy, and as well as through the management of our vehicle fleet.

Energy and operational efficiencies remain central to the delivery of our new or refurbished administration and technical buildings. Wherever we can, we incorporate energy conservation technologies, such as those that allow the use of natural light and ventilation, and better manage lighting and air conditioning.

## PROTECTING OUR ENVIRONMENT

Energy Queensland continues to seek balance in its operations to minimise environmental impacts when we construct new infrastructure and are working in our communities.

### Biosecurity a priority

Biosecurity management is an ongoing focus and in 2016-17 our field crews completed fire ant prevention training particularly in South East Queensland to prevent future infestations. In the north, we undertook a 'forward trace' of materials leaving Townsville Port to understand potential movement of Asian honey bees to our depots. Multiple Asian bee hives were detected in imported cable drums. All hives tested negative for the hive destroying Varroa mite, which is a high Biosecurity Queensland priority.

### Environmental conservation

In the Wide Bay area we worked with the Department of Environment and Heritage Protection, the Bundaberg Regional Council and the Sea Turtle Alliance to address street light spills to turtle nesting beaches around Mon Repos. High priority lights have been identified for changeover to lower impact lights.

In our practices in South East Queensland, we offset native trees that had to be removed due to our activities. This included regrowing vegetation in other locations through a combination of required and voluntary offsetting, which seeks to regrow strategic wildlife corridors useful for long-term conservation.

To fulfil our offset obligations, we partnered with several local councils and community groups to identify land to undertake tree planting and rehabilitation works. During 2016-17, we planted more than 2,940 trees and are nearing the final stages of four major offset projects.



To increase productivity, reduce energy bills, and contribute to good environmental outcomes, we engaged with the agricultural industry around best practice energy management strategies at a field day in Gatton.



Design modifications are also being implemented to avoid endangered plants and animal species, such as the Fluffy Glider on the Atherton Tablelands and the Black Grevillea in Stanthorpe.

### Preserving cultural heritage

We strive to preserve cultural heritage and minimise the impact of our works program where possible. We foster working relationships with the Department of Aboriginal and Torres Strait Islander Partnerships (DATSIP) and implement stringent protocols and engage with local Indigenous parties to manage and balance our operational activities.

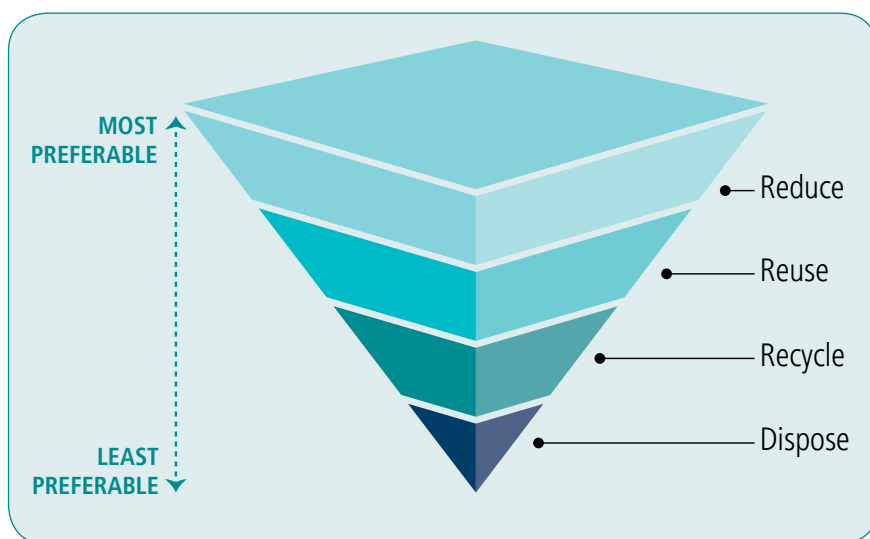
### Minimising our operational impact

Our robust systems and planning seek to effectively monitor environmental issues, remedy any impacts and to continuously improve our approach.

Our environmental performance obligations are overseen and incidents reported through to the Energy Queensland Board. Environmental obligations are also subject to government agency, internal and external professional agency audits, as well as ongoing review to ensure compliance. The Group's certifications to International Standard AS/ISO 14001 have been maintained.

During 2016-17 Energy Queensland had no serious breaches to the *Environmental Protection Act 1994* (Qld) (Class 1 or 2 incidents). We notified the Department of Environment and Heritage Protection five times under the Duty to Notify requirement of the Act.

Impacts to wildlife from our assets continue to be our highest recorded incident, which mostly involves birds and flying foxes contacting powerlines. Outside of wildlife impacts, fuel and oil spills are the next highest incident (53 for the year) followed by biosecurity matters (eight for the year).



## CONSERVING RESOURCES

Energy Queensland continues to work on cost effective ways to minimise waste and conserve resources to avoid landfill disposal of waste. Four strategies are used to manage waste:

### Reduce

Energy Queensland remains committed to reducing the purchase of timber power poles and transformers. In 2016-17 we purchased a total of 19,173 timber poles (compared with 17,425 in 2015-16) and a total of 4,246 distribution transformers (compared with 5,481 in 2015-16). The fluctuations from year to year were based on natural disaster recovery requirements. Merging the two distribution businesses provides new opportunities to improve the monitoring of materials used and explore reduction opportunities.

### Reuse

Reuse of power-poles for community purposes, fence posts and timber recovery is being expanded. Old power poles are an eagerly sought after resource in some remote areas and have

been converted into loading ramps, show jumping obstacles and carpark bollards. Energy Queensland continues to work with local communities across the state to improve recycling and reuse opportunities of our old power poles where feasible.

### Recycle

Statewide, we recovered approximately 2,667 tonnes of scrap metal including copper, aluminium, steel and brass for recycling, and 955,321 litres of oil. In South East Queensland we recovered 1,529 tonnes of timber.

More than 830 kilograms of batteries were recycled as battery recycling stations continue to expand across our operations.

### Dispose

While our Digital Office disposed of 38,608 kilograms of information technology and communications hardware, 9,430 kilograms of this has been harvested and recycled.

## Energy scorecard

### OUR CARBON FOOTPRINT

Energy Queensland's annual greenhouse gas emissions total 1,639,133 tonnes of carbon dioxide equivalent (based on available 2015-16 emissions data as the most up to date at the time of publishing).

Our emissions, as per the *National Greenhouse and Energy Reporting Act 2007* (Cth), include:

**Direct Emissions** – Scope 1 emissions associated with electricity generation, from the diesel-fired power stations that supply electricity to communities isolated from the main grid, and our transport fleet.

#### Emissions linked to electricity use –

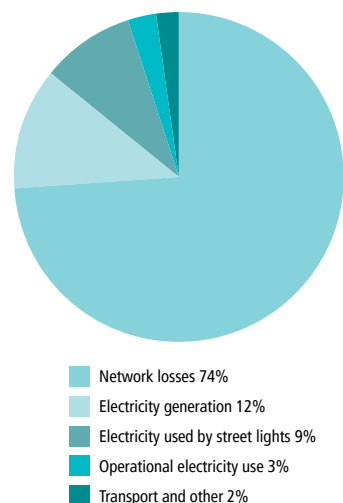
Scope 2 emissions, the main source being largely unavoidable network energy losses (real losses, estimated to be 5% of electricity sourced, and unmetered electricity supply). Street lighting is also another significant contributor to these emissions – an area where technology is playing a positive role (p30). There is also general electricity use in our operations.

### RENEWABLE ENERGY

Energy Queensland has a central role to play in the growth of renewable energy generation sources both collaborating with others (with connections, purchasing, supporting EVs), as well as supporting Solar Bonus Scheme credits and meeting renewable energy targets, and in our own generation activities (reducing our reliance on diesel).

Under the Queensland Government's Solar Bonus Scheme, through the 44c/kWh feed-in-tariff, Ergon Energy Network and Energex credited \$277.6 million to customers for the 636GWh of renewable energy they exported back into the grid statewide in 2016-17.

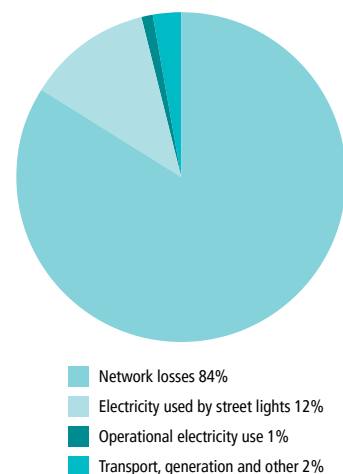
Ergon Energy carbon footprint



Through the regional 7.45c/kWh feed-in-tariff, Ergon Energy Retail credited customers \$10.5 million for the additional 144GWh of renewable energy exported.

We also purchase additional Renewable Energy Certificates, to meet our liability under the Australian Government's renewable energy targets. Our Large-scale Generation Certificate compliance requirements for 2016-17 were equivalent to 13.5% of our customers' energy requirements. We also met our compliance under the Small-scale Renewable Energy Scheme by buying Small-scale Technology Certificates, at a level equivalent to 8.4% of our customers' energy requirements.

Energex carbon footprint



We continue to focus on increasing the renewable energy in our isolated systems. We have wind on Thursday Island, geothermal in Birdsville, and major solar infrastructure in Doomadgee. We are also working to increase customer take-up of solar in our isolated communities (p29).

### Our isolated generation statistics

	2012-13	2013-14	2014-15	2015-16	2016-17
Diesel Generation	96,841MWh	100,774MWh	102,753MWh	107,433MWh	109,733MWh ▲
Renewable Generation	1,964MWh	2,283MWh	2,207MWh	1,672MWh	1,874MWh ▲
Total Generation	98,805MWh	103,057MWh	104,960MWh	109,105MWh	111,607MWh ▲
Emission Reduction <sup>1</sup>	1,396tCO <sub>2</sub> -e	1,454tCO <sub>2</sub> -e	1,502tCO <sub>2</sub> -e	1,209tCO <sub>2</sub> -e	1,292 tCO <sub>2</sub> -e ▲

<sup>1</sup> Based on renewable generation off-setting diesel generation.



## CASE STUDY: An Electric Vehicle Super Highway

*"EVs can provide not only a reduced fuel cost, but an environmentally friendly transport option when charged from renewable energy."*

**Charles Rattray**

Executive General Manager  
Energy Services



**50%** of Queenslanders looking to buy a new car see EVs as a future option

As part of efforts by the Queensland Government to support the take-up of electric vehicles, in collaboration we have begun rolling out charging stations from the state's southern border to the far north.

The charging station, launched in July 2017, at the Esplanade in Cairns is the first of many charging stations for the super highway. The next two charging stations are in Alma Street in Rockhampton and at the Gold Coast airport.

These three sites are the first of 18-plus sites proposed along the coast. In mapping our network, we considered the driving range of fast-charge-capable vehicles like Teslas, and the need to address 'range anxiety', as well as the spare local network capacity, so the chargers could be connected without significant additional infrastructure costs.

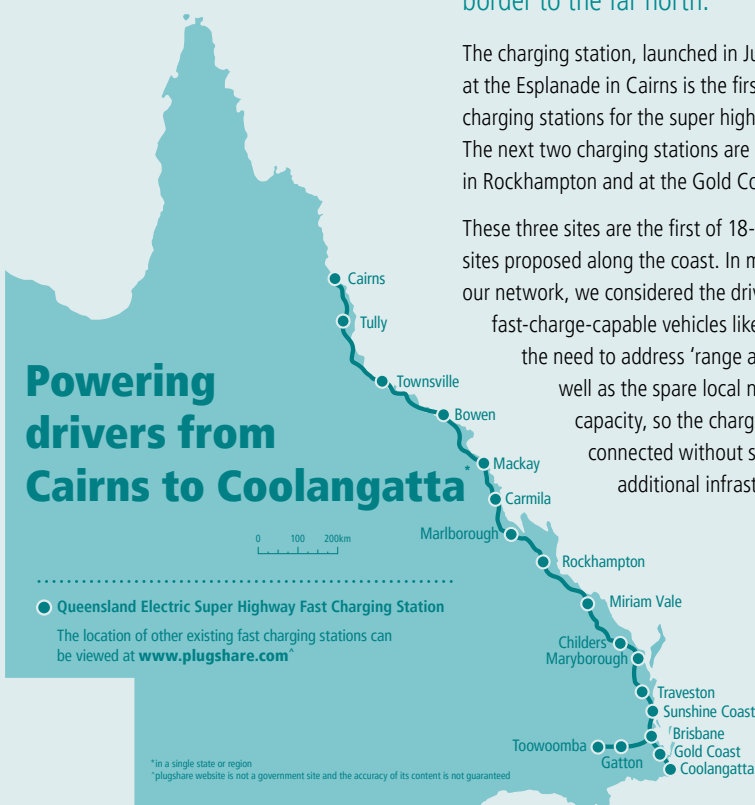
### SHAPING THE FUTURE TODAY

We also considered the opportunity for the sites to be supplied via renewable energy. Queensland Government want these charging stations to support the decarbonisation of the transport sector.

To encourage as many people as possible to get on board the shift to electric vehicles these charging stations will, for the initial phase of the super highway, be available for use at no cost.

Our market research has shown that 50% of Queenslanders in the market for a new car would consider an electric vehicle or hybrid. The financial value around operating an EV is the leading motivator for these new car buyers. Environmental concern was the second leading motivator. Many are looking for the purchase cost to fall, and for the driving range to increase. The research also found that improvements to public fast-charging infrastructure would increase the interest in the market.

The Queensland Government in collaboration with us has been developing charging stations. This has included the Department of Energy and Water Supply; Economic Development Queensland in the Department of Infrastructure, Local Government and Planning; the Department of Transport; the Department of Main Roads; QFleet; and the Department of Housing and Public Works.



# Economic

Efficiently providing our services remains core to our economic contribution to Queenslanders. We are reducing our network charges while continuing to deliver value to our shareholder, the Queensland Government, ultimately benefiting the people of Queensland.

## A CONTINUED FOCUS ON EFFICIENCY

In addition to operating within our regulated revenue allowances (p12), we have also committed to achieving additional savings through merger synergies and efficiencies.

We are maintaining a strategic focus on sustainable efficiency and effectiveness as we bring the operations of the Group together. Our aim has been to set up a structure that can maximise the benefits of our scale and diversity for the benefit of our communities.

While doing so we have maintained prudent levels of capital and operational spend. During 2016-17 we spent \$193 million less than our regulatory allowance through a combination of initial synergies, proactive cost savings and prudent deferral of spend where appropriate.

We have put in place a solid foundation in the formative stages of our formal cost reduction program, which will reduce our recurring costs and support our ongoing sustainability well into the future. In an environment of limited load growth and network expansion, we are targeting our support costs and operating expenditure base to cost-effectively deliver our network, retail and other commercial activities.

## A STRONG PROFIT RESULT

Energy Queensland delivered a strong financial result with a consolidated Net Profit After Tax of \$881 million, which meets our commitment in our Statement of Corporate Intent (\$687 million) (p10).

This result was supported by the \$598 million in Queensland Government Community Service Obligation subsidy (\$541 million in 2015-16) provided to Ergon Energy Retail for the benefit of our customers. This subsidy covers the cost of supply not recovered from customers under the Queensland Government's Uniform Tariff Policy.

The strength of the result was, amongst others, due to higher than forecast revenue associated with high electricity load, especially during the first quarter of 2017, as warm temperatures were experienced across the state. Benefits were also realised from prudent capital expenditure, such as lower depreciation and borrowing costs. Lower restructuring costs during the first year of operation further contributed to the result.

The profit result remained elevated by National Electricity Rule changes related to the treatment of the costs associated with the Solar Bonus Scheme. While these costs are now under Jurisdictional Scheme arrangements and are collected in the year that they are expected, in 2016-17 we were still recovering the cost of the tariff payments actually made in 2014-15. This timing difference in how these expenses were previously dealt with, led to \$347.6 million revenue collected this year pertaining to 2014-15 expenditure. In 2017-18 the Solar Bonus Scheme expense will be aligned to the collection of the revenue.

Steady growth in commercially sourced or unregulated revenue is an area of strategic focus as we unlock value from our portfolio of activities, prepare for future regulatory reform and respond to the needs of our customers. p15

This section explains the key financial outcomes for Energy Queensland Limited for 2016-17. This commentary is not comprehensive – for full disclosures refer to the Annual Financial Statements for Energy Queensland Limited and its controlled Entities, available online at [www.energyq.com.au/annualreport](http://www.energyq.com.au/annualreport)

### A. Where does our revenue come from?

Energy Queensland's revenue for the financial year totalled \$5,265 million, an increase compared to 2015-16. This largely reflects an increase in both retail electricity sales revenue (to \$2,081 million) and in distribution revenue (to \$3,335 million).

### B. What are our main expenses?

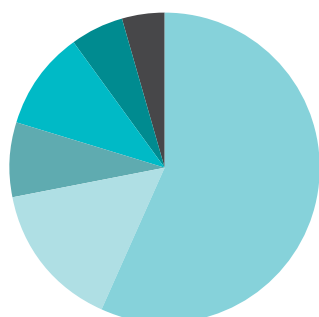
The Queensland Government's Community Service Obligation subsidy is disclosed as an offset expense against transmission charges and electricity purchases. Total transmission charges and electricity purchases, net of this offset, increased to \$874 million in line with electricity sales.

Payments made under the Queensland Government's Solar Bonus Scheme continue to decline as the number of eligible customers gradually reduces. Overall, we paid \$289 million in feed-in-tariffs.

Our employee expenses of \$519 million and expenditure on materials and services of \$404 million decreased in real terms as we continue to operate our business more efficiently.

Depreciation remains a material expense due to the substantial capital employed in the provision of electricity distribution services. Our increased finance costs of \$764 million correlates with the increase in the average debt balance and interest rates over the past two years.

## Source of revenue



Distribution Use of System Charges (incl charges billed by Ergon Energy Retail) \$3,335M  
 Transmission Use of System Charges (pass through) \$891M  
 Retail Charges (excl Network Charges) \$461M  
 Community Service Obligation Subsidy \$598M  
 Other Regulated Service Charges \$324M  
 Unregulated Services and Other Revenue \$254M

The majority of the Group's revenue comes from network charges, which are determined by the AER. This money is largely collected from end users through Retail sales and from the Queensland Government through the Community Service Obligation subsidy.

The total of the revenues shown here is not equivalent to the \$5,265 million in the consolidated results. The Community Service Obligation subsidy is treated as an expense offset in our accounts.

	\$million 2015-16	\$million 2016-17
<b>A. OUR REVENUE</b>		
Revenue and Other Income	5,138	5,265
<b>B. OUR EXPENSES</b>		
Transmission Charges and Electricity Purchases	(809)	(874)
Operating Expenses	(1,841)	(1,818)
Depreciation Expense	(930)	(928)
Finance Charges	(616)	(764)
<b>p34 OUR PROFIT</b>		
Net Profit After Tax	942	881
<b>C. OUR ASSETS</b>		
Current Assets	1,447	2,568
Non-current Assets	22,730	23,440
Total Assets	24,177	26,008
<b>D. OUR LIABILITIES</b>		
Current Liabilities	1,060	2,118
Non-current Liabilities	19,752	20,319
Total Liabilities	20,812	22,437
Net Assets	3,365	3,571
<b>E. OUR INVESTMENT</b>		
Total Capital Investment	1,480	1,345
<b>F. DIVIDENDS</b>		
Dividends Declared	927	881

### C. What assets do we own?

Our total asset base is carried at \$26.0 billion. Property, plant and equipment are the major components of our asset base, at \$22.9 billion, which includes mostly regulated electricity network assets. Our Network assets are revalued on an annual basis.

### D. What are our liabilities?

Total liabilities increased to \$22.4 billion this year. Our largest liability, being the interest bearing loan with Queensland Treasury Corporation remained \$16.3 billion. Prudent capital expenditure linked with strong cash flows negated the need for additional long term borrowings during the year.

We remain committed to maintaining a sustainable financial position. To this end we manage our long-term debt levels to an appropriate target gearing ratio as considered appropriate by our Board, in consultation with our shareholder. The Debt to Regulated Asset Base Ratio was 69.6%.

### E. What was our capital investment?

We delivered a \$1,345 million capital investment program, down from the \$1,480 million invested in 2015-16. Despite reduced investment we maintained our service levels, reliability and made appropriate investment into the growth of the distribution network. Our network capital investment was \$914 million, down from \$1,040 million in 2015-16 (p14).

### F. What dividends do we return to our owners?

Our dividend of \$881 million, 100% of Net Profit After Tax, will be paid to our shareholder, the Queensland Government in 2017-18, ultimately benefiting the people of Queensland.



# Corporate governance statement

Energy Queensland Limited's corporate governance practices are in line with the Australian Stock Exchange (ASX) Corporate Governance Council Principles and Recommendations, where applicable, and the Queensland Government's Corporate Governance Guidelines for Government Owned Corporations. These provide a framework of eight principles to develop, implement, review and report on our corporate governance arrangements.

## PRINCIPLE 1 – FOUNDATIONS OF MANAGEMENT AND OVERSIGHT

### Shareholders

Energy Queensland Limited is a Queensland Government Owned Corporation. It is public, unlisted company, with two shareholding Ministers.

### Our companies

Energy Queensland Limited currently has two main operating subsidiaries, Energex Limited and Ergon Energy Corporation Limited. Our regulated electricity distribution businesses – Ergon Energy Network and Energex – operate through these subsidiaries.

Ergon Energy Retail's activities are undertaken through Ergon Energy Queensland Pty Ltd (a subsidiary of Ergon Energy Corporation Limited). Our Energy Services and our other unregulated business activities (p15) are currently offered through a number of our corporate entities. SPARQ Solutions Pty Ltd was established as a jointly-owned venture to deliver information and communications technology services to Energex and Ergon Energy; this function is now operating as the Digital Office. We are currently reviewing the corporate structure to ensure it provides the most appropriate governance framework going forward.

The Group is governed by the provisions of the *Corporations Act 2001* (Cth), except as otherwise provided by the *Government Owned Corporations Act 1993* (Qld).

Ergon Energy Corporation Limited and Energex Limited's electricity distribution responsibilities are outlined under their Distribution Authorities and the *Electricity Act 1994* (Qld). We also operate under National Electricity Rules and the National Energy Retail Rules, as well as other Queensland Government electricity industry laws and regulations.

### Board Charter

Energy Queensland Limited's Board Charter and Governance and Delegations Policy provide a clear delineation between the roles and responsibilities of the Board and individual directors and the matters that are delegated to management. Management's responsibilities are well defined through job profiles, performance agreements and the Board-approved Delegation of Authority Limits framework.

The Board has delegated certain aspects of its authority to the Chief Executive Officer, through a control framework which includes financial authority limitations, to operate the business on a day-to-day basis.

The Chief Executive Officer and Executive General Managers for each division make up the executive. The team implements the Board's strategies and policies through the Governance and Delegations Policy.

The Board Charter was adopted by the Board on 30 June 2016 and is reviewed every two years to ensure that the Charter continues to remain effective and current. The Board Charter is [available online](#).

The activities of the subsidiary companies are overseen by their own boards. The Board of Ergon Energy Queensland Pty Ltd comprises four independent, non-executive directors (Gary Stanford [Chairman], Rod Wilkes, Vaughan Busby and Phil Garling). The remaining subsidiaries' Boards are made up of solely executive members.

### Board Committees

The Board has established four committees, discussed in this statement, to assist the Board in the performance of its functions in key areas:

- Audit Committee
- Risk and Compliance Committee
- Regulatory Committee
- People and Safety Committee.

### Directors' Induction

All new directors attend a structured induction session to ensure they understand their role and responsibilities, our business, and corporate expectations, and provide them with an initial overview of our operations. An integral part of this induction is the Board Handbook, which defines the Board governance systems, including information on the Board and Committee functions. The Handbook is regularly reviewed and updated so that it can best support directors in their governance responsibilities.

### Executive Leadership Team

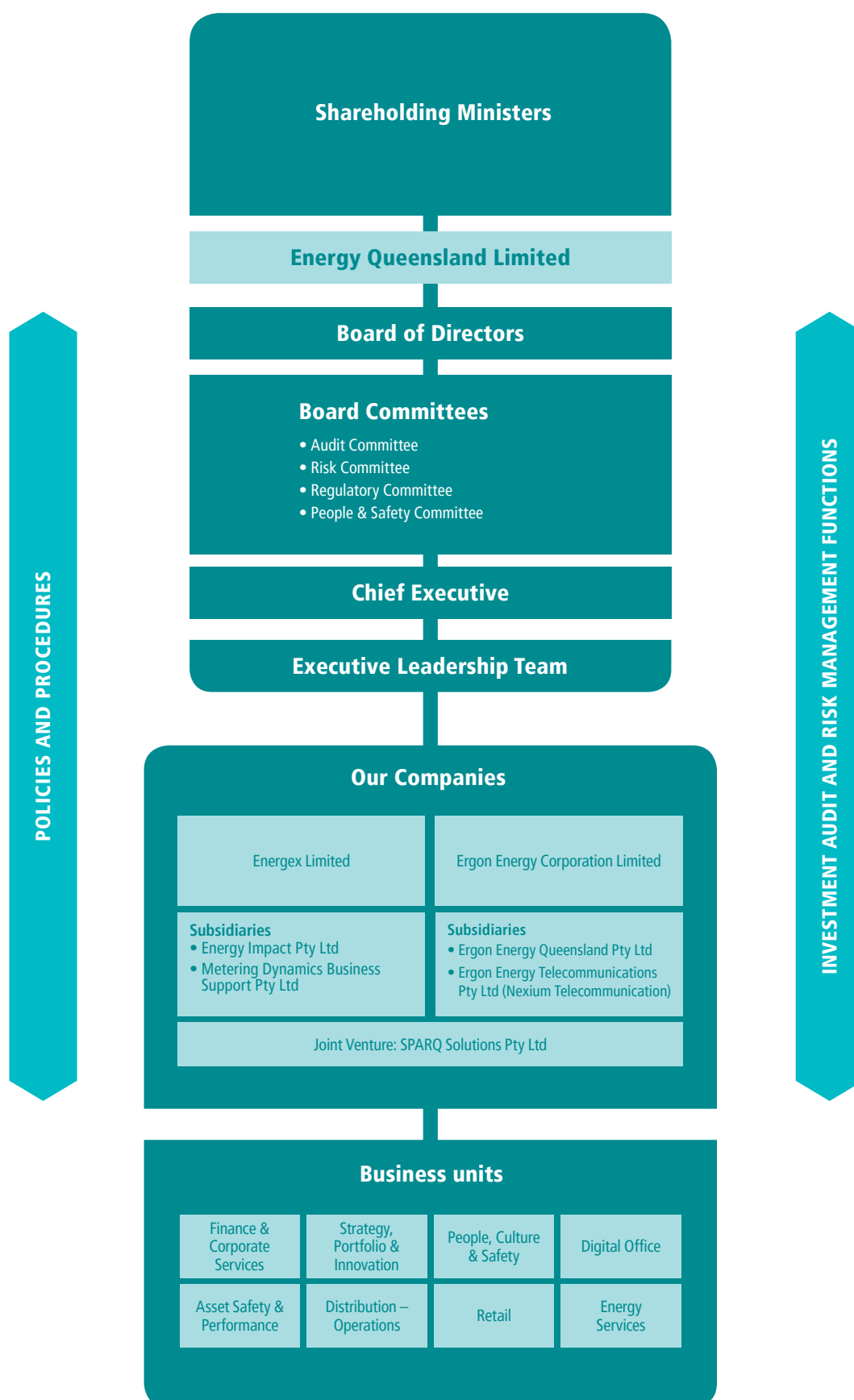
The new ELT was put in place during the year, comprising the Chief Executive Officer and eight other executives. The team is based in Townsville, Maryborough and Brisbane.

The team oversees a corporate structure that has reframed the role of the Group's operating centres, and consolidated the corporate support functions.

Individually the executives have a breadth and depth of directly relevant experiences, as well as considerable diversity as a group. The team has been established to lead the business through a period of significant change, which includes merging the Energex, Ergon Energy and SPARQ Solutions businesses; transforming the new group of companies to be able to thrive in a rapidly changing environment; and, to continue to deliver strong, sustainable business performance throughout a period of organisational change.

To date, as evidenced throughout this report, significant progress continues to be made.

## Our governance framework



## The Board of Directors



**PHIL GARLING**  
Chairman

*BBuild AdvDipAICD FAIB FAICD FIEAust*

Phil Garling brings to his role as Chairman almost 40 years of experience in the Australian energy, construction, infrastructure and investment sectors, gained through an extensive board and executive career.

Phil is currently a non-executive director of Downer EDI Limited, Charter Hall Limited and Essential Energy Limited. He has previously been a non-executive director of Network NSW, which was formed when Ausgrid, Endeavour Energy and Essential Energy merged in July 2012 and was the inaugural Chairman of the DUET Group for seven years. He is also the president of Water Polo Australia Ltd.

Phil's understanding of the energy sector and his broad corporate experience are a valuable asset in guiding the future direction of Energy Queensland Limited.



**MARK ALGIE**  
Director

*BA(Politics) MBA CAHRI GAICD*

Mark is a highly experienced human resources executive with over 15 years' experience across numerous sectors including heavy engineering, construction, utilities, infrastructure and media.

He is currently the Managing Director of Human Outsource which specialises in the provision of human resources and industrial relations advice. He is also the Director, Events and Custom Media for News Corp Australia.

Previously Mark was the Human Resources Director with APN, Australian Regional Media reporting to the Chief Executive Officer of Australian Regional Media. He also spent four years with Tenix Australia in a number of HR appointments including as Manager Human Resources Infrastructure, and two years with Ergon Energy Corporation Limited as a Senior Employee Relations Consultant. He began his career as an Army Officer with the Department of Defence.



**TERESA DYSON**  
Director

*LLB(Hons) BA MTax MAppFin GAICD*

Teresa is a lawyer with over 20 years' experience advising the private sector and governments on complex infrastructure, mergers and acquisitions, finance transactions and social infrastructure.

Teresa is currently a Consultant at McCullough Robertson Lawyers, specialising in taxation and governance in the not-for-profit sector. She was formerly a partner of Ashurst Lawyers and Deloitte Australia.

In 2011, Teresa was named Woman Lawyer of the Year by the Women Lawyers Association of Queensland. She is the Deputy Chair of the Gold Coast Hospital & Health Services Board and Chair of the Law Council of Australia, Business Law Section.

Teresa is also a non-executive director of UN Women National Committee Australia, Opera Queensland Limited and the Foundation for Alcohol Research and Education and is a member of the Audit and Risk Committee of Lifeline Australia.



**HUGH GLEESON**  
Director

*BEng(Civil) FAICD FIE(Aust)*

Hugh has over 30 years of experience in energy and utilities, bringing to the directorship significant experience in the areas of energy regulation and policy.

Hugh is a professional engineer and is the former CEO of 12 years of the electricity and gas distribution business United Energy and Multinet Gas. Hugh has served on the boards of the Energy Supply Association of Australia and the Energy Network Association and has also been involved in the water sector.

He is currently a non-executive director of Melbourne Water Corporation, gas distributor GDI (EEI) Pty Ltd (Allgas Energy) and electricity distributor Ausgrid.





**KATHY HIRSCHFELD**  
Director

*BE(Chem) HonFIEAust FTSE FICChemE FAICD*

Kathy Hirschfeld has extensive experience on ASX, NYSE, private company and government boards. She also brings her experience leading a manufacturing business and earlier as a chemical engineer with BP in oil refining, logistics and exploration in Australia, the UK and Turkey. Kathy was also a Logistics Officer in the Australian Army Reserve.

Kathy is an enthusiastic leader with a commitment to developing people and building teams. She is passionate about improving the representation of women in leadership and engineering, with a keen focus on risk management, safety and corporate governance.

In 2015, Kathy was named one of Australia's AFR/Westpac 100 Women of Influence and, in 2014, the ninth woman recognised by Engineers Australia as an Honorary Fellow.

Kathy is currently a board member of UN Women Australia National Committee and Toxfree Solutions Ltd and a member of the Senate of the University of Queensland.



**KERRY NEWTON**  
Director

*LLM MBA MA GradDip(Applied Finance and Investment) FAICD FAIM FGIA*

Kerry is admitted as a solicitor of the Supreme Court of Queensland and has more than 25 years' experience in legal, management and commercial roles in the private and public sectors, and as a consultant working in an extensive range of industries.

Currently, Kerry is Managing Director of a national governance consulting firm and advises a wide range of organisations in the areas of governance, strategy and management.

Over the past decade, Kerry has chaired the boards of numerous not-for-profit organisations in the child care, aged care and housing sectors. She was a non-executive director of Energex Limited until 2016.



**CLIVE SKAROTT**  
Director

*AM FAICD FAMI*

Clive Skarott is a born-and-bred North Queenslander with a strong history of community service and business development. He has chaired the Ergon Energy Board since September 2015 and has extensive experience developing and managing regional businesses in a variety of industries.

Mr Skarott gave 35 years of service to the Electricity Credit Union (ECU), serving as CEO and Company Secretary before retiring in 2008. He is currently Chairman of JCU Dental and President of the Cairns Historical Society, the Cairns Museum and the Cairns and Hinterland Hospital and Health Services Board.

In 2011, Mr Skarott was named Cairns Citizen of the Year, and was awarded an Order of Australia in the 2012 Queen's Birthday honours for services to export, tourism, credit union, sporting and educational sectors.

Mr Skarott completed his term on the Board on 30 June 2017.



**HELEN STANTON**  
Director

*BEng(Minerals Processing) GAICD*

Helen brings strategy, risk and governance expertise to the Board. Her career includes operational, leadership and commissioning roles in the mining and health industries. More recently Helen has worked as a consultant supporting organisations to formulate strategies for bottom line, sustainable improvements.

Helen is a non-executive director with Northern Territory Power and Water Corporation, where she is the Chair of the Audit and Risk Committee, Mater Health Services North Queensland and Northern Australia Primary Health Limited.

She was previously a non-executive director of Ergon Energy Corporation Limited.

## The Executive Leadership Team



**DAVID SMALES**  
Chief Executive Officer

*BEng(Hons) MBA FIEAust GAICD*

David began his career with the Central Electricity Generating Board in the United Kingdom and has more than 30 years' international experience in the energy industry. His experience covers technical, operational, corporate and senior executive roles, and leading businesses through transformational change.

David is a Director of various subsidiary companies of Energy Queensland, including Chairman of both Energex Limited and Ergon Energy Corporation Limited. David also chairs Energy Queensland's Diversity and Inclusion Counsel.

He holds a bachelor (honours) degree in mechanical and production engineering from Sheffield Hallam University (UK), a Masters of Business Administration from Warwick Business School (UK), is a fellow of Engineers Australia and also a graduate member of the Australian Institute of Company Directors. David is also a Board Director of Energy Networks Australia (ENA).



**PETER SCOTT**  
Chief Financial Officer

*DipBus BBus MPA MBA FCPA*

Peter Scott was appointed Chief Financial Officer (CFO) in November 2016 and is responsible for managing the financial aspects of the Energy Queensland Group of companies, in addition to the company secretariat and general counsel functions.

Peter's portfolio also includes enterprise level information and reporting, strategic procurement, and the provision of property and corporate shared services. Peter is a Director of various subsidiary companies of the Energy Queensland Group.

Prior to joining Energy Queensland, Peter was Energex's CFO for two years. Throughout his career he has gained extensive experience as a senior executive in both local government and government-owned corporations, including holding various CFO and Chief Executive roles. Peter's earlier career included a variety of banking and government/semi-government roles across regional Queensland.

Peter holds a Diploma of Business, a Bachelor of Business, a Master of Professional Accounting, and a Master of Business Administration. He is also a Fellow of Certified Practising Accountants and a Board Director of Energy Super.



**BELINDA WATTON**  
Executive General Manager  
People, Culture and Safety

*BCom MAppLaw GradCertAppFin GAICD*

Belinda Watton was appointed Executive General Manager People, Culture and Safety of Energy Queensland in October 2016 and is responsible for leading Energy Queensland's safety, leadership and cultural improvement strategies, in addition to managing all human resource related aspects of the Group.

Prior to joining Energy Queensland, Belinda was Ergon Energy's Executive General Manager People and Culture.

Belinda is an experienced human resources executive with a track record of transforming cultures and facilitating the creation of high performing teams in a range of complex public, private and not for profit organisations. She brings expertise in corporate strategy development, leadership and talent development, employee engagement, safety leadership, industrial relations and remunerations management.

Belinda holds a Bachelor of Commerce from Griffith University, Master of Applied Law from University of Queensland, and a Graduate Certificate in Applied Finance from KAPLAN. She is also a Graduate of the Australian Institute of Company Directors.



### CRAIG CHAMBERS

Executive General Manager  
Strategy, Portfolio and Innovation

*BCom MEng DipSustDev MAICD*

Craig Chambers was appointed Executive General Manager Strategy, Portfolio and Innovation in December 2016. He is responsible for leading Energy Queensland's corporate strategy. His role also involves managing the Group's risk, compliance, regulation and pricing, as well as customer and stakeholder engagement and business innovation functions.

Craig has over 20 years' experience in the electricity and gas industry in Australia, Asia and the USA. Most recently he was responsible for leading Australian power consulting practices, as part of their international operations. He has extensive experience in advising governments and industry on navigating change, in addition to delivering prominent utility scale thermal, hybrid, power network, storage, gas and renewable projects. Earlier in his career he co-founded and managed a vertically-integrated start-up distributed energy utility.

Craig holds a Bachelor of Commerce, a Diploma in Sustainable Development and has also completed a Masters of Engineering. Craig is also a Director of the subsidiary companies of the Energy Queensland Group.



### BARBARA-ANNE BENSTED

Chief Digital Officer

*BCom GradDip(Information Systems) MBA*

Barbara-Anne Bensted was appointed Chief Digital Officer of Energy Queensland in January 2017 and is responsible for developing and executing the Group's digital strategy.

Barbara-Anne has had a successful international, multi-industry career in enabling organisations to achieve sustainable business transformations through the adoption of leading technologies, process and organisational behavioural changes.

She has recently supported government departments and large private corporations drive the development of digital transformation strategies for business improvement.

Barbara-Anne holds a Bachelor of Commerce from the University of Queensland, a Graduate Diploma in Information Systems from the University of Canberra and a Master of Business Administration from RMIT University in Melbourne.



### PETER PRICE

Executive General Manager  
Asset Safety and Performance

*BEng(Hons) MEng MCIPS FAICD*

Peter Price was appointed to the Energy Queensland Executive in November 2016 and is responsible for leading the Group's engineering and asset management strategies, which includes the safe and efficient management of the Group's electricity distribution networks.

Prior to joining Energy Queensland, Peter was a member of Energex's executive management team for ten years. His career with Energex included managing and leading capital planning and program delivery, asset management, procurement, regulatory issues and the growth of new commercial businesses.

Peter holds both a bachelor (honours) degree and a masters degree in engineering at the University of Queensland, and is a fellow of the Australian Institute of Company Directors. Peter is also Chair of Energy Skills Queensland and Deputy Chair of TAFE Queensland.

## The Executive Leadership Team (continued)



**CHERYL HOPKINS**  
Executive General Manager  
Retail

*GradCert(Management)*

Cheryl Hopkins was appointed Executive General Manager Retail of Energy Queensland in November 2016 and is responsible for leading the Group's electricity retailing business, Ergon Energy Retail. This includes delivering a positive customer experience, managing wholesale energy procurement, and the ongoing development of products and service choices for customers.

Prior to joining Energy Queensland, Cheryl has accumulated more than 30 years' experience in the energy industry, working in senior executive positions in retail, upstream gas and corporate functions within large private businesses operating in highly competitive markets. Cheryl's experience includes leading transformational change.

Cheryl is currently completing a Master of Business Administration through the Macquarie Graduate School of Management.



**CHARLES RATTRAY**  
Executive General Manager  
Energy Services

*BComm(Finance) BA(History)*

Charles Rattray was appointed to the Energy Queensland Executive in December 2016 and is responsible for leading the growth of the Group's unregulated energy services business.

Prior to joining the Group, Charles has had an international career with periods pursuing new commercial opportunities in Australia, the United Kingdom, Switzerland and the USA, as well as a number of emerging markets. He started his career with the Australian Defence Force before moving into banking with a focus on energy, infrastructure and mining.

Charles has recently supported the development of new businesses that utilise disruptive technologies, including distributed energy assets, solar, wind, batteries and smart meters.

Charles holds a Bachelor of Commerce, majoring in finance, and a Bachelor of Arts, majoring in history, both from the University of Melbourne.



**PAUL JORDON**  
Chief Operating Officer  
Distribution (Acting)

Paul Jordon was appointed to the acting role of Chief Operating Officer (COO) Distribution of Energy Queensland in March 2017 and is responsible for leading the Group's electricity distribution networks operations, which includes merging and transforming Energex's and Ergon Energy's operations.

Paul has more than 30 years' experience in the electricity distribution and retail fields, both in Australia and internationally. Most recently, he led the customer service elements of Ergon Energy Network – the safe and efficient operation and maintenance of the distribution network, supply to isolated communities, and the commercial delivery of modular infrastructure and generation solutions.

Paul has specialist levels of expertise in disaster preparedness and response, and is passionate about ensuring the safety of employees and the community.

## PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

### Independence of Directors

Our Board of Directors, including the Chairman, are all independent, non-executive directors. Our directors are appointed for a set term by the Governor-in-Council in accordance with the *Government Owned Corporations Act 1993* (Qld). As such, the Board does not play a formal role in selecting directors or the size of the Board.

During the year, the Directors assessed their independence, with reference to the “factors relevant to assessing the independence of a director” in the ASX Corporate Governance Principles and Recommendations.

Where a director has an interest or a material personal interest in a matter being considered by the Board, the director must declare that interest in accordance with directors’ obligations under the *Corporations Act 2001* (Cth), the Director Conflicts of Interest Policy and the Energy Queensland Limited Constitution. The Constitution provides that a director must not be present, and is not entitled to vote, at a Board meeting when the Board considers a matter in which that director has a material personal interest.

Details of the directors’ qualifications, skills and experience relevant to their position are on page 38.

The Board meets on a monthly basis and other times when necessary. To support internal and external engagement the Board meets at its Head Office in Townsville, as well as our other key service centres. Meetings during this year have been conducted at Townsville, Toowoomba, Brisbane, Maryborough and Cairns.

Directors’ attendances at Board and Committee meetings are set out in the Directors’ Report, in the Energy Queensland Financial Statements, on page 53.

### Board performance

The Board Charter requires the Board and each Committee to conduct an annual performance review. In addition to evaluating performance on a collective basis, the performance evaluation requirement extends to Board and Committee members individually.

Being the first year of operation, the focus has been on the success of the Board in setting the corporate direction and monitoring progress against the merger objectives, as well as on

ensuring the effectiveness of Committee roles, key relationships and governance processes.

In accordance with the Queensland Government’s Corporate Governance Guidelines for Government Owned Corporations, when a Board performance evaluation is conducted a report on the results of the evaluation is provided to the shareholding Ministers. The Charters for each Board Committee also state that the Committee will complete a self-assessment process in accordance with the framework approved by the Board.

### Directors’ access to advice

The Board Charter provides that with the prior approval of the Chairman, each director has the right to seek access to independent professional advice required to fulfil their role.

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 seven years after their term on the Board.

## PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

### Key governance policies

We are committed to ethical and responsible decision making. To ensure this we have in place a governance policy framework that includes a Code of Conduct, Compliance Management Policy, Fraud and Corruption Control Policy, Governance and Delegations Policy, Conflicts of Interest Policy, Right to Information Policy, Entertainment, Hospitality and Gifts Policy, Procurement Policy and Travel Policy.

The Code of Conduct applies to Directors, management, staff and contractors. New employees receive induction training on ethical business practices, including the Code of Conduct.

Our advisers, consultants and contractors are expected to comply with high ethical standards aligned with the Code of Conduct. Our contracts with suppliers outline the expectations of the Code of Conduct. Directors have additional obligations and directors’ duties under law. These are set out in the Board Charter (which includes a Directors’ Code of Conduct) and the Board Handbook.

As our company is government-owned, no director or employee holds or trades securities in any Energy Queensland Limited company. Our Conflicts of Interest Policy supplements the

legal duties that apply to directors, officers and employees relating to the misuse of information or position and insider trading laws.

### 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, Energy Queensland is further developing the Group’s Diversity and Inclusion Strategy to support an inclusive workplace culture. p25

### Framework for investment decisions

As part of the merger, a portfolio-wide investment management framework has been established to ensure all investments are subject to rigorous governance controls, including consideration of value and risk in relation to financial treatment, strategic contribution, commercial viability and management control. This governance builds on the investment approval process in place in the subsidiary organisations. This saw an Investment Management Policy established in line with the ISO Standard 21504:2015 for Project, Programme and Portfolio Management and the Queensland Government Project Assessment Framework.

## PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

### Audit Committee

The role of the Audit Committee assists the Board in fulfilling its oversight responsibility of Energy Queensland’s financial integrity and financial reporting, effectiveness of the control framework, and audit. The Committee’s Charter is [available online](#). The role of Chairman of the Audit Committee is not held by the Board Chairman.

The Chief Executive provides representation, through the Audit 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 Energy Queensland Limited and its subsidiaries. The Audit Committee reviews the performance of the external audit annually.



## PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE

### Disclosure to shareholders

The Board has reporting and continuous disclosure obligations to the shareholding Ministers under the *Government Owned Corporations Act 1993* (Qld) and *Corporations Act 2001* (Cth). These requirements are similar to the continuous disclosure obligations which apply to listed companies under the ASX Listing Rules.

We adopt a broad approach to disclosure to our shareholders. We take into consideration the obligations set out in legislation and relevant policies in order to ensure accountability to the shareholding Ministers, who are in turn accountable to Parliament.

Our shareholding Ministers have access to material information concerning our company, including our operations, financial performance, financial position and the governance of our company and its subsidiaries. In addition to regular briefing notes, we provide a quarterly report to the shareholding Ministers. This reports against the targets set through our Statement of Corporate Intent, our performance agreement with our shareholding Ministers.

This agreement has helped to guide the Performance Review commentary in this report. A summary of this agreement and our performance against it is provided on page 10.

### Privacy and right to information

Energy Queensland 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.

The Group manages applications for access to documents in accordance with the *Right to Information Act 2009* (Qld) and the *Information Privacy Act 2009* (Qld). The process to request information is [available online](#).

## PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS

Energy Queensland respects the rights of its shareholding Ministers and commits to work in collaboration with the government to deliver the best outcomes for our customers and the Queensland economy.

### Reporting to our shareholders

We report to our shareholding Ministers in a timely manner on all issues likely to have a significant financial, operational, social or environmental impact in accordance with our obligations under legislation and government guidelines. We work cooperatively with the shareholding Ministers on these issues.

The Chairman meets regularly with our shareholding Ministers and their representatives, as part of a broader government engagement program, to ensure active dialogue throughout the year. The CEO and certain managers and employees liaise with representatives of shareholder departments on a regular basis.

The content of this annual reporting suite is one of many reports that endeavour 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 shareholding Ministers provide that they may, in the public interest, notify Energy Queensland Limited of a public sector policy that is to apply to the corporation. In addition, under that Act the shareholding Ministers may request information, and issue directions including directions to amend the Statement of Corporate Intent and directions to pay a specified dividend. Directions can also be given under the *Electricity Act 1994* (Qld).

On 31 May 2017, the Government issued a Direction to the Energy Queensland Limited under section 257 of the *Electricity Act 1994* (Qld) for Energy Queensland Limited to not pass onto customers any Jurisdictional Scheme Amounts, principally related to the Solar Bonus Scheme, incurred for the period 1 July 2017 to 30 June 2020. As the Queensland Government will reimburse the cost of this scheme this direction does not have a financial impact on Energy Queensland Limited.

## PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

### Risk and Compliance Committee

The role of the Risk and Compliance Committee is to assist the Board in fulfilling its oversight responsibility of the Group's Risk Policy and Framework, and the Group's Compliance Policy and Framework. The Committee's Charter is [available online](#). The role of Chairman of the Risk and Compliance Committee is not held by the Board Chairman.

### Regulatory Committee

The Board also has a Regulatory Committee to assist it in fulfilling its oversight responsibility of the regulatory matters for Energy Queensland Limited.

### Our Risk Management Framework

The Group's approach to risk management aligns with the principles of AS/NZS ISO 31000:2009 Risk management – Principles and guidelines for managing risk.

Risk management is a core part of our approach to governance and operations and enables the business to deal effectively with threats and opportunities in a structured and considered manner. Our risk management practices identify and manage risks in the delivery of balanced commercial outcomes.

The Enterprise Risk Management Policy sets the parameters for how risk is to be managed as part of ongoing business operations and assigns accountability to the Board for setting risk strategy and appetite, and for overseeing material risks, treatment plans and the establishment and maintenance of an effective portfolio-wide risk management framework. The Chief Executive Officer retains ultimate management accountability for managing risk across the organisation.

Our approach for managing risks relies upon specific practices, systems, tools and reporting processes to ensure openness and transparency in relation to risks, controls and action. We undertake regular reviews of risks, including business critical, strategic and other key risks (including business interruption risks), and implement plans to mitigate risks. Details of these risks, mitigation strategies and controls are captured in risk registers managed by each business unit and corporately. The risks management and response plans are tested by periodic business continuity and disaster recovery exercises that are designed to provide a degree of resilience should we need to respond to and recover while continuing to maintain business critical operations.

To ensure that we have in place appropriate systems and processes to enable delivery of Energy Queensland Limited's corporate strategy, the Board's Risk and Compliance Committee and the Audit Committee provide oversight in relation to (amongst other things) the appropriateness and effectiveness of risk management frameworks, processes and reporting, and the effectiveness of the internal control framework.

### External audit

Energy Queensland Limited submits to a number of external audits in pursuit of world-class practice and, in some cases, to meet certification requirements, such as Quality Assurance ISO 9001 certification for our electrical and data infrastructure and associated 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.

### Internal audit

The Group's internal control framework is comprised of policies and procedures, including compliance training and assurance processes, to ensure the affairs of the organisation are being conducted in accordance with relevant legislation, regulations and codes of practice. These procedures enable the Board and the Executive to monitor, in a timely manner, any material matters affecting our operations.

Each Executive member is responsible for ensuring material business risks and compliance matters, and the effectiveness of risk management processes, are continuously monitored and reported to the Board.

The Group Manager Internal Control and Audit while reporting to the Executive General Manager Strategy, Portfolio and Innovation, has unrestricted access to the Chief Executive to discuss any matter relating to the finances or operations of the business, and reports independently to the Audit Committee on progress against the Internal Audit Plan and resolution of issues raised in reports. During the year an Internal Audit Charter ([available online](#)) was adopted by the Board.

The key compliance matters for 2016-17, which are discussed elsewhere in the report, include network reliability standards (p20); Guaranteed Service Levels (p22); National Energy Customer Framework (p22); safety performance (p27); renewable energy targets (p32); and environmental incidents (p31).

### Fraud and corruption control

As part of the overall Integrity framework, we are committed to the prevention of fraud (including corruption). Energy Queensland Limited has established fraud control strategies that are closely integrated with the Enterprise Risk Management framework. The Fraud and Corruption Control Policy outlines obligations for fraud identification and prevention, as well as the processes for reporting, recording and investigating allegations.

### Entertainment and hospitality

To provide the transparency expected of a government owned organisation we report on entertainment and hospitality expenses over \$5,000 incurred as part of normal business. See table below.

### Entertainment and hospitality

DATE	EVENT	INVESTMENT
Jul 2016	Energex Staff Recognition – 25 Years of Service	\$5,000
Dec 2016	Ergon Energy Employee Christmas Function – Cairns	\$6,270
Dec 2016	Ergon Energy Employee Christmas Function – Rockhampton	\$10,200
Dec 2016	Ergon Energy Employee Christmas Function – Toowoomba	\$7,740
Dec 2016	Ergon Energy Employee Christmas Function – Brisbane	\$8,940
Jan 2017	Energex Excellence Awards (Customer Care)	\$7,311
May 2017	Energex Apprenticeship Awards	\$5,702

## PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

### People and Safety Committee

The People and Safety Committee oversees all elements of the people strategy (including remuneration and performance management policies), the health and safety strategy (including the policy and practices for community, personnel and asset safety, the related initiatives and incidents), and the environmental strategy (including policy, practices and incidents). The Committee's Charter is [available online](#).

### Remuneration policy

Our remuneration strategy and practices are aimed at ensuring we attract, retain and motivate highly competent and capable employees at all levels by providing an appropriate combination of competitive, fixed and variable remuneration components. We comply with government guidelines in relation to remuneration for executives to achieve a balance between public accountability and transparency and our need to attract and retain staff from competitive labour markets.

### Assessing performance

To support a performance-based culture, we operate under performance management frameworks that link performance to the strategic objectives of the organisation. The frameworks promote continual performance and developmental conversations between the employee and their leader.

The performance of the Executive Leadership Team is evaluated annually. The Board sets the key performance measures for the Chief Executive Officer for the year, in line with the Statement of Corporate Intent (p10), and, through the People and Safety Committee, assesses the performance of the Chief Executive Officer and the Group based on these agreements. The Board also has oversight of the performance assessments of senior executives undertaken by the Chief Executive Officer.

To encourage engagement management have 'at-risk' performance payments as part of their remuneration. This allows them to share in the success when we do well and to better appreciate the implications when we do not. Any 'at-risk' payment is contingent upon the Board's assessment of the company's overall performance and shareholder expectations. Details of remuneration to non-executive directors and executives, and at-risk payments are reported in the Annual Financial Statements (see Note 27, p108), consistent with the requirements of Australian Accounting Standard AASB 124.

## Glossary

<b>AER</b>	Australian Energy Regulator	<b>ELT</b>	Executive Leadership Team
<b>ASX</b>	Australian Stock Exchange	<b>GOC</b>	Government Owned Corporations
<b>BESS</b>	Battery Energy Storage Systems	<b>GSL</b>	Guaranteed Service Levels
<b>CEO</b>	Chief Executive Officer	<b>LED</b>	Light Emitting Diode
<b>CFO</b>	Chief Financial Officer	<b>MSS</b>	Minimum Service Standard
<b>COO</b>	Chief Operating Officer	<b>NEM</b>	National Electricity Market
<b>CSIRO</b>	Commonwealth Scientific and Industrial Research Organisation	<b>NECF</b>	National Energy Customer Framework
<b>CSO</b>	Community Service Obligation	<b>QCA</b>	Queensland Competition Authority
<b>DATSIP</b>	Department of Aboriginal and Torres Strait Islander Partnerships	<b>QCOSS</b>	Queensland Council of Social Services
<b>EV</b>	Electric Vehicles	<b>RFDS</b>	Royal Flying Doctor Service
<b>EWOQ</b>	Energy and Water Ombudsman Queensland	<b>STEM</b>	Science, Technology, Engineering and Mathematics
<b>ENA</b>	Energy Networks Australia	<b>SES</b>	State Emergency Services

## Common industry measures

## Reliability

SAIDI	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).
SAIFI	System Average Interruption Frequency Index. Network reliability performance index, indicating the average number of occasions each customer is interrupted during the relevant period (interruptions).
Customer Minutes	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.

## Safety

TRIFR	Total Recordable Injury Frequency Rate – measured as number of injuries per million hours worked. Lost Time Injuries (LTI) + Medical Treatment Injuries (MTI) x 1, 000, 000 / Exposure Hours
LTIFR	Lost Time Injury Frequency Rate. Number of lost-time injuries per million hours worked over the 12 month reporting period. Lost Time Injuries (LTI) x 1, 000, 000 / Exposure Hours

## Electricity related

V	volt: the unit of potential or electrical pressure
VA	volt ampere: 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
kVA	kilovolt ampere: one kVA equals 1,000VA
MVA	megavolt ampere: one MVA equals 1,000kVA
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



# Energy Queensland Limited

## Annual Financial Statements

For the year ended 30 June 2017

ABN 96 612 535 583

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## DIRECTORS' REPORT

### FOR THE YEAR ENDED 30 JUNE 2017

The Board of Directors of Energy Queensland Limited (the Company or Energy Queensland) is pleased to present their report together with the financial report of the consolidated entity, being the Company and its controlled entities (the Group) for the year ended 30 June 2017 and the auditor's report thereon.

#### DIRECTORS

The names of Directors in office at any time during or since the end of the last financial year end are:

	<b>Date Appointed</b>	<b>Date Ceased</b>
• Philip Garling (Chairman)	30 June 2016	n/a
• Mark Algie	1 October 2016	n/a
• Teresa Dyson	1 October 2016	n/a
• Hugh Gleeson	1 October 2016	n/a
• Kathy Hirschfeld	1 October 2016	n/a
• Helen Stanton	1 October 2016	n/a
• Kerry Newton	30 June 2016	n/a
• Clive Skarott	30 June 2016	30 June 2017

Please refer to the 'Board profiles' section of the Company's annual report 2016/17 for details of Directors' qualifications, experience and special responsibilities.

#### COMPANY SECRETARY

The names of Company Secretaries in office at any time during or since the end of last financial year are:

	<b>Date Appointed</b>	<b>Date Ceased</b>
• Jane Nant	8 May 2017	n/a
• Sandie Angus	30 June 2016	8 May 2017

Please refer to the 'Board profiles' section of the Company's annual report 2016/17 for details of the Company Secretary's qualifications, experience and special responsibilities.

#### REGISTERED OFFICE

420 Flinders Street  
Townsville Queensland 4810

#### PRINCIPAL ACTIVITIES

The principal activities of the Group are the:

- Design, construction and maintenance of the Queensland Electricity Distribution Networks;
- Distribution of electricity within Queensland;
- Non-competitive electricity retailing in Queensland; and
- Provision of electricity related services.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The 2016-17 financial year represented the first full operating year of the Energy Queensland Group. The Group's parent and holding company, Energy Queensland Limited, was incorporated on 20 May 2016, and the Group was formed through the *Government Owned Corporations (Energy Consolidation) Regulation 2016* on 30 June 2016. The formation of the Group represented a restructuring of the shareholders' interests in Ergon Energy Corporation Limited and Energex Limited.

## OPERATING AND FINANCIAL REVIEW

The Group enjoyed a sound year where it continued its targeted review of work practices and organisational structure to continue alignment with demand forecasts and associated operational and maintenance requirements in fulfilment of its responsibilities as a prudent and efficient network service provider and electricity retailer.

The Group's consolidated profit after income tax equivalent expense was \$881 million for the year (2016: \$942 million). This result reflects a combination of a marginal increase in retail sales revenue offset by an increase in finance costs, transmission charges and electricity purchases for the Group.

The Group delivered a \$1,345 million (2016: \$1,480 million) capital works program, undertaking network augmentation and connection, asset replacement, reliability improvements and customer initiated capital works.

### Revenue

The increase in retail sales revenue was predominantly due to customer load being higher than anticipated driven by warmer temperatures experienced state-wide during the first quarter of 2017 prior to Cyclone Debbie in March 2017, along with higher tariffs approved by the Queensland Competition Authority. There was also a marginal increase in Network Use of System revenues, which consists mainly of the revenue allowance as determined by the AER.

### Expenditure

The increase in expenditure relates predominantly to higher finance costs, as well as an increase in transmission charges from the transmission service provider, Powerlink, and an increase in electricity purchases which is associated with an increase in wholesale energy costs and the cost of renewable energy certificates. These increases were partially offset by an increase in the Community Service Obligation (CSO) paid to the Group by the State Government.

Fair value losses on financial instruments were incurred during the year, predominantly due to a downward movement in both the Swap and Cap forward curves.

### Financial Position

The primary asset of the Group's total asset base consists of the distribution assets (collectively the supply system) which is carried at a valuation performed using an income approach based on a discounted cash flow methodology.

The Group received a grant from the Queensland State Government to offset the impact of the Solar Bonus Jurisdictional Scheme for the next three years from 1 July 2017. As a result, the Group has recorded an unearned revenue liability which it will derecognise over this time as the Solar Bonus expense is incurred.

## DIVIDENDS

The Board declared a final dividend of \$881 million for the 2017 financial year, payable on 30 November 2017, subject to solvency tests being satisfied at that date. The Board did not declare or pay any dividends for the 2016 financial year.

## SIGNIFICANT EVENTS AFTER THE REPORTING DATE

No matters, transactions or events have occurred since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of operations or the state of affairs in future financial years.

## DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

### LIKELY DEVELOPMENTS AND FUTURE RESULTS

The creation of the Group (by transferring ownership of the shares in Energex and Ergon Energy to the Company) has removed duplication and achieved synergies particularly in the provision of support functions. Economies of scale and alignment of operational practices achieved by combining the two organisations have already delivered operational efficiencies, improvements in our service offerings and ultimately positive outcomes for our customers while contributing to appropriate returns to our shareholder. The Group will continue to operate to safely deliver secure, affordable and sustainable energy solutions with our communities and customers.

The Energex and Ergon Energy brands have been retained and continue to fulfil their responsibilities under their respective Distribution Authorities but the Group has been able to pool and deploy resources and talent more effectively, subject to ring-fencing guidelines for electricity distribution.

### ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group's environmental obligations are regulated under Federal, State and Local government laws. Based on enquiries made, the Board is not aware of any significant breaches, non-conformances or incidents reported in the financial year.

During the reporting period all environmental performance obligations of Energy Queensland and its consolidated entities (the Energy Queensland Group) were overseen by the Energy Queensland Board, People and Safety Committee and Energy Queensland Executive Leadership Team (ELT) and respective Energex and Ergon Energy Boards. Detailed Strategic and operational direction is provided through ELT Health, Safety and Environment Committee Meetings.

Environmental obligations are from time to time subject to government agency audits, as well as internal and external audits undertaken as part of fulfilling environmental management requirements which ensures compliance. The Group's certifications to International Standard AS/ISO 14001 have been maintained.

The *National Greenhouse and Energy Reporting Act 2007* (NGER Act) requires the entities within the Group to report annual greenhouse gas emissions and energy use. Reports are submitted to the Greenhouse and Energy Data Officer and based on data gathered from the Group's systems.

### INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

Policies were held throughout the period to insure all Directors and Officers of the Group against liabilities incurred in their capacity as Director or Officer. Insurance premiums paid or agreed to be paid totalled \$356,360 comprising of Directors and Officers Liability, Statutory Liability and Workplace Health and Safety Liability policies covering EQL and all of its subsidiaries (2016: \$1,290,345 included run-off premiums for Ergon Energy Corporation Limited and Energex Limited).

Energy Queensland indemnifies the Directors and Officers of the Company and its subsidiaries for all liabilities and expenses incurred by the Directors and Officers, arising out of or in connection with their role as a Director or Officer, other than: any liability or expense arising from conduct that was deliberately dishonest, deliberately fraudulent or not in good faith, a liability owed to an Energy Queensland Group Company, or any criminal or pecuniary penalty.

Energex has agreed to indemnify current and former Directors and Officers of Energex and its controlled and/or associated entities against all liabilities to another person (other than Energex or a related body corporate) that may arise from their position as a Director or Officer of Energex and its controlled and/or associated entities, except where the liability arises out of conduct involving a lack of good faith or liability against which Energex is not permitted by law to exempt or indemnify the Director or Officer. The Energex Limited Constitution and relevant deeds of indemnity stipulate that, subject to the terms and the exceptions above, Energex will meet the full amount of any such liabilities, including costs and expenses.

Energex has agreed to indemnify Officers who are nominated by the Energex Board to represent Energex on external boards and committees as follows:

- Indemnities provided to former Energex representative Directors continue following their resignation from that position, in accordance with the terms of the deed of indemnity.
- Other Officers appointed to represent Energex on external boards and committees are indemnified in accordance with the terms of the Energex Directors' and Officers' liability insurance policy.

Ergon Energy indemnifies the Directors and Officers of Ergon Energy and its controlled entities (Ergon Energy Group) for any liability (claim, action, suit, proceeding, investigation, inquiry, damage, loss, cost or expense) incurred by virtue of being a Director or Officer, other than: a liability owed to the Ergon Energy Group; a liability for a pecuniary penalty or compensation order under the *Corporations Act 2001*; and a liability owed to someone other than Ergon Energy that did not arise out of conduct in good faith.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS (CONTINUED)

Ergon Energy also indemnifies each Director and Officer against any legal costs incurred in respect of a liability incurred by virtue of being a Director or Officer of the Ergon Energy Group, other than for legal costs incurred: in defending or resisting proceedings in which the Director or Officer could not be indemnified; in defending or resisting criminal proceedings in which the Director or Officer is found guilty; and in defending or resisting proceedings brought by the Australian Securities and Investments Commission (ASIC) or a liquidator for a court order.

During or since the end of the 2016/17 financial year, the Group has not otherwise, except to the extent permitted by law, indemnified or agreed to indemnify an Officer or auditor of the Group or any related body corporate against a liability incurred as such by an Officer or auditor.

## DIRECTORS' SHAREHOLDING

No Directors held any beneficial interest in the shares of the Group. All issued shares are held by the shareholding Ministers on behalf of the State of Queensland.

There are no share options in existence at this time.

## DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of committees of the Board) and the number of meetings attended by each Director during the year ended 30 June 2017 are:

Energy Queensland Meetings	Board <sup>1</sup>		Audit and Compliance Committee		Regulatory Committee		Risk Committee		People and Safety Committee	
	Attended	Held <sup>2</sup>	Attended	Held <sup>2</sup>	Attended	Held <sup>2</sup>	Attended	Held <sup>2</sup>	Attended	Held <sup>2</sup>
Philip Garling (Chairman)	10	10	n/a	n/a	2	3	n/a	n/a	n/a	n/a
Mark Algie <sup>3</sup>	7	7	n/a	n/a	n/a	n/a	n/a	n/a	3	3
Teresa Dyson <sup>3</sup>	7	7	4	4	3	3	3	3	n/a	n/a
Hugh Gleeson <sup>3</sup>	7	7	n/a	n/a	3	3	3	3	n/a	n/a
Kathy Hirschfeld <sup>3</sup>	7	7	n/a	n/a	n/a	n/a	3	3	3	3
Kerryn Newton	10	10	4	4	n/a	n/a	3	3	n/a	n/a
Clive Skarott <sup>4</sup>	10	10	3	4	n/a	n/a	n/a	n/a	3	3
Helen Stanton <sup>3</sup>	7	7	4	4	n/a	n/a	n/a	n/a	3	3

(1) Location of Board Meetings included: Townsville (3 meetings), Toowoomba (1 meeting), Maryborough (1 meeting), Cairns (1 meeting) and Brisbane (4 meetings).

(2) Number of meetings held during the time the Director held office during the financial year.

(3) Appointed to the Energy Queensland Limited Board on 1 October 2016.

(4) The term of appointment expired on 30 June 2017.



## DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017


### AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is on page 121 and forms part of the Directors' report for the year ended 30 June 2017.

### ROUNDING

The amounts contained in this report and in the financial statements have been rounded to the nearest million dollars unless otherwise stated (where rounding is applicable) under the option available to the Company under the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the legislative instrument applies.

Signed in accordance with a resolution of Directors made pursuant to s.298(2) of the *Corporations Act 2001*.



Philip Garling  
Chairman  
Dated at Townsville this 18<sup>th</sup> day of August 2017

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 30 JUNE 2017

In millions of dollars	Note	2017	2016
Revenue	2	5,249	5,097
Other income	2	16	41
Transmission charges and electricity purchases	3	874	809
Solar photovoltaic feed in tariff		289	304
Employee expenses	3	519	518
Materials and services		404	411
Depreciation, amortisation and impairments		928	930
Finance costs	3	764	616
Fair value losses	3	60	-
Other expenses		169	192
<b>Profit before income tax equivalent expense</b>		<b>1,258</b>	<b>1,358</b>
Income tax equivalent expense	4	377	416
<b>Profit after income tax equivalent expense</b>		<b>881</b>	<b>942</b>

The consolidated statement of profit or loss is to be read in conjunction with the notes to the financial statements. Comparatives have been restated to consistently present consolidated Energex and Ergon Energy Group transactions for Solar Photovoltaic Feed in Tariff (FiT).

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2017

In millions of dollars	2017	2016
<b>Profit after income tax equivalent expense</b>	<b>881</b>	942
<b>OTHER COMPREHENSIVE INCOME</b>		
<b>Items that will not be reclassified to profit or loss:</b>		
Revaluation of property, plant and equipment	<b>164</b>	181
Deferred income tax relating to the revaluation of property, plant and equipment	<b>(47)</b>	(56)
Actuarial gains/(losses) on defined benefit plans recognised directly in equity	<b>168</b>	(106)
Deferred income tax relating to actuarial gains/(losses) on defined benefit plans	<b>(50)</b>	30
Prior year tax losses adjustment	-	-
<b>Items that may be reclassified to profit or loss:</b>		
<b>Cash flow hedges</b>		
Effective portion of changes in fair value for the year – gains/(losses)	<b>(41)</b>	119
Deferred income tax relating to changes in fair value – gains/(losses)	<b>12</b>	(36)
<b>Other comprehensive income for the financial year, net of tax</b>	<b>206</b>	132
<b>TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR</b>	<b>1,087</b>	1,074

All profit and comprehensive income is attributable to the owners of the company.

The consolidated statement of comprehensive income is to be read in conjunction with the notes to the financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

In millions of dollars	Note	2017	2016
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	5	72	137
Trade and other receivables	6	2,074	901
Inventories		167	168
Financial assets	7	190	191
Other assets		65	50
<b>Total current assets</b>		<b>2,568</b>	<b>1,447</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	14	22,897	22,336
Intangible assets		264	261
Employee retirement benefits	15	271	125
Other assets		8	8
<b>Total non-current assets</b>		<b>23,440</b>	<b>22,730</b>
<b>TOTAL ASSETS</b>		<b>26,008</b>	<b>24,177</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	8	1,242	422
Interest bearing liabilities	9	17	20
Employee benefits	17	305	327
Provisions		18	21
Current tax liabilities		-	144
Financial liabilities	10	141	11
Unearned revenue	18	338	59
Other liabilities		57	56
<b>Total current liabilities</b>		<b>2,118</b>	<b>1,060</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest bearing liabilities	9	16,250	16,250
Employee benefits	17	25	30
Provisions		13	12
Net deferred tax equivalent liability	16	3,520	3,453
Unearned revenue	18	504	1
Other liabilities		7	6
<b>Total non-current liabilities</b>		<b>20,319</b>	<b>19,752</b>
<b>TOTAL LIABILITIES</b>		<b>22,437</b>	<b>20,812</b>
<b>NET ASSETS</b>		<b>3,571</b>	<b>3,365</b>
<b>EQUITY</b>			
Share capital	19	19,643	19,643
Other transactions with owners	20	(18,635)	(18,635)
Reserves	20	2,367	2,286
Retained earnings	20	196	71
<b>TOTAL EQUITY</b>		<b>3,571</b>	<b>3,365</b>

The consolidated statement of financial position is to be read in conjunction with the notes to the financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2017

In millions of dollars	Share capital (Note 19)	Other transactions with owners (Note 20)	Asset revaluation reserve (Note 20)	Retained earnings (Note 20)	Hedging reserve (Note 20)	Total equity
<b>Changes in equity for 2016</b>						
Balance at 1 July 2015	1,689	(11)	2,052	128	28	3,886
Dividends	-	-	-	(927)	-	(927)
Transfer from reserves (refer to Note 20)	-	-	(3)	3	-	-
Government energy consolidation transfer <sup>(1)</sup>	17,954	(18,624)		2		(668)
Total comprehensive income for the financial year	-	-	125	865	84	1,074
<b>Balance at 30 June 2016</b>	<b>19,643</b>	<b>(18,635)</b>	<b>2,174</b>	<b>71</b>	<b>112</b>	<b>3,365</b>
<b>Changes in equity for 2017</b>						
Dividends	-	-	-	(881)	-	(881)
Transfer from reserves (refer to Note 20)	-	-	(7)	7	-	-
Total comprehensive income for the financial year	-	-	117	999	(29)	1,087
<b>Balance at 30 June 2017</b>	<b>19,643</b>	<b>(18,635)</b>	<b>2,284</b>	<b>196</b>	<b>83</b>	<b>3,571</b>

(1) On 20 June 2016, to facilitate the formation of the Group the share capital of the Energex and Ergon Energy and borrowings from QTC were transferred via Regulation and recorded as transactions with owners in their capacity as owners.

The consolidated statement of changes in equity is to be read in conjunction with the notes to the financial statements.



# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2017

In millions of dollars	Note	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		6,299	5,089
Receipts for community service obligations		627	620
Payments to suppliers and employees		(3,179)	(2,900)
Interest paid		(783)	(673)
Income tax equivalent payments		(632)	(609)
<b>Net cash from operating activities</b>	5	<b>2,332</b>	<b>1,527</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of property, plant and equipment		15	19
Cash advances to other parties		(1,081)	-
Interest received		8	20
Payment for capitalised interest		(8)	(7)
Payments for property, plant and equipment and intangibles		(1,329)	(1,367)
<b>Net cash from investing activities</b>		<b>(2,395)</b>	<b>(1,335)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings		-	3,632
Repayable deposits received		1	1
Repayment of borrowings		(3)	(7)
Dividends paid		-	(4,147)
Government energy consolidation transfer		-	(197)
<b>Net cash from financing activities</b>		<b>(2)</b>	<b>(718)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>(65)</b>	<b>(526)</b>
Cash and cash equivalents at the beginning of the financial year		137	663
<b>Cash and cash equivalents at the end of the financial year</b>	5	<b>72</b>	<b>137</b>

The consolidated statement of cash flows is to be read in conjunction with the notes to the financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2017

### SECTION 1: Basis of Preparation

#### NOTE 1: BASIS OF PREPARATION

##### (A) General information

Energy Queensland Limited (the Company or Energy Queensland) is a public company limited by shares and is domiciled in Australia.

The consolidated financial statements of the Company for the year ended 30 June 2017 (including comparatives) comprises the Company and its subsidiaries (collectively referred to as the Group).

The Company's registered office and its principal place of business are:

420 Flinders Street  
Townsville Queensland 4810

The Group was formed on 30 June 2016. The Group Parent, Energy Queensland Limited was incorporated on 20 May 2016. On 30 June 2016, the Company was decreed a Government Owned Corporation and the shares in Energex Limited (Energex) and Ergon Energy Corporation Limited (Ergon Energy) were transferred to Energy Queensland by Regulation effective 30 June 2016.

The Group includes Energex Limited (Energex) and Ergon Energy Corporation Limited (Ergon Energy) and all of their consolidated entities. The Group also contains SPARQ Solutions Pty Ltd (SPARQ Solutions), a joint operation of Energex and Ergon Energy.

The Group is a for-profit entity.

The principal activities of the entities within the Group during the financial year consisted of :

- Design, construction and maintenance of the Queensland Electricity Distribution Networks;
- Distribution of electricity within Queensland;
- Non-competitive electricity retailing in Queensland; and
- Provision of electricity related services.

The financial statements were authorised for issue by the Directors on 18<sup>th</sup> August 2017.

The financial statements are a general purpose financial report that has been prepared in accordance with Australian Accounting Standards and Interpretations, requirements of the *Corporations Act 2001*, provisions of the *Government Owned Corporations Act 1993*, provisions of the *Corporations Regulations 2001*, and other relevant legislation issued pursuant to that Act.

##### (B) Basis of preparation

The financial statements are presented in Australian dollars. The amounts contained in the financial statements have been rounded to the nearest million dollars unless otherwise stated (where rounding is applicable) under the option available to the company under the ASIC Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191.

Pursuant to the ASIC Corporations (Wholly-owned Companies) Instrument 2016/785, relief has been granted to Energex, Ergon Energy and SPARQ Solutions (but not their subsidiaries), from the requirements under the *Corporations Act 2001* for the preparation, audit and lodgement of their financial reports. Ergon Energy Queensland Pty Ltd, a subsidiary of Ergon Energy, still prepares its own financial statements. The remaining Energex and Ergon subsidiaries are small proprietary companies and are therefore relieved from the requirement for preparation, audit and lodgement of annual financial statements. ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 replaced Class Order 98/1418 in September 2016.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 1: BASIS OF PREPARATION (CONTINUED)

### (B) Basis of preparation (Continued)

#### (i) Historical cost convention

The financial statements are prepared on the historical cost basis, except for the valuation of certain financial assets and liabilities at fair value and certain classes of property, plant and equipment at fair value.

#### (ii) Basis of consolidation

The financial statements of the Group have been prepared using consistent accounting policies. Where material differences were identified between subsidiaries, adjustments have been made on consolidation.

### (C) Changes in accounting policies

There are no new or revised standards effective for the year ended 30 June 2017 that will have an impact on the Group's financial statements compared to 30 June 2016.

### (D) Application of new Accounting Standards and interpretations

#### *New standards and interpretations not yet adopted*

The AASB has published new accounting standards and interpretations that are not mandatory for the 30 June 2017 reporting period and none of these have been early adopted by the Group. The Group's assessment of the impact of these Standards and Interpretations on its financial report is outlined below.

#### (i) *AASB 15 Revenue from Contracts with Customers is effective for financial years commencing on or after 1 January 2018.*

AASB 15 *Revenue from Contracts with Customers* replaces the existing revenue recognition standards AASB 111 *Construction Contracts*, AASB 118 *Revenue* and related Interpretations (Interpretation 13 *Customer Loyalty Programmes*, Interpretation 15 *Agreements for the Construction of Real Estate*, and Interpretation 18 *Transfers of Assets from Customers*).

AASB 15 establishes a comprehensive framework for determining whether, how much and when to recognise revenue arising from an entity's contracts with customers. The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The impact of the new standard has been assessed for each of the major income streams of the Group and expectations are for minimal to no impacts on the revenue recognition policy for NUOS revenue, retail sales, sale of goods and some capital contributions. However, there will be an impact on the timing of revenue recognition in relation to service charges for certain connection assets and some capital contributions.

The most significant impact will be to Large Customer Connections and re-arrangement of network assets at the customer's request where revenue will be recognised earlier. The percentage of completion method will be applied to estimate how much revenue to recognise as the project is under construction. This income is currently recognised at the end of the project when the assets are energised.

A more detailed assessment of the impacted revenue streams will be undertaken prior to application of AASB 15 to quantify the impact to the Group's statement of profit or loss, however at this stage, it is anticipated that less than 3% of total revenues will be impacted by the new standard. The transition approach and the practical expedients available for completed contracts will also be considered at that time.

#### (ii) *AASB 9 Financial Instruments (December 2014) is effective for financial years commencing on or after 1 January 2018.*

In December 2014, the AASB made further changes to the classification and measurement rules and also introduced a new model to assess impairment of financial assets. The new impairment model is an expected credit loss (ECL) model which requires measurement on the basis of expected losses resulting from possible default events within 12 months of the reporting date or from all possible default events over the expected life of the financial instrument. Significant judgement will be required to assess the credit risk of a financial asset and the impact of changing economic factors.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 1: BASIS OF PREPARATION (CONTINUED)

### (D) Application of new Accounting Standards and interpretations (Continued)

The current impairment models applied to the trade receivables of the Group have been reviewed and the impact of this standard is considered to be minimal. The current models consider any credit risk information applicable to specific receivable balances, such as a customer going into liquidation, and categorise accordingly. Other outstanding balances are grouped by criteria such as number of days overdue, or invoice in dispute, or customer on payment plan. Fixed percentages are then applied to the relevant categories of receivables based on historical trends and analysis to calculate the impairment provision.

Additional disclosures in relation to credit risk and expected credit losses will be required on application of this standard.

#### (iii) *AASB 16 Leases is effective for financial years commencing on or after 1 January 2019.*

The new standard introduces a single lease accounting model which requires the recognition of all leasing arrangements on the statement of financial position. The standard requires a lessee to recognise a right-of-use asset representing its right to use the underlying asset and a financial liability representing its obligation to make lease payments for all leases with a term of more than 12 months, unless the underlying asset is of low value.

The new standard will have a material impact on the Group. It will require the majority of the leases currently disclosed as lease commitments in the notes to the financial statements to be brought on to the statement of financial position, resulting in increases in assets and liabilities. The operating leases of the Group are predominantly in relation to corporate offices. The nature and timing of the expenses related to these leases will also be impacted, recognising the lease expense as depreciation on the asset on a straight line basis and interest on the obligation which will be front-loaded as the obligation is greater early in the lease term.

Further analysis of the options available on transition and the new disclosure requirements of AASB 16 will be undertaken to ensure systems and processes are in place to enable implementation of the standard by the effective date.

No other standards or interpretations that are not yet effective are expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## SECTION 2: Profit or Loss Information

### NOTE 2: REVENUE AND OTHER INCOME

In millions of dollars	2017	2016
<b>REVENUE</b>		
<b>Sales revenue</b>		
Network use of system revenue	2,684	2,663
Retail sales revenue	2,081	1,947
Service charges	253	231
Revenue from sale of goods	64	60
<b>Other revenue</b>		
Non-refundable capital contributions	112	129
Interest received	8	19
Gain on disposal of property plant and equipment	-	3
Other operating revenue	47	45
<b>Total revenue</b>	<b>5,249</b>	<b>5,097</b>
<b>OTHER INCOME</b>		
Fair value gains on financial instruments at fair value	-	5
Gain on unwinding of inception value of designated hedges	-	28
Cash flow hedge ineffectiveness gains	-	6
Fair value gains on energy certificates at fair value	-	1
Other income	16	1
<b>Total other income</b>	<b>16</b>	<b>41</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 2: REVENUE AND OTHER INCOME (CONTINUED)

### ACCOUNTING POLICIES

#### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of goods and services tax (GST). Revenue is recognised when the amount can be reliably measured and it is probable that future economic benefits will flow to the Group or benefits have already flowed to the Group.

##### *(i) Network use of system*

The Group is subject to a revenue cap that is earned on its regulated assets in the provision of Standard Control Services (SCS). SCS includes network supply services, small customer connections and services associated with unmetered connection points.

Network Use of System (NUOS) revenue is determined based on the allowed revenue cap for Distribution Use of System (DUOS) plus Transmission Use of System charges (TUOS), also referred to as designated pricing proposal charges. The revenue received from the TUOS charges is passed through to the providers of transmission services.

NUOS is billed to retailers, to be passed on to customers, based on a combination of customers' energy consumption, demand, capacity and fixed charges at the Australian Energy Regulator (AER) approved prices. The approved prices are calculated to recover the annual NUOS charges, plus other annual allowances approved by the AER, (for example, Solar Bonus Jurisdictional Scheme amounts and Service Target Performance Incentive Scheme rewards or penalties).

Revenue is recognised as it is invoiced based on consumption but may vary from the regulated revenue cap due to differences in demand. Any current period under or over recovery of the revenue cap is recovered from or returned to customers in future periods through an adjustment to prices. Where over recoveries occur they are deducted from revenue in the period in which they are returned to customers. Under recoveries are recognised as revenue in the period in which they are billed to customers.

##### *(ii) Retail sales revenue*

Electricity sales revenue to franchise customers (electricity consumers) is recognised as the aggregate of invoices raised, together with the estimated used but not yet metered or invoiced energy consumption.

##### *(iii) Service charges*

Revenue is earned for the provision of other electricity-related services such as street lighting services, basic metering services, large customer connection services and ancillary network services. These are known as Alternative Control Services (ACS) and are subject to a regulated price determined by the AER (known as a price cap). The price charged for some of these services, such as disconnection, reconnection, meter reading and temporary connections, is limited under section 226 (2) of Queensland's Electricity Regulation 2006 which overrides the AER price caps. Where applicable, revenue is recognised when the service is provided or with reference to the stage of completion.

##### *(iv) Revenue from sale of goods*

Revenue for the sale of goods is recognised on delivery of the goods to the customer.

##### *(v) Non-refundable capital contributions*

The Group finances part of its capital works program through non-refundable contributions from customers which are applied to the cost of these works. Contributions towards assets are recognised as revenue at the fair value of the contribution, which will be the amount of cash contributed or an approximation of the cost to construct the asset based on an approved AER pricing formula.

All non-refundable contributions, in-kind and in-cash, are initially recognised as unearned revenue in the statement of financial position and subsequently recognised as revenue when the associated assets are brought into commercial operation or when control passes to the Group and the assets are ready for use.

##### *(vi) Interest received*

Interest income is recognised in the statement of profit or loss as it accrues, using the effective interest rate method.

### CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

#### *(i) Unbilled energy sales*

Retail sales revenue accrual estimates are made to account for the unbilled period between the customers last billed meter read and the end of the reporting period. Unbilled energy sales are accrued monthly using historical billing data adjusted for seasonality.

#### *(ii) Unbilled network charges*

Unbilled network charges are accrued monthly. The calculation uses historic volumes to estimate the unbilled network charges.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 3: EXPENSES

In millions of dollars	2017	2016
<b>Profit before income tax equivalent expense includes the following significant expenses:</b>		
<b>Transmission charges and electricity purchases</b>		
Transmission use of system charges	867	789
Electricity purchases	605	561
Community service obligation offset	(598)	(541)
<b>Total transmission charges and electricity purchases</b>	<b>874</b>	<b>809</b>
<b>Finance Costs</b>		
Interest expense	782	497
Competitive Neutrality Fees	-	89
less capitalised financing costs	(8)	(14)
Other finance costs	(10)	44
<b>Total finance costs</b>	<b>764</b>	<b>616</b>
<b>Fair Value Losses</b>		
Fair value losses on financial instruments at fair value	59	-
Losses/(gains) on unwinding of inception value of designated hedges	(13)	-
Cash flow hedge ineffectiveness losses	13	-
Fair value losses on energy certificates at fair value	1	-
<b>Total fair value losses</b>	<b>60</b>	<b>-</b>
<b>Employee Benefits Expense</b>		
Wages and salaries	257	251
Contributions to defined contribution plans	96	102
Expenses related to post-employment defined benefit plans	28	18
Expenses related to long-service leave	82	86
Termination benefits	32	53
Other	24	8
<b>Total employee benefits expense</b>	<b>519</b>	<b>518</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## ACCOUNTING POLICIES

### Expenses

#### *(i) Transmission charges and electricity purchases*

TUOS expenses, electricity purchases and other costs associated with the sale of electricity are recognised as they are incurred. Community service obligation (CSO) receipts are recognised as a contra expense against the transmission charges and electricity purchases as part of the cost of sales.

The Group is legally required to charge its retail customers in regional Queensland at notified prices. As a consequence, the tariff revenue collected is below the cost of supplying electricity. A Deed between the Group and the State of Queensland provides for CSO payments to be made by the State of Queensland to the Group.

In addition, Direction notices issued by the shareholding Ministers which result in the non-recovery of AER approved revenue from customers may qualify as a CSO. Where a direction notice qualifies as a CSO, the Group has an entitlement to recover any such revenue shortfalls from the State of Queensland.

CSO revenue is recognised when the Group becomes entitled to a claim from the State Government for forgone revenue in accordance with section 112 of the GOC Act.

#### *(ii) Finance Costs*

Finance costs charged by the State's central financing authority, Queensland Treasury Corporation (QTC), include administration fees, capital market fees and interest on the outstanding Principal. Where applicable, a Competitive Neutrality Fee is also paid to remove any competitive advantage that may be obtained from borrowing at a lower interest rate than the private sector by virtue of the Group's government ownership.

Interest costs on the Group's long term borrowings are calculated by QTC, in accordance with its book rate methodology, which equates to amortised cost using the effective interest rate method.

Finance costs directly attributable to the construction of assets that take more than 12 months to prepare for their intended use are added to the cost of those assets. Finance costs not directly attributable to qualifying assets are expensed in the period in which they are incurred.

#### *(iii) Employee Benefits Expense*

Wages and salaries due but unpaid at reporting date are recognised in the Consolidated Statement of Profit or Loss at the current salary rates. As the Group expects such liabilities to be wholly settled within 12 months of reporting date, the liabilities are recognised at undiscounted amounts.

Defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

#### *(i) Community Service Obligation*

The CSO payments are made in return for compliance with the commitment to state-wide uniform tariffs for franchise customers. The conditions attached to the CSO claim are satisfied once the Group has recognised the revenue and matching costs from electricity sales to franchise customers. Consequently, the CSO amounts shall be recognised and measured at the same time as the related electricity sales revenues and costs.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 4: TAXATION

In millions of dollars	2017	2016
<b>(A) INCOME TAX EQUIVALENT EXPENSE</b>		
Current tax expense	397	440
Deferred tax expense/(benefit)	(19)	(22)
Under/(over) provision in prior years	(1)	(2)
<b>Income tax equivalent expense</b>	<b>377</b>	<b>416</b>
<b>Deferred income tax expense included in income tax expense comprises:</b>		
Decrease/(increase) in deferred tax assets	3	(18)
Increase/(decrease) in deferred tax liabilities	(22)	(4)
<b>Deferred income tax expense attributable to profit from continuing operations</b>	<b>(19)</b>	<b>(22)</b>
<b>(B) NUMERICAL RECONCILIATION OF INCOME TAX EQUIVALENT EXPENSE TO PRIMA FACIE TAX PAYABLE</b>		
Net profit before income tax equivalent expense	1,258	1,358
Prima facie income tax equivalent expense on operating profit at 30% (2016: 30%)	377	407
<b>Increase in income tax equivalent expense:</b>		
Other	1	11
	<b>378</b>	<b>418</b>
Under/(over) provision in prior years	(1)	(2)
<b>Income tax equivalent expense</b>	<b>377</b>	<b>416</b>
<b>In millions of dollars</b>	<b>2017</b>	<b>2016</b>
<b>(C) DEFERRED TAX RECOGNISED DIRECTLY IN EQUITY</b>		
Revaluation property, plant and equipment	47	56
Recognition of defined benefit surplus/(deficit)	50	(30)
Hedge accounting of derivatives	(12)	36
<b>Deferred tax recognised directly in equity</b>	<b>85</b>	<b>62</b>

Refer to Note 16 for accounting policies related to taxation.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## SECTION 3: Financial assets and liabilities

### NOTE 5: CASH AND CASH EQUIVALENTS

In millions of dollars	2017	2016
Cash at bank and on hand	72	113
Short term deposits	-	24
<b>Total cash and cash equivalents</b>	<b>72</b>	<b>137</b>

In millions of dollars	2017	2016
<b>RECONCILIATION OF PROFIT AFTER INCOME TAX EQUIVALENT EXPENSES TO THE NET CASH FLOWS PROVIDED BY/(USED IN) OPERATING ACTIVITIES</b>		
Profit after income tax equivalent expense	881	942

<b>NON-CASH FLOWS AND OTHER INCOME AND EXPENSE ITEMS IN PROFIT:</b>		
Depreciation, amortisation and impairment	925	928
Net gain/(loss) on disposal of property, plant and equipment	(3)	2
Interest income classified as investing activities	(8)	(20)
Provision for inventory obsolescence	(1)	-
Fair value (gain)/loss on financial instruments	60	(40)

<b>CHANGES IN ASSETS AND LIABILITIES:</b>		
(Increase)/decrease in trade and other receivables	(58)	(100)
(Increase)/decrease in inventory	(1)	(2)
(Increase)/decrease in other assets	25	61
(Decrease)/increase in trade and other payables	(98)	5
(Decrease)/increase in other liabilities	800	(13)
(Decrease)/increase in provisions and employee benefits	(27)	(23)
(Decrease)/increase in income tax payable	(163)	(175)
(Decrease)/increase in deferred income tax liability	-	(40)
<b>Net cash flow provided by operating activities</b>	<b>2,332</b>	<b>1,527</b>

### ACCOUNTING POLICIES

#### Cash and cash equivalents

Cash and cash equivalents comprise cash balances and investments in money market instruments. They are highly liquid, subject to an insignificant risk of change in value and have a maturity of three months or less.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 6: TRADE AND OTHER RECEIVABLES

In millions of dollars	2017	2016
<b>CURRENT</b>		
Trade receivables	740	790
Less provision for impairment of receivables	(25)	(30)
<b>Total net trade receivables</b>	<b>715</b>	<b>760</b>
Advances facility <sup>1</sup>	1,081	-
Community service obligations receivable	116	87
Tax Receivable	92	-
Other receivables and prepayments	70	54
<b>Total current trade and other receivables</b>	<b>2,074</b>	<b>901</b>

<sup>1</sup>In 2017, an Advances Facility was established with Queensland Treasury which accrues interest on daily balances.

### (A) IMPAIRED TRADE RECEIVABLES

An allowance has been made for estimated unrecoverable trade receivable amounts arising from past sales. This has been determined by referencing past default experience and other relevant evidence such as significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganisation and payment default or delinquency.

In millions of dollars	Gross 2017	Impairment 2017	Gross 2016	Impairment 2016
<b>AGEING OF IMPAIRED RECEIVABLES</b>				
Less than one month overdue	42	2	56	2
One to two months overdue	19	3	33	4
Two to three months overdue	7	2	10	2
Over three months overdue	26	18	29	22
	<b>94</b>	<b>25</b>	<b>128</b>	<b>30</b>

In millions of dollars	2017	2016
<b>MOVEMENTS IN THE PROVISION FOR IMPAIRMENT OF RECEIVABLES ARE AS FOLLOWS:</b>		
Carrying amount at the beginning of the financial year	30	21
Provision for impairment recognised during the financial year	26	20
Receivables written off during the financial year as uncollectible	(31)	(11)
<b>Carrying amount at the end of the financial year</b>	<b>25</b>	<b>30</b>

The recognition and reversal of the provision for impaired receivables is included in 'Depreciation, amortisation and impairments' in the consolidated statement of profit or loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovery.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 6: TRADE AND OTHER RECEIVABLES (CONTINUED)

### (B) PAST DUE BUT NOT IMPAIRED

In millions of dollars	2017	2016
<b>AGEING OF RECEIVABLES</b>		
Up to one month overdue	3	4
One to two months overdue	3	2
Over two months overdue	2	2
<b>Total past due but not impaired</b>	<b>8</b>	<b>8</b>

## ACCOUNTING POLICIES

### Trade and other receivables

Trade and other receivables are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest rate method, less an allowance for impairment. The recoverability of trade and other receivables is reviewed on an ongoing basis.

## CRITICAL JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

### Impairment of trade receivables

A provision for impaired receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. This is based on evidence of significant financial difficulties of the debtor and probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency.

In some cases due to the high volume, low value of such trade receivables, management has exercised judgement in determining the provision for impaired trade receivables. The Group considers evidence of the trends of bad debts experienced within certain levels of aged receivables. The recoverable amount is discounted at the effective interest rate.

## NOTE 7: FINANCIAL ASSETS

In millions of dollars	2017	2016
<b>CURRENT</b>		
<b>At fair value through profit or loss</b>		
Derivative financial instruments - electricity hedges	48	28
<b>Designated as cash flow hedges</b>		
Derivative financial instruments - electricity hedges	140	161
<b>Held for trading</b>		
Power purchase agreement asset	2	2
<b>Total current financial assets</b>	<b>190</b>	<b>191</b>

Relevant accounting policies are outlined in Note 12 Fair values and Note 13 Hedge accounting.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 7: FINANCIAL ASSETS (CONTINUED)

### CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

#### Electricity financial instruments measured at fair value

The Group enters into electricity related financial instruments and determines the fair value of these instruments, which includes swaps, options (including caps and swaptions), and power purchase agreements (PPAs) using market based valuation methods. It takes into account the conditions existing at balance date and has used its judgement in the following areas:

- future price and volume estimation using in-house and off-the-shelf valuation models;
- discounting to the present value for the time value of money; and
- option volatility.

## NOTE 8: TRADE AND OTHER PAYABLES

In millions of dollars	2017	2016
<b>CURRENT</b>		
Trade payables	264	305
Accrued interest	19	19
Dividends payable	881	-
Electricity hedges payable	1	8
Other payables and accruals	77	90
<b>Total current payables</b>	<b>1,242</b>	<b>422</b>

### ACCOUNTING POLICIES

#### Trade and other payables

Trade and other payables are recognised as a liability when the Group has a legal obligation to pay cash. Such liabilities are initially recognised at fair value and subsequently measured at amortised cost.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 9: INTEREST BEARING LIABILITIES

In millions of dollars	2017	2016
<b>CURRENT</b>		
<b>Unsecured liabilities</b>		
Customer and other repayable deposits	17	20
Total current interest bearing liabilities	17	20
<b>NON-CURRENT</b>		
<b>Unsecured liabilities</b>		
Queensland Treasury Corporation loans	16,250	16,250
Total non-current interest bearing liabilities	16,250	16,250

### (A) QUEENSLAND TREASURY CORPORATION LOANS

The market value of Queensland Treasury Corporation (QTC) loans at 30 June 2017 was \$17,767 million (2016: \$18,497 million).

The market value of QTC loans is the price that the notional underlying bonds and instruments funding the loan could be bought for at balance date as advised by the QTC.

The Group does not anticipate it will make loan repayments in the next 12 months (2016: Nil). There is no obligation to make repayments under current loan arrangements with the QTC.

In millions of dollars	2017	2016
<b>(B) FINANCING ARRANGEMENTS</b>		
The Group has access to the following short-term lines of credit:		
<b>Working capital and credit facilities</b>		
Facilities used at the end of the reporting period - unsecured loans	3	3
Facilities not utilised at the end of the financial year - unsecured loans	1,032	1,032
Total facilities available	1,035	1,035

These working capital and credit facilities are short-term in nature with the outstanding balance paid down regularly.

The Group has access to debt and cash management facilities from the QTC and access to further borrowings from the QTC subject to approval of an annual State Borrowing Program Limit.

As at 30 June 2017 the Group had approved borrowings of \$16,250 million (2016: \$16,250 million) with access to a further \$1,000 million in QTC facilities.

### ACCOUNTING POLICIES

#### Interest Bearing Liabilities

Interest bearing borrowings are initially recognised at fair value net of transaction costs incurred. They are subsequently measured on an amortised cost basis with any difference between cost and redemption value being recognised in the statements of profit or loss over the period of the borrowings on an effective interest basis.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 10: FINANCIAL LIABILITIES

In millions of dollars	2017	2016
<b>CURRENT</b>		
<b>At fair value through profit or loss</b>		
Derivative financial instruments - electricity hedges	68	10
<b>Designated as cash flow hedges</b>		
Derivative financial instruments - electricity hedges	73	1
Total current financial liabilities	141	11

Relevant accounting policies are outlined in Note 12 Fair values and Note 13 Hedge accounting.

## CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

### Electricity financial instruments measured at fair value

The Group enters into electricity financial instruments and determines the fair value of these instruments, which includes swaps, options (including caps and swaptions) and PPAs using market based valuation methods outlined in Note 12 and Note 13. It has taken into account the conditions existing at balance date and has used its judgement in the following areas:

- future price and volume estimation using in-house and off-the-shelf valuation models;
- discounting to the present value for the time value of money; and
- option volatility.

## NOTE 11: FINANCIAL RISK MANAGEMENT

The Group has policies and procedures in place to manage the financial risks associated with its operating activities. Exposure to credit, interest rate, price and liquidity risk arises in the normal course of the Group's business. Derivative financial instruments are used to manage certain exposures to fluctuations in electricity prices.

The financial risks faced by the Group are managed in accordance with the Energy Queensland Treasury Policy.

### Financial risk management

#### (A) Credit risk

Credit risk arises from the potential failure of counterparties to meet their payment obligations under the respective contracts at or before maturity.

The Group manages credit risk by maintaining appropriate credit review processes.

The concentration of credit risk to retail customers is minimised due to transactions being with a large number of retail customers and limiting credit to any individual customer.

The concentration of credit risk related to distribution network customers is the risk of a retailer defaulting on their obligations. The Group operates in accordance with the Credit Support Guidelines issued by the Queensland Competition Authority, which align with the National Energy Customer Framework credit support arrangements. Under these guidelines, the ability to seek credit support is based on an assessment of the retailer's network charge liability compared to their credit allowance and payment history. In the event of significant retailer failure, an application to recoup such losses under general pass through provisions available through the AER would be considered. As at 30 June 2017 the Group had trade receivables of \$316 million (2016: \$321 million) from retailers. Three distribution network customers represented 85% of these trade receivables (2016: three distribution network customers represented 87% of these trade receivables).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 11: FINANCIAL RISK MANAGEMENT (CONTINUED)

### Financial risk management (Continued)

#### (A) Credit risk (Continued)

Where appropriate, collateral in the form of a cash deposit or pre-payments are obtained from customers (other than limited by provisions outlined above) as a means of mitigating the risk of financial loss from defaults. At the end of the financial year, the Group held collateral of \$23 million (2016: \$27 million).

Note 22 provides details of guarantees held by the Group. The Group manages its credit settlement risk associated with electricity market hedging by maintaining an Energy Commodity Credit Risk Manual as part of an overarching Energy Commodity Risk Management Policy. Credit settlement risk is managed by maintaining approved counterparty credit limits. The values of counterparty credit limits are determined by reference to each counterparty's credit rating, as determined by a recognised credit rating agency or, if the counterparty does not have a credit rating, by reference to the results of a detailed credit analysis. Where considered appropriate, the Group requires counterparties to provide appropriate letters of credit or bank guarantees. These letters of credit and bank guarantees reduced the Group's exposure to credit risk by \$1 million as at 30 June 2017 (2016: \$1 million).

The Group trades with wholesale counterparties, principally large banks and other electricity corporations. In order to meet its liability under the Renewable Energy Target Scheme and the Small Scale Renewable Energy Scheme the Group also trades with non-wholesale market entities.

At 30 June 2017, there were no significant concentrations of credit risk other than those disclosed. The maximum exposure for the Group to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the statements of financial position.

Concentrations of credit risk that arise from derivative instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Concentrations of credit risk on electricity derivatives are indicated in the following table by percentage of the total balance receivable from counterparties in the specified categories:

Counterparty classification	2017	2016
Queensland Government-owned electricity entities	85%	79%
Entities with a Standard & Poor's credit rating AA	2%	-
Entities with a Standard & Poor's credit rating A	1%	1%
Entities with a Standard & Poor's credit rating BBB	2%	1%
Other entities	10%	19%

The above credit risk exposure does not take into account the value of any collateral or security. Receivables due from major counterparties are monitored regularly.

#### (B) Interest rate risk

Floating interest rate borrowings expose the Group to interest rate cash flow risk while fixed interest borrowings expose the Group to fair value risk.

The Group's income and operating cash flows are substantially independent of changes in short-term market interest rates.

Other assets and liabilities exposing the Group to interest rate cash flow risk include cash and cash equivalents and advances facility (floating rate interest exposure) and interest bearing repayable deposits (both fixed and floating interest rate exposure).

#### Sensitivity analysis

At 30 June 2017, if interest rates had been 100 basis points higher and all other variables were held constant, the Group's net profit and equity would decrease by \$1 million (2016: \$13 million). If interest rates had been 100 basis points lower and all other variables held constant, the Group's net profit and equity would increase by \$2 million (2016: \$14 million).

The Group's borrowings from QTC have been classified as loans with a fixed interest rate in the following table. This interest rate cash flow risk has been incorporated in the preceding sensitivity analysis.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 11: FINANCIAL RISK MANAGEMENT (CONTINUED)

### (B) Interest rate risk (Continued)

The effective interest rates on the Group's interest bearing financial assets and liabilities as at balance date are detailed below.

	Floating Interest Rate	Fixed Interest Rate	Weighted Average Interest Rate
In millions of dollars	\$	\$	%
<b>2017</b>			
<b>Financial assets</b>			
Cash and cash equivalents	72	-	2.91%
Advances facility	1,081	-	2.91%
Total financial assets	1,153	-	
<b>Financial liabilities</b>			
Repayable deposits	17	-	2.16%
Loans	-	16,250	4.82%
Total financial liabilities	17	16,250	
<b>2016</b>			
<b>Financial assets</b>			
Cash and cash equivalents	137	-	2.90%
Total financial assets	137	-	
<b>Financial liabilities</b>			
Repayable deposits	20	-	2.22%
Loans	-	16,250	4.82%
Total financial liabilities	20	16,250	

### (C) Price risk

#### Electricity

Electricity price risk is the risk of an adverse financial outcome resulting from a change in the price of electricity in the National Electricity Market. This can be a change in the electricity pool price or a change in the forward price of electricity. Exposures mainly arise from positions in wholesale contracts (electricity derivatives), franchise load or PPAs associated with the Ergon Energy retail business. Wholesale contracts relating to franchise load are generally dealt over a period of less than three years.

There is no price risk for the network distribution businesses, due to the AER revenue cap framework and the mechanism for over or under recoveries through the adjustment of prices in future periods.

To manage the Group's retail price risk the Ergon Energy Queensland Board has approved an Energy Commodity Risk Management Policy. The policy provides a framework for managing risks arising from the energy purchasing activities of the entity. The policy includes a market price risk exposure limit framework, monitoring and reporting requirements and review requirements.

The Group uses derivative financial instruments to manage its retail electricity price risk, consumer variable volume risk and associated cash flow risk as well as to hedge exposure to pool price fluctuations and against the committed and anticipated electricity purchases. The hedge portfolio consists predominantly of swaps, caps and option contract types. Caps and option contracts are valued at fair value through profit or loss. Hedge accounting is employed for swaps with unrealised gains and losses recognised in other comprehensive income and hedge ineffectiveness recognised in the profit or loss. Refer to Note 13 for further information regarding the application of hedge accounting.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 11: FINANCIAL RISK MANAGEMENT (CONTINUED)

### (C) Price risk (Continued)

The following table details the Group's sensitivity to a 20% (2016: 10%) increase and decrease in the electricity forward price with all other variables held constant. Analysis of underlying forward price volatility is used as an indicator of potential forward price movement. Under the assumption that there will be no events causing significant step changes in the market such as the announcement of major electricity generation plant closures, Management have determined that 20% is considered a reasonably possible price movement.

In millions of dollars	Electricity Forward Price			
	+20%	+10%	-20%	-10%
	2017	2016	2017	2016
Profit/(loss) before tax	25	10	(21)	(11)
Hedging reserve	102	82	(103)	(81)
Equity	127	92	(124)	(92)

### (D) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available. Available lines of funding are disclosed in Note 9.

Where entities within the Group enter into contracts external to the regulated market, such contracts are transacted within the terms of the Energy Commodity Risk Management Policy which provides a framework for monitoring and limiting exposures.

Liquidity risk may potentially arise in the advent of unexpected high market volatility and may result in a large margin call being required for settlement.

The tables below disclose the Group's financial liabilities, including derivative financial instruments, into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are contractual, undiscounted cash flows. For options contracts, the undiscounted cash flow represents the future premium payable. The maturities of derivative financial instruments are calculated on the basis that derivatives will be settled on a gross basis. The Group's long-term borrowings from QTC have interest only in perpetuity repayment profiles. The principal component of QTC borrowings are included in the over five years' time band with no interest included in respect of this facility for the period over five years.

	Less than 1 year	1 to 5 years	Over 5 years	Total contractual cash flows	Carrying Amount
In millions of dollars					
<b>CONSOLIDATED</b>					
<b>2017</b>					
Electricity hedges	79	75	-	154	141
Financial guarantees	100	-	-	100	-
Non-interest bearing	1,389	1	-	1,390	1,390
Variable rate	17	-	-	17	17
Fixed rate	724	3,067	16,250	20,041	16,250
<b>Total</b>	<b>2,309</b>	<b>3,143</b>	<b>16,250</b>	<b>21,702</b>	<b>17,798</b>
<b>2016</b>					
Electricity hedges	13	1	-	14	11
Financial guarantees	100	-	-	100	-
Non-interest bearing	517	1	-	518	518
Variable rate	20	-	-	20	20
Fixed rate	784	3,139	16,250	20,282	16,250
<b>Total</b>	<b>1,434</b>	<b>3,141</b>	<b>16,250</b>	<b>20,934</b>	<b>16,799</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 11: FINANCIAL RISK MANAGEMENT (CONTINUED)

### (D) Liquidity risk (Continued)

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be forced to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that such an amount will not be payable under the arrangement. For further information regarding guarantees refer to Note 23(C).

### (E) Capital management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of borrowings disclosed in Note 9 and equity comprising share capital, other transactions with owners, reserves and retained earnings.

The Group borrows exclusively from QTC. The long-term borrowing facilities provided by QTC have an interest only in perpetuity repayment profile. The cost of debt is derived from debt instruments issued by QTC and a competitive neutrality fee designed to remove any competitive advantage obtained from borrowing at a lower interest rate than the private sector by virtue of the Group's Government ownership.

QTC manages debt financing, including new debt raising and the re-financing of existing borrowings, on behalf of the Group in accordance with agreed benchmarks. QTC borrows in advance of requirements to ensure Queensland public sector entities have ready access to funding when required and also to reduce the risk associated with refinancing maturing loans.

Operating cash flows are used to maintain and expand the Group's operating assets, as well as to make the routine outflows of interest and competitive neutrality fee payments on debt. The Group's policy is to borrow centrally to meet anticipated funding requirements.

The Group monitors capital on the basis of key financial ratios for debt to equity, interest cover and return on equity. At 30 June 2017 and 30 June 2016 these key financial ratios were as follows:

	2017	2016
Debt to debt plus equity ratio	84.31%	82.86%
EBITDA to Interest cover (times)	3.83	4.63
Return on equity	27.58%	25.98%

## NOTE 12: FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial assets and liabilities not carried at fair value and classified as non-current are discounted to determine the fair value using a risk free interest rate where the impact of discounting is considered material.

### 1) Fair value measurements

The Group uses the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 12: FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The following table presents the Group's financial assets and liabilities measured and recognised at fair value. Refer to Note 14 for non-financial assets carried at fair value.

In millions of dollars	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Power purchase agreements held for trading	-	-	2	2
Electricity hedges	80	107	-	187
Large-scale generation certificates held for trading	-	8	-	8
Small-scale technology certificates held for trading	-	5	-	5
	80	120	2	202
<b>Liabilities</b>				
Electricity hedges	65	76	-	141
	65	76	-	141
<b>2016</b>				
<b>Assets</b>				
Power purchase agreements held for trading	-	-	2	2
Electricity hedges	60	129	-	189
Large-scale generation certificates held for trading	-	36	-	36
Small-scale technology certificates held for trading	-	1	-	1
	60	166	2	228
<b>Liabilities</b>				
Electricity hedges	7	4	-	11
	7	4	-	11

### 2) Reconciliation of level 3 fair value measurements

The following table presents the movements reconciliation of the Group's assets and liabilities in level 3 of its fair value measurements hierarchy:

In millions of dollars	PPAs held for trading	Total
<b>2017</b>		
<b>Assets</b>		
Opening balance	2	2
Settlements	(1)	(1)
Unrealised gains/(losses) recognised in statement of profit or loss	1	1
Closing balance	2	2
<b>2016</b>		
<b>Assets</b>		
Opening balance	-	-
Unrealised gains/(losses) recognised in statement of profit or loss	2	2
Closing balance	2	2

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 12: FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

### 3) *Transfers between level 2 and 3 and changes in valuation techniques*

Transfers between hierarchy levels are expected to occur when there is a change in the observability of a pricing input, or a change in valuation technique. The Group recognises transfers between levels of the fair value hierarchy as of the beginning of the reporting period during which the transfer has occurred. During 2017 there were no transfers of electricity derivatives between level 2 and level 3 (2016: nil).

### 4) *Valuation policies and procedures*

The Group has an established control framework with respect to the measurement of fair values of financial instruments. The Ergon Energy Retail Commercial Services team has the overall responsibility for overseeing all financial asset and liability fair value measurements, including level 3 fair value, and reports directly to the Executive General Manager Retail.

### 5) *Methods and assumptions used in determining fair value of financial assets and liabilities*

The Group currently has the following classes of financial instruments that are measured at fair value through profit or loss. These are: electricity hedges (which include swaps, caps and swaptions), PPAs, as well as Large-scale Generation Certificates (LGCs) and Small-scale technology certificates (STCs).

#### (A) *Swaps*

Over the counter swaps are valued using broker quoted forward curves. Where positions are held in periods beyond the curve, the curve is extended accordingly (refer Note 12(6)).

(i) Swaps over the counter – quarterly peak and off peak is shaped into half hourly intervals using April 2016 to March 2017 pool prices and seasonality factors.

(ii) Swaps - Exchange Traded – valued using the Exchange quoted prices.

#### (B) *Options*

(i) \$300 Caps Exchange Traded

\$300 Exchange Traded Caps are valued using the Exchange quoted prices.

(ii) Caps over the counter

Over the counter \$300 caps are valued using a mean reversion jump diffusion model incorporating historical pool price outcomes and broker provided cap curves. Where positions are held in periods beyond the curve, the curve is extended accordingly (refer to Note 12(6)).

(iii) Swaptions

Over-The-Counter Swaptions are valued applying a Black Scholes 76 methodology incorporating broker quoted forward curves. Volatility is calculated based on market implied volatility. Exchange traded Swaptions are valued applying the fair value on the exchange.

#### (C) *Power purchase agreements*

Electricity entitlements under PPAs are valued using an input or curve sourced from broker quoted forward curves. Load volumes under fair valued PPAs are determined based on forecasts.

#### (D) *Large-scale generation certificates*

LGC positions which are held for trading are valued using a curve derived from externally sourced broker quotes. Where positions are held in periods beyond the curve, the curve is extended accordingly. LGC volumes under fair valued PPAs are determined based on forecasts.

#### (E) *Small-scale technology certificates*

STCs which are held for trading are valued using a curve derived from externally sourced broker quotes. Where positions are held in periods beyond the curve, the curve is extended accordingly.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

### NOTE 12: FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

#### 6) Fair value valuation techniques and significant unobservable inputs

The following table shows the valuation techniques used in measuring level 2 and level 3 fair values, as well as the significant unobservable inputs used:

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Electricity hedges	The curve is sourced through broker quoted forward curves. The curve is extended for the periods beyond the observable quoted pricing period by using CPI escalation.	CPI Escalation of forward curves beyond observable quoted pricing period.	The higher the CPI adjustment the higher the fair value of the instrument.
Power purchase agreements held for trading	The curve is sourced through broker quoted forward curves. The curve is extended for the periods beyond the observable quoted pricing period by using CPI escalation.	CPI Escalation of forward curves beyond observable quoted pricing period.	The higher the CPI adjustment the higher the fair value of the instrument.
	Management forecast of PPA generation.	Management forecast of PPA generation.	Estimated fair value would increase if the management forecast increased generation for PPA's in an asset position.

#### Master netting or similar agreements

The Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances, e.g. when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The ISDA agreements do not meet the criteria for offsetting in the statement of financial position. This is because the Group does not have an enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events such as default or other credit events.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 12: FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

### Master netting or similar agreements (Continued)

In millions of dollars	Note	Gross amounts of financial instruments in the statement of financial position	Related financial instruments that are not offset	Net amount
<b>Financial assets</b>				
Electricity hedges	7	190	(114)	76
<b>Financial liabilities</b>				
Electricity hedges	10	(141)	114	(27)
<b>Financial assets</b>				
Electricity hedges	7	191	(9)	182
<b>Financial liabilities</b>				
Electricity hedges	10	(11)	9	(2)

## ACCOUNTING POLICIES

### Financial instruments

Derivatives are recognised at fair value at the date that a derivative contract is entered into (trade date) and is subsequently measured at fair value at each reporting date. A positive revaluation amount is reported as an asset and a negative revaluation amount is reported as a liability. The resulting gain or loss is recognised in the statement of profit or loss immediately, with the exception of effective hedges where unrealised gains and losses are deferred in the cash flow hedge reserve.

The following transactions are classified as derivative financial instruments and measured at fair value.

#### 1) *Derivative financial instruments held or issued for hedging franchise load*

Derivative financial instruments held or issued for hedging franchise load are recorded at their fair value. The contracts are valued using a combination of data sources including current trades executed by the Group, the Sydney Futures Exchange (SFE), ICAP Plc (ICAP), TFS and other market intelligence. The Group trades frequently in these instruments and has sufficient market information to reliably measure the value of these contracts in accordance with the requirements of Australian Accounting Standards. Refer to Note 13 for hedge accounting disclosures and accounting policies.

#### 2) *Power purchase agreements*

PPAs are agreements for the sale and purchase of the energy exported from a generator and of LGCs and other environmental certificates associated with the generation of energy. PPAs held for trading purposes are measured at fair value through the profit or loss.

PPAs are valued using a combination of data sources including trades executed by the Group, the SFE, ICAP, TFS and other market intelligence. The Group has sufficient market information to reliably measure the value of these agreements in accordance with the requirements of Australian Accounting Standards.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 13: HEDGE ACCOUNTING

### *Cash flow hedges*

Cash flow hedges are used by the Group to hedge the energy commodity price risk arising through the retail operations of the Ergon Energy Group.

The Ergon Energy Group principally uses energy swaps, and options (including caps and swaptions) to protect against price and volume fluctuations. The effective hedge contracts are valued at fair value through other comprehensive income with hedge accounting employed only for swaps. Ineffective hedge contracts are valued at fair value through profit or loss.

The Group undertakes derivative transactions to hedge the price of expected electricity it purchases over a three-year period within a set of Gross Margin at Risk limits. Changes in hedge effectiveness are predominantly driven by changes in energy load forecasts.

The inherent variability in the volume of electricity purchased by customers and dispatched from generators means that actual purchase requirements and sales volume can vary from the forecasts. The forecasts are updated for significant changes in underlying conditions and where this leads to a reduction in the forecast below the aggregate notional volume of hedge instruments in the relevant periods impacted the affected hedging instruments are de-designated and the accumulated gain or loss which has been recognised in the hedge reserve is recognised directly in the statement of profit or loss as the underlying forecast purchase or sale transactions are no longer expected to occur.

During the year ended 30 June 2017 \$2 million hedge gains (2016: Nil) were reclassified to the statement of profit or loss due to the hedges no longer being designated as hedging instruments and the underlying forecast transaction no longer being highly probable to occur as originally forecast.

Where an effective hedging instrument is closed out and the underlying forecast transaction remains highly probable to occur as originally forecast, the hedge contract is de-designated and any accumulated gain or loss which has been recognised in the hedge reserve is deferred to the reserve. During the year ended to 30 June 2017 \$54 million hedges (2016: Nil) were de-designated for which all underlying forecast transactions remain highly probable to occur as originally forecast. The accumulated gain continues to be recognised in the hedge reserve.

Gains and losses recognised in the hedge reserve in the statement of comprehensive income for electricity derivatives at the end of the reporting period will be released to the profit or loss in the period in which the underlying purchase or sale transactions are recognised.

### (i) *Nominal amount of electricity hedges outstanding*

The average notional amount of electricity hedges outstanding over the next 3 years from the 2017/18 to 2019/20 financial year is approximately 4,625,000 MWh (Megawatt hours) at an average contracted price ranging between \$69 and \$79 per MWh (2016: approximately 6,238,000 MWh (Megawatt hours) at an average contracted price ranging between \$54 and \$57 per MWh).

### (ii) *Fair value of financial instruments designated as hedging instruments*

The following table sets out the fair value of electricity hedges which meet the criteria for hedge accounting. The accounting policies applied to the valuation of electricity derivatives is outlined in Note 12:

In millions of dollars	2017	2016
Financial Assets: Cash flow hedges - electricity derivatives	154	161
Financial Liabilities: Cash flow hedges - electricity derivatives	(87)	(1)

### (iii) *The impact of hedging instruments designated in hedge relationships as at 30 June 2017 is as follows:*

In millions of dollars	2017	2016
<i>Statement of profit or loss</i>		
Gains/(losses) on unwinding of inception value of designated hedges	13	28
Cash flow hedge ineffectiveness gains/(losses) recognised in other income	(13)	6



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 13: HEDGE ACCOUNTING (CONTINUED)

In millions of dollars	2017	2016
<i>Statement of comprehensive income</i>		
<i>Cash flow hedge reserve (CFHR)</i>		
Opening balance	159	40
Amount deferred in the hedge reserve	54	-
The effective portion recognised in CFHR (pre-tax)	23	147
Transfer from CFHR to electricity purchases	(116)	(28)
Reclassified to Statement of Profit or Loss for hedges no longer being designated as hedging instruments	(2)	-
Closing balance (pre-tax)	118	159

(iv) The table below outlines the impact of applying hedge accounting for the electricity hedges:

In millions of dollars	2017	2016
<i>Electricity Price Risk</i>		
Changes in value of hedge instrument	58	165
Changes in value of hedge item	61	164
Cash flow hedge reserve	118	159

## ACCOUNTING POLICIES

### Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date they are entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular cash flow risk associated with a recognised asset, liability or highly probable forecast transaction.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 12. Movements of the hedging reserve in shareholders' equity are shown in the statement of other comprehensive income.

The fair values of hedging derivatives are classified as current.

### Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss. Amounts accumulated in equity are transferred to the income statement in the periods when the hedged item affects profit or loss.

When a hedging instrument is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of profit or loss and other comprehensive income. If the forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of profit or loss.

Certain derivative financial instruments do not qualify for hedge accounting, despite being valid economic hedges of the relevant risk. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised immediately in the statement of profit or loss.

Refer to Note 7 and Note 12 for additional information in relation to accounting policies for financial instruments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## SECTION 4: Operating assets and liabilities

### NOTE 14: PROPERTY, PLANT AND EQUIPMENT

In millions of dollars	2017	2016 <sup>2</sup>
<b>SUPPLY SYSTEMS<sup>1</sup></b>		
At valuation	34,468	33,424
Less accumulated depreciation	(12,990)	(12,458)
Net carrying value	21,478	20,966
<b>POWER STATIONS</b>		
At valuation	491	483
Less accumulated depreciation	(242)	(233)
Net carrying value	249	250
<b>LAND- non-regulated</b>		
At valuation	21	21
Net carrying value	21	21
<b>OTHER PLANT AND EQUIPMENT</b>		
At cost	1,294	1,354
Less accumulated depreciation	(726)	(702)
Less accumulated impairment losses	(10)	(10)
Net carrying value	558	642
<b>WORK IN PROGRESS</b>		
Work In Progress	591	457
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>	<b>22,897</b>	<b>22,336</b>

- (1) Supply systems include land and building assets which are utilised for warehousing and logistics purposes, training and pole depot facilities and field response activities. These land and building assets are integral to supporting the operation of the electricity network and form a part of the regulated asset portfolio.
- (2) Comparatives have been restated to align accounting policies for the valuation of property, plant and equipment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 14: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

In millions of dollars	2017	2016 <sup>1</sup>
If property, plant and equipment were stated on a historical basis, the carrying amount would have been:		
Supply Systems	17,050	16,677
Power stations	214	212
Land	9	11

### RECONCILIATIONS

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

#### SUPPLY SYSTEMS

Gross carrying amount at the beginning of the financial year	33,424	31,589
Accumulated depreciation and impairment at the beginning of the financial year	(12,458)	(11,713)
Carrying amount at the beginning of the financial year	20,966	19,876
Transfers of assets between categories	6	(10)
Transfer from work in progress	629	975
Transfer to non-current assets held for sale	(1)	(6)
Additions	405	657
Disposals	(2)	(6)
Revaluation increments/(decrements)	161	180
Depreciation expense	(684)	(698)
Impairment losses	(2)	(2)
Carrying amount at the end of the financial year	21,478	20,966

#### POWER STATIONS

Gross carrying amount at the beginning of the financial year	483	460
Accumulated depreciation and impairment at the beginning of the financial year	(233)	(213)
Carrying amount at the beginning of the financial year	250	247
Transfers of assets between categories	-	11
Additions	16	12
Revaluation increments/(decrements)	3	1
Depreciation expense	(20)	(21)
Carrying amount at the end of the financial year	249	250

#### LAND

Carrying amount at the beginning of the financial year	21	26
Transfers of assets between categories	-	(3)
Additions	-	-
Impairments	-	(2)
Carrying amount at the end of the financial year	21	21

(1) Comparatives have been restated to align accounting policies for the valuation of property, plant and equipment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 14: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

In millions of dollars	2017	2016 <sup>1</sup>
<b>OTHER PLANT AND EQUIPMENT</b>		
Gross carrying amount at the beginning of the financial year	1,354	1,332
Accumulated depreciation and impairment at the beginning of the financial year	(712)	(660)
Carrying amount at the beginning of the financial year	642	672
Transfers of assets between categories	(1)	7
Transfers from work in progress	52	48
Transfers to intangible assets	-	(2)
Additions	29	73
Disposals	(20)	(13)
Depreciation expense	(144)	(143)
Impairment	-	-
Carrying amount at the end of the financial year	558	642
<b>WORK IN PROGRESS</b>		
Carrying amount at the beginning of the financial year	457	864
Transfers to property, plant and equipment and intangible assets	(1,095)	(1,763)
Additions	1,221	1,341
Capitalised interest	8	15
Carrying amount at the end of the financial year	591	457
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>		
Carrying amount at the beginning of the financial year	22,336	21,685
Transfers between categories and to intangible assets and assets held for sale	4	(3)
Net transfers from work in progress	7	(10)
Additions to work in progress and direct purchases	1,250	1,353
Capitalised interest	8	15
Disposals	(22)	(19)
Revaluation increments/(decrements)	164	181
Depreciation expense	(848)	(862)
Impairment	(2)	(4)
Carrying amount at the end of the financial year	22,897	22,336

(1) Comparatives have been restated to align accounting policies for the valuation of property, plant and equipment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 14: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

### Valuation of the Group's regulated Supply System assets

The majority of the Group's property, plant and equipment are employed in the distribution of electricity and subject to regulation via a revenue allowance (revenue cap). The fair value valuation of the Group's property, plant and equipment is determined via directors' valuations using an income based approach.

The nature of the Group's property, plant and equipment is assessed on the key assumption that it has an indefinite life.

In completing the valuation of property, plant and equipment of the Group as a going concern, future cash flows are captured beyond the explicit forecast period using a terminal value. The terminal value was derived with reference to a forecast RAB based on the current regulatory model.

The RAB Multiple is the relationship between market and regulatory values as it describes the ratio between the value that the market places on the expected cash flows that will accrue to it for the Group and the value the regulator intends returning to the Group over the life of the property, plant and equipment.

Thus, the key assumptions considered in the DCF methodology for the valuation of the Group's Supply System assets are:

- The quantification and assessment of the cash flow forecasts generated by the Group's property, plant and equipment during the forecast period;
- The inclusion of estimated annual capital expenditure during the forecast period to ensure the ongoing security and reliability of the network;
- Application of terminal value (in the case of the regulated property, plant and equipment) reflecting a 1.0 times multiple (2016:1.0 times) of terminal year RAB; and
- Determination of a discount rate which is used to convert the future cash flows into a present day value. The discount rate of 7.11% (2016: 7.26% and 7.27%) reflects both the time value of money and the risks inherent in the projected cash flows.

It has been noted in assessing the fair value of property, plant and equipment that regulatory changes may also impact the Group.

Consistent with historical valuation techniques, prior period regulated over recoveries have been excluded from the cash flows for valuation purposes and no allowance has been made for future period under or over recoveries.

### Valuation policies and procedures

The Group has established control frameworks with respect to the measurement of fair values. The fair value of the Group's regulated assets was determined using the income based approach, which reflects the present value of an investment's future cash flows in order to arrive at a current fair value estimate for an investment. As this valuation uses inputs not based on observable market data (i.e. unobservable inputs) this resulted in a level 3 fair value. There has been no change to the valuation technique or fair value hierarchy during the year.

### Measurement of fair value

The fair value measurement for supply system, land and building assets of \$21,478 million (2016: \$21,118 million) has been categorised as a level 3 fair value based on the inputs to the valuation technique applied.

The discount rate used by the Group to discount future cash flows is higher than the allowed rate of return as established by the regulator in its Final Decision for the regulatory control period 2015-2020 (which is the rate applied to the regulated asset base (RAB) to determine future cash flows). The use of a discount rate higher than the regulated rate of return leads to an estimated fair value below the value of the RAB as determined by the regulator.

The reconciliation from opening balances to closing balances for the level 3 fair value for the supply system assets is included above.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

### NOTE 14: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

#### Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements.

Fair value at 30 June 2017 \$M	Unobservable inputs	Nature and range of inputs	Relationship of unobservable inputs to fair value
21,478	Revenue cash flows	Revenue cash flows have been determined based on the AER's Final Decision (2015-2020) and projected revenue cash flows for the years beyond the regulatory period.	A higher allowed rate of return increases the fair value.
	Operating Expenditure	Operating expenditures for the distribution network have been determined based on the most recent management forecasts available at the time of the valuation.	A lower operating expenditure increases the fair value.
	Capital Expenditure	Future capital expenditure required to ensure the security and reliability of the distribution network have been determined based on the most recent management forecasts available at the time of the valuation.	A lower future capital expenditure increases the fair value.
	Terminal value	Terminal value at 30 June 2022 has been determined with reference to a forecast RAB using management forecasts of future cash flows and a terminal value multiple of 1.00 has been applied.	A higher terminal value and multiple increases the fair value.
	Weighted Average Cost of Capital (WACC) discount rate	A nominal WACC of 7.11% (2016: between 7.26% and 7.27%) has been employed in the valuation. The WACC discount rate has been determined in consultation with independent experts based on a long-term view of the market cost of capital.	The higher the nominal WACC, the lower the fair value.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 14: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

### ACCOUNTING POLICIES

#### Property, plant and equipment

##### (i) Recognition and measurement

The cost of property, plant and equipment constructed by the Group includes the cost of materials, direct labour and other associated costs and, where appropriate, borrowing costs.

Supply system, land and building assets are measured at fair value less any subsequent depreciation. The fair value of these assets was determined as at 30 June 2017 using an income approach as there was no market based evidence of fair value due to the specialised nature of the regulated assets, and the items are rarely sold, except as part of a continuing business.

Power station assets comprising isolated generation and distribution systems were revalued as at 30 June 2014 using the Depreciated Optimised Replacement Cost methodology and uplifted annually using a basket of representative indices for the subsequent two years. For the financial year ending 30 June 2017, the income based approach was considered more appropriate following the introduction of a separate stand-alone Community Service Obligation Deed for the Isolated Network which was implemented by the State of Queensland.

Other property, plant and equipment, and work in progress are carried at cost less accumulated depreciation where applicable. The carrying amount for these assets does not differ materially from their fair value.

Revaluation increments are recognised in other comprehensive income and accumulated in the asset revaluation reserve, except for amounts reversing a decrement previously recognised as an expense.

Revaluation decrements are only offset against revaluation increments applying to the same asset and any excess is recognised as an expense.

##### (ii) Depreciation

Depreciation is calculated on a straight line basis by reference to the average useful life and residual value of each item of property, plant and equipment, with the exception of freehold land, easements and WIP which are not depreciated.

The supply system is treated as a complex asset. A complex asset is a physical asset capable of disaggregation into identifiable components that are subject to regular replacement. These components are assigned useful lives distinct from the asset to which they relate and are depreciated accordingly.

An assessment of useful lives is performed annually. The useful life estimate is determined with consideration of expected usage based on the asset's capacity, expected physical wear and tear, and expected technical or commercial obsolescence.

Items of property, plant and equipment which relate to the supply of electricity to a specific mine or facility may be depreciated over the operational life of the mine or facility.

Major depreciation periods are:

	Measurement basis	Depreciation period
Supply systems	Fair value	5 to 70 years
Power stations	Fair value	5 to 40 years
Buildings	Fair value	40 years
Other plant and equipment	Cost	3 to 40 years

##### (iii) Disposal of items of property, plant and equipment

The gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds of disposals with the carrying amounts of the items. The net gains and losses on disposals are included in the statement of profit or loss.

##### (iv) Maintenance and repairs

Maintenance costs are charged as an expense as incurred. Other routine repair and minor renewal costs are also charged as expenses as incurred.

##### (v) Contributed Assets

Contributed Assets are those that are funded by customers and either constructed by the Group or constructed by an external party and then gifted to the Group. Contributed assets are recognised at fair value at the time control passes to the Group and the assets are ready for use.

##### (vi) Finance and related costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 14: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

### Impairment of assets

All assets which are depreciated or amortised are reviewed for events or changes in circumstances that may indicate that the carrying amount may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). No such impairments were required during the financial year.

Dismantled supply system assets and assets held for sale are removed from the relevant cash generating unit and impaired once the decision is made to dismantle or sell. The resulting impairment loss is treated as a revaluation decrement and recorded directly in equity to the extent of any credit balance existing in the revaluation reserve in respect of that asset, with the remainder recognised in the income statement.

## NOTE 15: EMPLOYEE RETIREMENT BENEFITS

In millions of dollars	2017	2016
<b>NON-CURRENT ASSETS</b>		
Retirement benefit asset	271	125
Total non-current employee retirement benefit asset	271	125

### DEFINED BENEFIT OBLIGATION

The Group contributes to an industry multiple employer superannuation fund, Energy Super. After serving a qualifying period, members are entitled to benefits from this fund on retirement, resignation, retrenchment, disability or death.

The defined benefit account of this fund provides defined lump sum benefits based upon years of service and final average salary. Employee contributions to the fund are based on various percentages of their gross salaries.

Energy Super is managed by a trustee company, Electricity Supply Industry Superannuation (Qld) Ltd. The Trustee is responsible for managing Energy Super for the benefit of all members, in accordance with the trust deed and relevant legislation. At 30 June 2017, the Trustee Board consisted of four member representative directors, four employer representative directors and one independent director.

Energy Super is regulated by the Australian Prudential Regulation Authority under the Superannuation Industry (Supervision) Act 1993.

The Trust Deed of the Fund states that, if the Fund winds up, after the payment of all costs and the payment of all member benefits in respect of the period up to the date of termination, any remaining Defined Benefit assets may be distributed by the Trustee of the Fund to the participating employees, acting on the advice of an actuary, unless directed otherwise by the employer in accordance with the Trust Deed.

The Group may at any time, by notice to the Trustee, terminate its contributions. The employer has a liability to pay the monthly contributions due prior to the effective date of the notice, but there is no requirement for an employer to pay any further contributions, irrespective of the financial condition of the Fund. The Group voluntarily makes additional contributions in relation to the Defined Benefit Fund.

The Group may benefit from any surplus in the Fund in the form of a contribution reduction or contribution holiday. Any reduction in contributions would normally be implemented only after advice from the Fund's actuary.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 15: EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

### Reconciliation of movements in the net defined benefit asset/(liability)

In millions of dollars	Defined benefit obligation	Fair value of plan assets	Net defined benefit asset/(liability)
<b>Year ended 30 June 2017</b>			
Carrying amount at start of year	(865)	990	125
<b>Included in profit or loss</b>			
Current service cost	(31)	-	(31)
Interest income/(cost)	(25)	28	3
	(56)	28	(28)
<b>Included in other comprehensive income</b>			
Remeasurement gain/(loss):			
Actuarial gain/(loss) arising from:			
Changes in financial assumptions	65	-	65
Experience adjustments <sup>1</sup>	25	78	103
Return on plan assets excluding interest income	-	-	-
	90	78	168
<b>Other</b>			
Contributions by the employer	-	6	6
Contributions by Fund participants	(8)	8	-
Benefit payments and tax	141	(141)	-
	133	(127)	6
<b>Carrying amount as at 30 June 2017</b>	<b>(698)</b>	<b>969</b>	<b>271</b>
<b>Year ended 30 June 2016</b>			
Carrying amount at start of year	(790)	1,032	242
<b>Included in profit or loss</b>			
Current service cost	(28)	-	(28)
Interest income/(cost)	(30)	40	10
	(58)	40	(18)
<b>Included in other comprehensive income</b>			
Remeasurement gain/(loss):			
Actuarial gain/(loss) arising from:			
Changes in financial assumptions	(77)	-	(77)
Experience adjustments <sup>1</sup>	(35)	6	(29)
Return on plan assets excluding interest income	-	-	-
	(112)	6	(106)
<b>Other</b>			
Contributions by the employer	-	7	7
Contributions by Fund participants	(8)	8	-
Benefits payments and tax	103	(103)	-
	95	(88)	7
<b>Carrying amount as at 30 June 2016</b>	<b>(865)</b>	<b>990</b>	<b>125</b>

(1) Experience adjustments are the effects of differences between previous actuarial assumptions and what has actually occurred.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2017

#### NOTE 15: EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

The major categories of plan assets are as follows:

In millions of dollars	2017	2016
Cash	48	86
Fixed interest	97	58
Australian shares	242	250
International shares	242	269
Alternatives	242	158
Property and infrastructure	98	169
<b>Total fair value of plan assets</b>	<b>969</b>	<b>990</b>

This portfolio exposes the Fund to market risk. All shares and fixed interest plan assets have quoted prices in active markets. The actual return on plan assets for 2017 was a profit of \$107 million (2016: \$46 million).

The defined benefit assets are invested in a balanced investment portfolio, to match the weighted average duration of the defined benefit obligation of 9 years (2016: 9 years).

Key actuarial assumptions used at the reporting date are as follows:

	2017	2016
	%	%
Expected rate of return on plan assets for one year	3.9	3.0
Pre-tax discount rate	3.9	3.3
Future salary increases	3.0	3.0

The expected maturity of undiscounted defined benefit obligations is as follows:

In millions of dollars	2017	2016
Not later than one year	57	64
Later than one year and not later than five years	244	271
Later than five years	1,147	1,287
<b>Total undiscounted defined benefit obligations</b>	<b>1,448</b>	<b>1,622</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 15: EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

### Sensitivity analysis:

The sensitivity of the defined benefit obligation to changes in the significant assumptions, holding other assumptions constant were as follows:

	2017 %	2016 %
Discount rate		
0.5% increase	(4.70)	(4.75)
0.5% decrease	5.00	5.10
Future salary increases		
0.5% increase	5.25	5.25
0.5% decrease	(4.85)	(4.90)

### Net financial position of plan

The superannuation plan computes its obligations in accordance with AAS 25 *Financial Reporting by Superannuation Plans* (AAS 25) which prescribes a different measurement basis to that applied in this financial report pursuant to AASB 119 *Employee Benefits*. Under AAS 25, and in accordance with the Occupational Superannuation Standards Regulation, the Energy Super Fund is required to undertake actuarial investigations at least every three years. The last reporting period for the Energy Super Fund Actuarial Report for the Group was 30 June 2016. The next Actuarial Report as at 30 June 2019 will be completed in the 2019/20 financial year.

The following is a summary of the most recent financial position of the Energy Super Fund (with respect to both defined benefit and accumulation members for the Group's participation in the Fund) calculated in accordance with AAS 25:

In millions of dollars	Last reporting period	
Accrued benefits	30/06/2016	(1,598)
Net market value of plan assets	30/06/2016	1,773
<b>Net surplus</b>		<b>175</b>

### Employer contributions

The Group contributes to both defined contribution and defined benefit superannuation plans.

For the financial year ended 30 June 2017, the Group contributed in a range of 4-5% (2016: 4-5%) of defined benefit members' salaries. The Group expects to reduce its contribution rate to 2% during the next financial year. Accordingly, the Group expects to contribute \$3 million (2016/17: \$8 million) to its defined benefit plan in 2017/18. Funding recommendations are made by the actuary based on their forecast of various matters including future plan asset performance, interest rates and salary increases. The Group will assess this contribution rate in the future to ensure it remains appropriate.

## ACCOUNTING POLICIES

### Employee retirement benefits

A defined contribution plan is a superannuation plan under which the Group pays fixed contributions. The Group has no legal or constructive obligations to pay further contributions and are typically limited to prior contributions.

The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

A defined benefit plan is a superannuation plan that defines the amount of the benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and final average salary. The asset or liability recognised in the statement of financial position in respect of defined benefit superannuation plans is the difference between the present value of the defined benefit obligation at the reporting date and the fair value of the plan assets, together with adjustments for past service costs.

The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates on high quality corporate bonds that are denominated in the currency in which the benefits will be paid, being Australian dollars and that have terms to maturity that approximate the terms of the related superannuation liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in equity.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 16: NET DEFERRED TAX EQUIVALENT LIABILITY

In millions of dollars	2017	2016
<b>(A) DEFERRED TAX EQUIVALENT ASSETS</b>		
The balance comprises temporary differences attributable to:		
<b>Amounts recognised in statements of profit or loss</b>		
Provisions/accruals	131	139
Tax losses	16	22
Derivatives	13	3
Unearned revenue	18	14
Other	2	4
	180	182
<b>Amounts recognised directly in equity</b>		
Hedge accounting of derivatives	25	-
Deferred tax equivalent asset	205	182
<b>(B) DEFERRED TAX EQUIVALENT LIABILITIES</b>		
The balance comprises temporary differences attributable to:		
<b>Amounts recognised in statements of profit or loss</b>		
Property, plant and equipment	1,961	1,955
Derivatives	(9)	10
Other	21	27
	1,973	1,992
<b>Amounts recognised directly in equity</b>		
Recognition of defined benefit surplus	88	38
Revaluation of property, plant and equipment	1,604	1,557
Hedge accounting of derivatives	60	48
Deferred tax equivalent liabilities	3,725	3,635
<b>(C) TOTAL NET DEFERRED TAX EQUIVALENT LIABILITY</b>		
Deferred tax equivalent asset	205	182
Deferred tax equivalent liabilities	(3,725)	(3,635)
Net deferred tax equivalent liability	(3,520)	(3,453)

The Group has a closing current receivable of \$92 million at 30 June 2017 (2016: current tax liability of \$144 million).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 16: NET DEFERRED TAX EQUIVALENT LIABILITY (CONTINUED)

### ACCOUNTING POLICIES

#### Income taxes

##### (i) Tax equivalents

The Group is liable to make tax equivalent payments on its taxable income to the Queensland Government. Any taxation payments that it is required to make will be made pursuant to Section 129(4) of the *Government Owned Corporations Act 1993*. The National Tax Equivalents Regime (NTER) broadly utilises the provisions of the *Income Tax Assessment Act 1936*, the *Income Tax Assessment Act 1997* and associated legislation, the NTER Manual as well as Rulings and other pronouncements by the Australian Taxation Office (ATO), in order to determine the tax payable by the Group.

##### (ii) Current tax equivalents payable

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the end of the financial year and any adjustment to tax payable in respect of previous years.

Current tax payable is recognised as current tax expense except to the extent that it relates to items recognised directly in equity, in which case that portion is recognised directly in equity.

##### (iii) Deferred tax equivalent assets and liabilities

Deferred tax equivalent assets (DTA) and liabilities (DTL) are recognised on deductible or taxable temporary differences and unused tax losses and tax credits, which are recognised using the tax rates enacted or substantively enacted at the reporting date.

Temporary differences are differences between the carrying amount of an asset and liability for financial reporting purposes and their tax bases. Tax bases are determined based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities.

Movements in DTA and DTL balances are recognised as deferred tax equivalent expenses, except to the extent they relate to items recognised directly in equity, in which case that portion is recognised in equity;

DTAs and DTLs are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority.

##### (iv) Income tax equivalent expense

Income tax equivalent expense for the reporting period consists of current tax expense and deferred tax expense. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity.

##### (v) Tax consolidation

Energy Queensland and its wholly-owned subsidiaries formed a tax-consolidated group effective from 30 June 2016 and are therefore taxed as a single entity. The head entity within the tax-consolidated group is Energy Queensland Limited.

Current tax expense/income, DTAs and DTLs arising from temporary differences of the members of a tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the standalone basis as specified in the tax funding deed.

The tax funding deed requires a notional current and deferred tax equivalents calculation for each entity as if it were a taxpayer in its own right, with the exception of distributions made and received within the tax-consolidated group (e.g. intra-group dividends) which are treated as having no tax consequences.

The head entity recognises DTAs arising from unused tax losses and tax credits of the members of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised. The recognised tax losses are available indefinitely for offsetting against the future taxable profits subject to the satisfaction of certain loss recoupment rules.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

### NOTE 16: NET DEFERRED TAX EQUIVALENT LIABILITY (CONTINUED)

#### *(vi) Nature of tax funding deed and tax sharing agreements*

The members of the Energy Queensland tax-consolidated group have entered into a tax funding deed which sets out the tax funding obligations for each member. The tax funding deed allows for an intercompany payable/receivable between the head entity and subsidiary equal to the current tax liability or asset assumed by the head entity. Any tax loss or deferred tax equivalent asset assumed by the head entity, results in the recognition of an inter-entity receivable/payable in the separate financial statements of the members of the tax-consolidated group equal in amount to the tax liability/asset assumed.

The head entity recognises the assumed current tax amounts as current tax liabilities/assets (only after the formation of the tax-consolidated group), adding to its own current tax amounts (if any), since they are also due to or from the same taxation authority. The current tax liabilities/assets are equivalent to the tax balances generated by external transactions entered into by the tax-consolidated group.

Contributions to fund the current tax liabilities are payable as per the tax funding deed and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The members of the tax-consolidated group have also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

#### **Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the ATO. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Commitments are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 17: EMPLOYEE BENEFITS

In millions of dollars	2017	2016
<b>CURRENT LIABILITIES</b>		
Employee benefits	296	291
Termination benefits	9	36
Total current employee benefits liability	305	327
<b>NON-CURRENT LIABILITIES</b>		
Employee benefits	25	30
Total non-current employee benefits liability	25	30

## ACCOUNTING POLICIES

### Employee benefits

#### (i) Wages and salaries, annual leave, long service leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave, long service leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities expected to be settled more than 12 months after the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

For long service leave, consideration is also given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments relating to such liabilities are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, to the estimated future cash outflows.

Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable. Annual leave, vested long service leave and on-cost entitlements accrued but not expected to be taken within 12 months have been included as part of current liabilities as the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

#### (ii) Termination benefits

Liabilities for termination benefits are recognised for the obligation to provide termination payments to employees where there is a valid expectation in those affected that the Group will progress with a restructuring and associated terminations.

## CRITICAL JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

### Employee benefits

Management has applied judgement in determining the following key assumptions used in calculating long service leave at balance date:

- Future increases in wages and salaries;
- Employee departures; and
- Periods of service.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 18: UNEARNED REVENUE

In millions of dollars	2017	2016
<b>CURRENT LIABILITIES</b>		
Unearned revenue – government grant <sup>1</sup>	268	-
Unearned revenue – capital contributions	47	39
Unearned revenue – other	23	20
Total current unearned revenue	338	59
<b>NON-CURRENT LIABILITIES</b>		
Unearned revenue – government grant <sup>1</sup>	504	1
Total non-current unearned revenue	504	1

(1) On 30 May 2017, the Queensland State Government announced a Government Grant that would fund the Solar Bonus Scheme over a three year period to provide pricing relief to electricity consumers.

## ACCOUNTING POLICIES

### Unearned revenue – government grant

When there is reasonable assurance that the Group will comply with all conditions attached to the government grant and those grants are received, then they are recognised in the statement of financial position initially as unearned revenue. Grants that compensate the Group for expenses incurred are recognised as revenue in the income statement on a systematic basis as the conditions of the grants are fulfilled.

### Unearned revenue – capital contributions

Unearned capital contributions comprises funds received from customers for the Group to construct distribution substation transformers, high voltage cables and switchgear and other assets required to supply electricity to new developments. As supply is made available, unearned capital contributions are recognised as revenue.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## SECTION 5: Capital structure

### NOTE 19: SHARE CAPITAL

	2017	2017	2016	2016
SHARE CAPITAL	Shares	\$M	Shares	\$M
Fully paid ordinary shares	100	19,643	100	19,643
<b>Total share capital</b>	<b>100</b>	<b>19,643</b>	<b>100</b>	<b>19,643</b>

Fully paid ordinary shares carry one vote per share and carry the rights to dividends. The shares have no par value. There were no changes in share capital during the period.

### NOTE 20: OTHER TRANSACTIONS WITH OWNERS, RESERVES AND RETAINED EARNINGS

In millions of dollars	2017	2016
Other transactions with owners <sup>1</sup>	(18,635)	(18,635)
Asset revaluation reserve	2,284	2,174
Hedging reserve	83	112
Retained earnings <sup>1</sup>	196	71

(1) On 30 June 2016, to facilitate the formation of the Group, the share capital of Energex and Ergon Energy and borrowings from QTC were transferred via Regulation and recorded as transactions with owners in their capacity as owners.

### ACCOUNTING POLICIES

#### Other transactions with owners

Where assets and liabilities are transferred between entities of the wholly-owned group or State of Queensland controlled entities, under the directive of the owner (being the State of Queensland) and the consideration paid is not equal to the value recognised on the transferred assets, the difference is recognised as other owners' contributions.

### NATURE AND PURPOSE OF RESERVES

#### Asset revaluation reserve

The asset revaluation reserve relates to property, plant and equipment measured at fair value in accordance with applicable Australian Accounting Standards.

#### Hedging reserve

The hedging reserve is used to record the effective portion of the gains or losses on hedging instruments in cash flow hedges that have not settled. Amounts are recognised in profit or loss when the associated hedged transactions affect the profit or loss statement or as part of the cost of an asset if non-monetary.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## SECTION 6: Other notes

### NOTE 21: LEASES

#### OPERATING LEASES

In millions of dollars	2017	2016
Not later than one year	35	36
Later than one year but not later than five years	146	145
Later than five years	156	194
Non-cancellable operating lease commitments	337	375

The Group leases various office, workshop and storage space under non-cancellable operating leases expiring within 1 to 13 years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are re-negotiated.

The Group sub-leases various corporate premises to tenants. The total future minimum sub-lease payments expected to be received under non-cancellable subleases at the end of the reporting period is \$6 million (2016: \$10 million).

The Group has five significant leasing arrangements. The Ann St Brisbane office has a remaining term of 6 years with two five year options. The escalation is set at 3.5% per annum. The Flinders St Townsville office has a remaining term of 11 years with one five year option. The escalation is set at 4.0% per annum. The Newstead office has a remaining term of 9 years with two five year options and one two year option. The escalation is at the greater of CPI or 3.75%. The Northern Metro Office at Nundah has a remaining term of 10 years with an option for 8 years plus an additional 5 years. The escalation is set at 3.5%. The Southern Metro Office at Mt Gravatt has a remaining lease term of 3 years with a three year option. The escalation is set at 3.75%.

#### ACCOUNTING POLICIES

##### Lease commitments

###### (i) Operating leases

Leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under operating leases are charged to the statements of profit or loss on a straight-line basis over the period of the lease unless an alternative basis is more representative of the time pattern of benefits to be obtained from the leased property.

###### (ii) Lease incentives

Where an entity in the Group is a lessee under an operating lease, the aggregate benefit of any incentive provided by the lessor for a new or renewed lease is recognised as an adjustment to rent expense over the lease term of the lease on a straight-line basis unless another systematic basis is more representative of the time pattern of benefit from the use of the leased asset.

### NOTE 22: COMMITMENTS

In millions of dollars	2017	2016
<b>CAPITAL EXPENDITURE COMMITMENTS</b>		
Estimated capital expenditure contracted for at the end of the financial year but not recognised as liabilities <sup>1</sup>	109	78

(1) These commitments consist of executed contracts and/or open purchase orders and are valued at price levels and foreign currency exchange rates as at the end of the reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 23: CONTINGENCIES

### (A) Legal claims

A number of common law claims are pending against the Group and liability is not admitted. The amount of claims due to litigation and associated legal fees is \$2 million (2016: \$4 million). These claims are disclosed on a gross basis and exclude possible reimbursement through insurance recoveries.

### (B) Other possible claims

From time to time the Group receives formal notifications from third parties which might indicate intention to lodge formal claims against the Group. The Group investigates these matters and responds appropriately to such communications in order to minimise potential future claims.

There are no significant claims that are expected to have an impact on the Group's future financial position.

### (C) Guarantees

#### (i) Third Parties

In order to participate in the electricity market, entities within the Group were required to deliver acceptable security as collateral for their obligations arising as a consequence of normal trading. Security, in the form of payment guarantees totalling \$100 million (2016: \$100 million), has been issued by QTC to the AEMO. These guarantees are supported by a counter indemnity of \$2 million to QTC from the Group and a \$300 million QTC AFSL Working Capital Facility (previously counter indemnities to QTC from the Group in 2016 totalling: \$352 million).

Energex also has in place a bank guarantee facility of \$1 million for non-regulated business.

#### (ii) Subsidiaries – Wholly-owned

In 2011/12 Energex issued an unlimited indemnity to Energy Impact Pty Ltd. Energex also issued limited indemnities of \$15 million for general claims and unlimited indemnities for specific claims to both Varnsdorf Pty Ltd and VH Operations Pty Ltd. Energex warrants that sufficient financial support up to a limit of \$10,000 will be provided to Metering Dynamics Business Support Pty Ltd to ensure that the business is able to pay its debts as and when they fall due.

Ergon Energy provides an unqualified undertaking to pay to Ergon Energy Queensland Pty Ltd (EEQ) an unlimited amount in cash to enable EEQ to meet its financial requirements pursuant to its Australian Financial Services Licence and in accordance with ASIC Regulatory Guide 166.

Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 (previously Class Order 98/1418) Energy Queensland, the parent of the Group, has guaranteed to pay any deficiency in the event of winding up of Energex Limited, Ergon Energy Corporation Limited and SPARQ Solutions Pty Ltd. These controlled entities have also given a similar guarantee in the event that Energy Queensland or any of the entities are wound up or does not meet their obligations. Refer to Note 24.

### (D) Guarantees held

The Group holds bank guarantees from customers totalling \$62 million (2016: \$97 million) relating to the construction of capital assets.

There are no standing deals and guarantees held with trading counterparties for 2017 (guarantees held with trading counterparties in 2016: \$1 million, as security to cover obligations arising from the trading of electricity).

### (E) Environmental remediation

The Group provides for all known environmental liabilities. The Group estimates that current provisions for environmental remediation are adequate based on current information. However, there can be no assurance that new material provisions will not be required as a result of new information or regulatory requirements with respect to known sites or identification of new remedial obligations at other sites.

## ACCOUNTING POLICIES

### Contingent assets and liabilities

Contingent assets are not recognised in the financial statements. Other than when required on acquisition of a business, contingent liabilities are not recognised in the financial statements. They are, however, disclosed in the notes to the financial statements, where appropriate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 24: CONSOLIDATED ENTITIES

		COUNTRY OF INCORPORATION	PERCENTAGE INTEREST HELD BY THE GROUP <sup>1</sup>	2017 %	2016 %
<b>THE COMPANY</b>					
	<b>Energy Queensland Limited</b>	<b>Australia</b>			
<b>CONTROLLED ENTITIES</b>					
<b>Energex Group</b>	<b>Energex Limited</b>	Australia	<b>100</b>	100	
	Energy Impact Pty Ltd	Australia	<b>100</b>	100	
	Metering Dynamics Business Support Pty Ltd	Australia	<b>100</b>	100	
	Varnsdorf Pty Ltd	Australia	<b>100</b>	100	
	VH Operations Pty Ltd	Australia	<b>100</b>	100	
<b>Ergon Energy Group</b>	<b>Ergon Energy Corporation Limited</b>	Australia	<b>100</b>	100	
	Ergon Energy Queensland Pty Ltd	Australia	<b>100</b>	100	
	Ergon Energy Telecommunications Pty Ltd	Australia	<b>100</b>	100	
	<b>SPARQ Solutions Pty Ltd</b>	Australia	<b>100</b>	100	

- (1) The proportion of ownership interest is equal to the proportion of voting power held. Up to 30 June 2016: Energex Limited held 100% of the interest in members of the Energex Group; and Ergon Energy Corporation Limited held a 100% interest in members of the Ergon Energy Group. From 30 June 2016 Energy Queensland Limited became the ultimate parent company of both the Energex Group and Ergon Energy Group. During these periods both Energex and Ergon Energy held a 50% interest in a joint operation SPARQ Solutions.

## ACCOUNTING POLICIES

### Basis of consolidation

A subsidiary is an entity over which the Company has control. The Company controls an entity when the Company has power over the investee, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the parent of the Group.

Investments in controlled entities are carried in the financial statements of the Company at the lower of cost and recoverable amount.

Where an acquisition has commercial substance, the cost of an acquisition is measured as the fair value of the assets given, liabilities incurred or assumed and equity instruments issued at the date of exchange. Where such transactions result from the restructuring of entities wholly-owned by the State of Queensland and are designated as transactions with owners, assets acquired and liabilities assumed are recognised at the current carrying amounts recorded by the transferor with any difference between consideration and the carrying amount at the date of exchange recorded in contributed equity.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 24: CONSOLIDATED ENTITIES (CONTINUED)

### CLOSED GROUP LEGISLATIVE INSTRUMENT

Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785, relief has been granted to the following controlled entities from the *Corporations Act 2001* requirements for the preparation, audit and lodgement of their financial reports:

- Energex Limited
- Ergon Energy Corporation Limited
- SPARQ Solutions Pty Ltd.

As a condition of the Legislative Instrument, Energy Queensland and the above consolidated entities entered into a Deed of Cross Guarantee. The effect of the Deed is that Energy Queensland the Parent has guaranteed to pay any deficiency in the event of winding up of the above controlled entities or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. These controlled entities have also given a similar guarantee in the event that any other entity in the Closed Group is wound up or if it does not meet its obligations under the terms of the overdrafts, loans, leases or other liabilities under the guarantee.

ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 replaced Class Order 98/1418 in September 2016. The existing Deed of Cross Guarantee continues to provide reporting relief to the above controlled entities.

The consolidated profit or loss and statements of financial position of the entities that are members of the Closed Group are provided in Note 26(A).

Further information regarding guarantees is provided in Note 23.

## NOTE 25: ENERGY QUEENSLAND LIMITED (THE PARENT)

In thousands of dollars	2017	2016
Current Assets	2,674,629	676
Non-Current Assets	19,661,874	19,664,138
<b>Total Assets</b>	<b>22,336,503</b>	<b>19,664,814</b>
Current liabilities	2,711,494	40,421
Non-Current Liabilities	16,250,374	16,250,000
<b>Total Liabilities</b>	<b>18,961,868</b>	<b>16,290,421</b>
Issued Capital	19,642,789	19,642,789
Other transactions with owners	(16,266,818)	(16,266,818)
Retained Earnings	(1,336)	(1,577)
<b>Total Equity</b>	<b>3,374,635</b>	<b>3,374,393</b>
Profit/(loss) of the Parent entity	881,171	(1,577)
Total comprehensive income of the Parent entity	881,171	(1,577)



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 26: CLOSED GROUP AND ENERGEX AND ERGON ENERGY GROUP INFORMATION

### (A) Closed Group Information

As discussed in Note 24, pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785, relief has been granted to wholly-owned entities of the Group from the *Corporations Act 2001* requirements for the preparation, audit and lodgement of their financial reports.

The consolidated profit or loss and statements of financial position of the entities that are members of the Closed Group are as follows:

### Consolidated Closed Group Profit or Loss

In millions of dollars	2017	2016
Profit or loss before income tax	1,247	1,306
Income tax expense	(325)	(360)
<b>Profit after tax</b>	<b>922</b>	<b>946</b>
Retained earnings at the beginning of the period	56	6
Dividends provided for or paid	(881)	(927)
Transfers to reserves	125	31
Retained earnings at the end of the period	222	56

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 26: CLOSED GROUP AND ENERGEX AND ERGON ENERGY GROUP INFORMATION (CONTINUED)

### (A) Closed Group Information

#### Consolidated Closed Group Statement of Financial Position

In millions of dollars	2017	2016
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	3	99
Trade and other receivables	2,138	863
Inventories	168	168
Other assets	2	2
<b>Total current assets</b>	<b>2,311</b>	<b>1,132</b>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	22,952	22,373
Intangible assets	171	194
Investments in subsidiaries	126	126
Employee retirement benefits	271	125
Other assets	8	8
<b>Total non-current assets</b>	<b>23,528</b>	<b>22,826</b>
<b>TOTAL ASSETS</b>	<b>25,839</b>	<b>23,958</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables (including dividends payable)	1,143	304
Employee benefits	306	294
Provisions	17	53
Current tax liabilities	-	144
Unearned revenue	338	59
Other liabilities	1	1
<b>Total current liabilities</b>	<b>1,805</b>	<b>855</b>
<b>NON-CURRENT LIABILITIES</b>		
Interest bearing liabilities	16,258	16,246
Employee benefits	25	31
Provisions	11	10
Net deferred tax equivalent liability	3,589	3,443
Unearned revenue	504	1
Other liabilities	6	7
<b>Total non-current liabilities</b>	<b>20,393</b>	<b>19,738</b>
<b>TOTAL LIABILITIES</b>	<b>22,198</b>	<b>20,593</b>
<b>NET ASSETS</b>	<b>3,641</b>	<b>3,365</b>
<b>EQUITY</b>		
Share capital	19,643	19,643
Other transactions with owners	(18,508)	(18,508)
Reserves	2,284	2,174
Retained earnings	222	56
<b>TOTAL EQUITY</b>	<b>3,641</b>	<b>3,365</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 26: CLOSED GROUP AND ENERGEX AND ERGON ENERGY GROUP INFORMATION (CONTINUED)

### (B) Energex Group and Ergon Energy Group Information

In millions of dollars	Energex Group		Energex Parent		Ergon Energy Group		Ergon Energy Parent	
	2017	2016	2017	2016	2017	2016	2017	2016
<b>Revenue</b>	<b>2,588</b>	<b>2,572</b>	<b>2,577</b>	<b>2,575</b>	<b>2,698</b>	<b>2,542</b>	<b>2,570</b>	<b>2,402</b>
<b>Other Income</b>	<b>-</b>	<b>-</b>	<b>14</b>	<b>-</b>	<b>2</b>	<b>41</b>	<b>2</b>	<b>2</b>
<b>Expenses</b>								
Transmission charges and electricity purchases	(485)	(434)	(485)	(434)	(394)	(388)	(391)	(357)
Solar photovoltaic feed in tariff	(177)	(187)	(177)	(187)	(112)	(117)	(100)	(109)
Employee expenses	(261)	(230)	(254)	(225)	(255)	(288)	(230)	(261)
Materials and services	(200)	(199)	(235)	(233)	(214)	(211)	(227)	(218)
Depreciation, amortisation and impairments	(418)	(437)	(401)	(419)	(510)	(493)	(440)	(446)
Finance costs	-	(314)	-	(314)	-	(300)	-	(297)
Fair value losses	-	-	-	-	(60)	-	-	-
Other expenses	(50)	(50)	(43)	(42)	(112)	(146)	(150)	(161)
<b>Profit before income tax equivalent expense</b>	<b>997</b>	<b>721</b>	<b>996</b>	<b>721</b>	<b>1,043</b>	<b>640</b>	<b>1,034</b>	<b>555</b>
Income tax equivalent expense	(297)	(220)	(297)	(220)	(314)	(197)	(262)	(140)
<b>Profit after income tax equivalent expense</b>	<b>700</b>	<b>501</b>	<b>699</b>	<b>501</b>	<b>729</b>	<b>443</b>	<b>772</b>	<b>415</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 26: CLOSED GROUP AND ENERGEX AND ERGON ENERGY GROUP INFORMATION (CONTINUED)

### (C) Energex Group and Ergon Energy Group Information (Continued)

	Energex Group		Energex Parent		Ergon Energy Group		Ergon Energy Parent	
In millions of dollars	2017	2016	2017	2016	2017	2016	2017	2016
Profit after income tax equivalent expense	700	501	699	501	729	443	772	415
<b>OTHER COMPREHENSIVE INCOME</b>								
Other comprehensive income for the financial year, net of tax	88	2	83	5	114	130	138	51
<b>TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR</b>	<b>788</b>	<b>503</b>	<b>782</b>	<b>506</b>	<b>843</b>	<b>573</b>	<b>910</b>	<b>466</b>

All profit and comprehensive income is attributable to the owners of the company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 27: KEY MANAGEMENT PERSONNEL DISCLOSURES

### (A) Details of Shareholding Ministers

The Group's responsible shareholding Ministers are identified as part of the Group's KMP, and these Ministers are the:

- Treasurer and Minister for Trade and Investment, and the
- Minister for Main Roads, Road Safety and Ports and Minister for Energy, Biofuels and Water Supply.

The Government Gazette dated 11 August announced that the Premier and Minister for the Arts was nominated to be the portfolio Minister for Energy Queensland Limited.

### (B) Compensation – Shareholding Ministers

Ministerial remuneration entitlements are outlined in the Legislative Assembly of Queensland's Members' Remuneration Handbook. The Group does not bear any cost of remuneration of Ministers. The majority of Ministerial entitlements are paid by the Legislative Assembly, with the remaining entitlements being provided by Ministerial Services Branch within the Department of the Premier and Cabinet. As all Ministers are reported as KMP of the Queensland government, aggregate remuneration expenses for all Ministers is disclosed in the Queensland General Government and Whole of Government Consolidated Financial Statements as from 2016/17, which are published as part of Queensland Treasury's Report on State Finances.

### (C) Details of Directors

Directors of Energy Queensland as at 30 June 2017:		Term of appointment	
Directors of Energy Queensland as at 30 June 2017:		Term of appointment	Appointment expiry date
<b>Philip Garling</b>	Chairman	3 years	30 June 2019
<b>Clive Skarott</b>	Non-Executive Director	1 year	30 June 2017
<b>Kerryn Newton</b>	Non-Executive Director	3 years 3 months	30 September 2020
<b>Mark Algie</b>	Non-Executive Director	3 years	1 October 2019
<b>Teresa Dyson</b>	Non-Executive Director	3 years	1 October 2019
<b>Hugh Gleeson</b>	Non-Executive Director	3 years	1 October 2019
<b>Kathy Hirschfeld</b>	Non-Executive Director	3 years	1 October 2019
<b>Helen Stanton</b>	Non-Executive Director	3 years	1 October 2019

### (D) Compensation – Directors

Directors' remuneration is set pursuant to the *Government Owned Corporations Act 1993* by Shareholding Ministers, with other fees and allowances determined on the basis of meetings attended and expenditure incurred in performing their roles as Directors of entities forming part of the Group.

The non-executive Directors of the Company do not participate in any variable reward or 'at-risk' incentive scheme.

Amounts disclosed for remuneration of key management personnel exclude insurance premiums paid by the Company in respect of Directors' and Officers' liability insurance contracts.

In accordance with Ministerial Guidelines, details of compensation provided to Directors in office during the financial period ended 30 June 2017 by the Group are as follows:

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## (D) Compensation – Directors (Continued)

DIRECTORS' REMUNERATION	SHORT TERM BENEFITS Directors' Fees	POST EMPLOYMENT BENEFITS Post Employment Benefits	TOTAL
2017	\$'000	\$'000	\$'000
<b>Energy Queensland</b>			
Philip Garling <sup>1</sup>	206	20	226
Clive Skarott <sup>1,2</sup>	81	8	89
Kerryn Newton <sup>1</sup>	83	8	91
Mark Algie	58	6	64
Teresa Dyson	71	7	78
Hugh Gleeson	66	6	72
Kathy Hirschfeld	66	6	72
Helen Stanton	64	6	70
<b>Total</b>	<b>695</b>	<b>67</b>	<b>762</b>

(1) Philip Garling, Clive Skarott and Kerryn Newton were appointed as Directors on 30 June 2016. No remuneration was paid for this day.

(2) Clive Skarott's term of appointment expired 30 June 2017.

No further fees were paid to Directors, other than the amounts disclosed in the table above.

## (E) Compensation – Executives

### Senior executive employment contracts

Remuneration and other terms of employment of executives are formalised in executive employment contracts.

Each of these employment contracts makes a provision for fixed remuneration and an 'at risk' performance incentive.

A Total Fixed Remuneration (TFR) concept for the structure of executive remuneration is utilised. While the total cost of an executive's remuneration package is capped, the executive then has the flexibility to decide the composition of the total fixed remuneration, which could include cash salary or salary sacrificed arrangements including motor vehicle, car park and additional superannuation, plus any fringe benefits tax incurred.

No other non-cash benefits are provided to executives as the TFR concept captures various benefits structured within a total cost rather than a base salary plus benefits approach.

Executive staff members are eligible for an 'at risk' or variable performance pay component that is directly linked to both the overall performance of their respective employer Group and their individual efforts against a range of key indicators and targets as contained in the annual Statement of Corporate Intent and the executives' performance agreement. Any 'at risk' payment is contingent upon the Board's assessment of the company's overall performance and shareholder expectations.

Performance payments may not exceed a maximum of 15% of the individual's TFR figure.

Performance payments to all employees, including executive staff, are disclosed in Note 27(E).

All executives are engaged on tenured contractual arrangements in accordance with *The Policy for Government Owned Corporations Chief and Senior Executive Employment Arrangements* (Policy).

Separation entitlements for all executives are subject to the normal terms and conditions of their contracts with the Group.

### Application to Chief Executive Officer (CEO)

Upon termination the executive is entitled to pay in lieu of the executive's entitlements to annual leave and long service leave, calculated with reference to the executive's total fixed remuneration up to the date on which the termination takes effect. If the employment of the executive is terminated by Energy Queensland, except in the event of serious misconduct or incapacity, the executive is entitled to:

- salary for the balance of the notice period; and
- a termination payment of six months superannuable salary.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## (E) Compensation – Executives (Continued)

### Application to other Executives

Upon termination the executive is entitled to pay in lieu of the executive's entitlements to annual leave and long service leave, calculated with reference to the executive's total fixed remuneration up to the date on which the termination takes effect. If the employment of the executive is terminated by Energy Queensland, except in the event of serious misconduct or incapacity, the executive is entitled to:

- i. salary for the balance of the notice period; and
- ii. a termination payment of three months superannuable salary.

EXECUTIVE REMUNERATION	Short term benefits <sup>1</sup>	Performance payment <sup>2</sup>	Non monetary benefits <sup>3</sup>	Post- employment benefits <sup>4</sup>	Other long- term benefits <sup>5</sup>	Termination benefits	Total
2017	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Energy Queensland</b>							
David Smales - Chief Executive Officer <sup>6</sup>	592	-	-	15	66		673
Terence Effeney - Interim Chief Executive Officer <sup>7</sup>	434	106	3	74	83	-	700
Peter Scott - Chief Financial Officer <sup>8</sup>	491	60	-	20	50		621
Belinda Watton - Executive General Manager People, Culture and Safety <sup>9</sup>	245	-	-	13	28	-	286
Peter Price - Executive General Manager Asset Safety and Performance <sup>10</sup>	244	-	-	26	29	-	299
Roslyn Baker - Chief Operating Officer Distribution <sup>11</sup>	152	-	-	6	18	192	368
Craig Chambers - Executive General Manager Strategy, Portfolio and Innovation <sup>12</sup>	259	-	-	11	26	-	296
Mark Williamson - Acting Executive General Manager Retail <sup>13</sup>	22	-	-	2	2	-	26
Charles Rattray - Executive General Manager Energy Services <sup>14</sup>	184	-	-	10	21	-	215
Barbara-Anne Bensted - Chief Digital Officer <sup>15</sup>	186	-	-	9	20	-	215
Cheryl Hopkins - Executive General Manager Retail <sup>16</sup>	159	-	-	7	17	-	183
Paul Jordon – Interim Chief Operating Officer <sup>17</sup>	54	-	-	3	4	-	61
Kevin Kehl - Interim Executive General Manager Energy Services <sup>18</sup>	203	60	2	22	23	-	310
<b>Total</b>	<b>3,225</b>	<b>226</b>	<b>5</b>	<b>218</b>	<b>387</b>	<b>192</b>	<b>4,253</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## (E) Compensation – Executives (Continued)

- (1) Short-term benefits include all payments made to the Officer during the year excluding at-risk performance payments (disclosed separately), less payments for annual leave and long-service leave taken.
- (2) At risk performance payments are physically paid in the current financial year for performance for the prior financial year.
- (3) Non-monetary benefits represent the value of car parking provided to the Executive.
- (4) Post-employment benefits represent superannuation contributions made by the employer to the superannuation fund at the rates prescribed in the executives' employment contracts (which range from 9.5% of the maximum contribution base to 10% as part of the fixed remuneration base). Some executives are members of the defined benefit superannuation fund. Refer to Note 15 for further information regarding the defined benefit obligations of the Group.
- (5) Other long-term benefits represent annual and long service leave benefits accrued and during the year.
- (6) David Smales was appointed Chief Executive Officer of Energy Queensland on 26 September 2016.
- (7) Terence Effeney was appointed Interim Chief Executive Officer on 30 June 2016. He remained in that role until 3 October 2016 when he was appointed to the position of Transition Executive General Manager.
- (8) Peter Scott was appointed Interim Chief Financial Officer of Energy Queensland on 30 June 2016 and subsequently appointed Chief Financial Officer on 14 November 2016.
- (9) Belinda Watton was in the position of Executive General Manager People, Safety & Culture for Ergon until her appointment as Executive General Manager People, Safety & Culture of Energy Queensland on 31 October 2016. The amounts disclosed are only those earned by the individual since appointment as an Executive of Energy Queensland.
- (10) Peter Price was in the position of Executive General Manager Asset Management for Energex until his appointment to the position of Executive General Manager Asset Safety & Performance of Energy Queensland on 14 November 2016. The amounts disclosed are only those earned by the individual since appointment as an Executive of Energy Queensland.
- (11) Roslyn Baker was in the position of Chief Executive Officer of Ergon until her appointment as Chief Operating Officer of Energy Queensland on 14 November 2016. Roslyn ceased in that role on 6 March 2017. The amounts disclosed are only those earned by the individual during her term as an Executive of Energy Queensland.
- (12) Craig Chambers was appointed to the position of Executive General Manager Strategy Portfolio & Innovation on 12 December 2016.
- (13) Mark Williamson was acting in the role of Executive General Manager Retail from 8 August 2016 until 8 February 2017. The amounts disclosed are only those earned by the individual during the period acting in that role.
- (14) Charles Rattray was appointed to the role of Executive General Manager Energy Services on 19 December 2016.
- (15) Barbara-Anne Bensted was appointed to the role of Chief Digital Officer on 12 January 2017.
- (16) Cheryl Hopkins was appointed to the role of Executive General Manager Retail on 9 February 2017.
- (17) Paul Jordon was in the position of Executive General Manager Customer Service for Ergon until his appointment as Interim Chief Operating Officer of Energy Queensland on 6 March 2017. The amounts disclosed are only those earned by the individual since appointment as an Executive of Energy Queensland.
- (18) Kevin Kehl was appointed Interim Executive General Manager Energy Services of Energy Queensland on 30 June 2016. He was then appointed to the role of Interim Executive General Manager Strategy Portfolio & Innovation from 8 August 2016 until his resignation on 2 January 2017.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 27: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

### (E) Compensation – Executives (Continued)

Total Fixed Remuneration Package <sup>1</sup>		2017	2016
			\$'000
Energy Queensland <sup>2</sup>	Chief Executive Officer	865	812
	Chief Financial Officer	524	432
	Chief Operating Officer	573	-
	Executive General Manager People, Culture and Safety	414	-
	Executive General Manager Asset Safety and Performance	459	-
	Chief Digital Officer	414	-
	Executive General Manager Retail	427	-
	Executive General Manager Energy Services	392	-
	Executive General Manager Strategy, Portfolio and Innovation	481	428
	Interim Executive General Manager Transformation	-	437
	<b>Total</b>	<b>4,549</b>	<b>2,109</b>

- (1) The TFR package differs from the executive remuneration disclosures on the previous page, as the executive remuneration disclosures reflect the cost to the Group. Adjustments include leave and superannuation accruals and pro-rata payments for part-year entitlements. The fixed remuneration note has been adjusted to reflect the current organisational structure.
- (2) The table provides the annual TFR package for Energy Queensland Executives.

### (F) Compensation disclosures by category:

	2017	2016
	\$'000	\$'000
Short-term benefits	4,151	6,891
Post-employment benefits	285	228
Other long-term benefits	387	750
Termination benefits	192	518
<b>Total</b>	<b>5,015</b>	<b>8,387</b>

This table includes Directors and Executives remuneration.

Note: The benefits reflect the appointment terms of the Executives and pro-rata benefits for the KMP's of Energy Queensland in 2016/17. For 2015/16, the benefits reflect both KMP's for Ergon and Energex. As a result, the benefits are lower than the prior year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## (G) Performance payments to employees

### EMPLOYEES RECEIVING PERFORMANCE PAYMENTS

Financial year	Aggregate at-risk performance remuneration <sup>1</sup>	Total fixed salaries and wages payments <sup>2</sup>	Employees receiving performance payments
	\$'000	\$'000	Number
2017	16,698	373,208	2,950
2016	19,256	427,889	3,330

- (1) The aggregate at-risk performance remuneration represents the annual actual payment granted in September for prior year's performance award, non-executive contract. Individual employment agreements, executive contract and senior executive contract employees.
- (2) Amounts shown above include capitalised employee benefits not shown in the income statement. The amounts exclude termination payments.

Full and part-time employees of Energex are eligible to participate in an 'at-risk' performance scheme. Participation in the scheme is voluntary. To be eligible for payment the employee must agree targets with their manager which must be documented.

Permanent Ergon Energy non-executive employees in targeted positions may be offered a contract which enables eligibility in the 'at-risk' performance scheme. The grant date for each employee is based on the employment contract.

Any 'at-risk' payment is contingent upon the respective Board's assessment of the Company's overall performance and shareholder expectations.

## (H) Transactions with related parties of key management personnel

Key management personnel and their closely related parties conduct transactions with the Group on an arm's length basis and on terms and conditions no more favourable than those available to non-related parties.

All transactions with key management personnel or related parties that occurred during the financial year are trivial or domestic in nature, apart from those noted below.

The following executives and former executives of the Group are or were Directors of controlled entities. They did not receive any remuneration for their positions as Directors of these entities.

- Roslyn Baker
- Terrence Effenev
- Peter Scott
- David Smales
- Craig Chambers
- Kevin Kehl.

Clive Skarott and Peter Scott were Directors of Energy Super during the 2016/17 financial year. The Group contributed to the Energy Super Fund based on actuarial advice and the total payments for the year were \$95 million (2016: \$81 million).

## (I) Loans to key management personnel

The Group has not made any loans to key management personnel in either the current or the prior financial year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 28: RELATED PARTY TRANSACTIONS

### Entities subject to common control

The Company is a Queensland Government Owned Corporation, with all shares held by shareholding Ministers on behalf of the State of Queensland. All State of Queensland controlled entities meet the definition of other related parties of the Group.

### Transactions with State of Queensland controlled entities

The Group and the Company transact with other State of Queensland controlled entities. All material transactions are negotiated on terms equivalent to those that prevail in arm's length transactions.

	2017 \$'000	2016 \$'000
<b>REVENUE</b>		
Revenue from State of Queensland controlled entities	398,043	246,299
Pensioner rebate revenue from Department of Communities	48,974	52,049
Interest received on deposits with QTC	61	17,536
<b>EXPENSES</b>		
Expenses incurred to State of Queensland controlled entities	887,941	811,526
Interest on QTC borrowings (includes administration fees)	781,761	529,969
Community service obligations offset	(598,447)	(541,385)
Competitive neutrality fee paid to Queensland Treasury	-	88,605
Electricity trading with State of Queensland controlled entities	331,024	220,746
Environmental certificate transactions with State of Queensland controlled entity counterparties	6,081	513
NTER, Payroll Tax and Land Tax paid to Queensland Treasury	408,307	455,741
<b>ASSETS</b>		
Deposits held with QTC	-	21,668
Advances facility held with Queensland Treasury	1,081,500	-
Community service obligations amounts receivable	116,205	87,028
Current tax receivable	92,438	-
Trade and other receivables from State of Queensland controlled entities	4,226	17,370
Other assets	337	4,082
<b>LIABILITIES</b>		
Accrued interest and fees payable to QTC	18,887	18,950
Trade payables to State of Queensland controlled entities	73,367	58,858
Current tax payable	-	143,561
Dividends payable to Queensland Treasury	881,171	-
Borrowings from QTC	16,250,000	16,250,000
Accrued competitive neutrality fee payable to Queensland Treasury	-	24,018
Electricity trading with State of Queensland controlled entities	23,850	22,576
Unearned grant revenue	773,129	1,173
<b>EQUITY</b>		
Dividends	-	927,300
Government consolidation transfers	680,325	669,753

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## NOTE 28: RELATED PARTY TRANSACTIONS (CONTINUED)

No provision for impairment of receivables was raised for any outstanding balances and no expense was recognised for bad or impaired debts due from State owned entities.

Transactions with State-owned electricity entities were made in accordance with the National Electricity Rules for transmission use of system charges. Other transactions are based on normal commercial terms and conditions and at market rates.

### Transactions with other related parties

Disclosures relating to key management personnel are set out in Note 27.

### Ultimate parent entity

The ultimate parent entity within the Group is Energy Queensland Limited.

### Ownership interests in related parties

Interests in consolidated entities are set out in Note 24.

## NOTE 29: AUDITOR'S REMUNERATION

	2017	2016
	\$'000	\$'000
Remuneration for audit and review of the financial reports of the Group and the Company:		
Auditor-General of Queensland		
<b>Audit services</b>		
Audit and review of financial reports	1,640	1,537
Audit and review of regulatory reports	457	457
<b>Other</b>		
Non-financial review of regulatory reports	92	93
	<b>2,189</b>	<b>2,057</b>

## NOTE 30: EVENTS AFTER REPORTING DATE

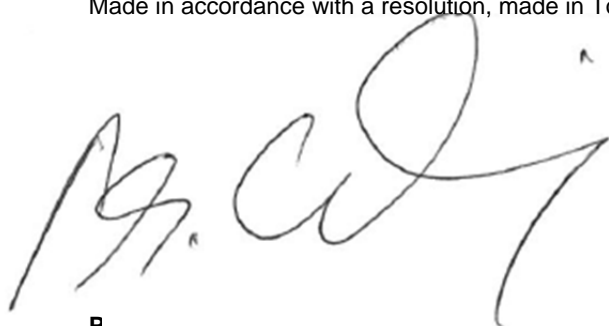
No events of a material nature have occurred since the end of the financial year that significantly affected or may significantly affect the operations of the Group or the Company.

## DIRECTORS' DECLARATION

In the Directors' opinion:

1. The financial statements and associated notes, set out on pages 55 to 115
  - (i) Comply with the Australian Accounting Standards and Interpretations;
  - (ii) Are in accordance with the *Corporations Act 2001*; and
  - (iii) Give a true and fair view of the financial position of the Group as at 30 June 2017 and of its performance for the year ended on that date.
2. As at the date of this declaration there are reasonable grounds to believe:
  - (i) that the Company will be able to pay its debts as and when they become due and payable; and
  - (ii) the members of the Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee.

Made in accordance with a resolution, made in Townsville, by the Directors.

A large, stylized handwritten signature in black ink, likely belonging to a Director, positioned above the company name.

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# INDEPENDENT AUDITOR'S REPORT

To the Members of Energy Queensland Limited

## Report on the audit of the financial report

### Opinion

I have audited the accompanying financial report of Energy Queensland Limited and its controlled entities (the Group).

In my opinion, the financial report:

- a) gives a true and fair view of the Group's financial position as at 30 June 2017, and its financial performance and cash flows for the year then ended; and
- b) complies with the *Corporations Act 2001*, the Corporations Regulations 2001 and Australian Accounting Standards.

The financial report comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended 30 June 2017, notes to the financial statements including summaries of significant accounting policies and other explanatory information, and the directors' declaration.

### Basis for opinion

I conducted my audit in accordance with the *Auditor-General of Queensland Auditing Standards*, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report.

I am independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code and the *Auditor-General of Queensland Auditing Standards*. I am also independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001*, and confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the company, would be in the same terms if given to the directors as at the time of this auditor's report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Key audit matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial report of the current period. I addressed these matters in the context of my audit of the financial report as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.



## INDEPENDENT AUDITOR'S REPORT

### Valuation of supply system assets (\$21,478 million)

(Refer Note 14)

Key audit matter	How my audit addressed the key audit matter
<p>The fair value of the supply system assets has been determined using the discounted cash flow (DCF) technique (Income Approach).</p> <p>The fair value estimation involved significant assumptions and judgements for:</p> <ul style="list-style-type: none"> <li>• Aggregating supply assets to units of account for valuation purposes.</li> <li>• Estimating future cash inflows and outflows based on: <ul style="list-style-type: none"> <li>• Revenue forecasts.</li> <li>• Estimations of efficient and prudent operating and capital cash outflow amounts occurring beyond the current regulatory period</li> </ul> </li> <li>• Tax cash flow.</li> <li>• Deriving a terminal value in EQL's regulated environment.</li> <li>• Setting the rate used to discount the forecast cash inflows, cash outflows and terminal value to present.</li> </ul>	<p>My procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• With reference to common industry practice, evaluating for appropriateness EQL's identification of units of account and use of the income approach (having consideration for highest and best use and the principal market).</li> <li>• Verifying the mathematical accuracy of the discounted cash flow models.</li> <li>• Assessing the reasonableness of forecast revenue, operating expenditure, capital expenditure, and tax cash flows, by corroborating the key market related assumptions to relevant internal forecasts and historical external data.</li> <li>• Evaluating the methodology used to derive terminal values with reference to common industry practice.</li> <li>• Performing sensitivity analysis for the revenue cash flow growth rate, expenditure cash flow growth rate, discount rate and terminal value to assess how management addressed estimation uncertainty.</li> <li>• Engaging a specialist and an auditor's expert to assist me in: <ul style="list-style-type: none"> <li>- agreeing the discount rate calculation methodology to industry range standards and available market information; and</li> <li>- assessing the reasonableness of the income approach valuation by performing valuation cross checks to comparable organisations and recent sales of similar entities.</li> <li>- Reviewing the qualifications, competence, capabilities, objectivity and work completed by the specialist and auditor's expert to ensure that the nature, scope and objectives of the work completed was appropriate and the findings and conclusions were relevant, reasonable and consistent with other audit evidence obtained.</li> </ul> </li> </ul>

## INDEPENDENT AUDITOR'S REPORT

### Depreciation of Supply System Property, Plant and Equipment (\$684 million)

(Refer Note 14)

Key audit matters	How my audit addressed this key audit matter
<p>The depreciation of supply system assets requires significant professional judgement for:</p> <ul style="list-style-type: none"> <li>Disaggregating assets into components that are subject to regular replacement.</li> <li>Forecasting the remaining useful lives of those components.</li> <li>Estimating residual values.</li> <li>Useful life estimates require consideration of an asset's current condition and its expected future use, physical wear and tear, and technical or commercial obsolescence.</li> </ul>	<p>My procedures included but were not limited to:</p> <ul style="list-style-type: none"> <li>Evaluating management's approach to disaggregating supply assets with reference to common industry practice and expert advice from engineers and valuers.</li> <li>Obtaining an understanding of the basis for calculating remaining useful lives of supply asset components within all the standardised component types.</li> <li>Agreeing components' remaining useful lives to their respective asset management plans.</li> <li>Evaluating management's assessment of physical condition, obsolescence, and expected usage and wear and tear in estimating remaining useful lives.</li> <li>Assessing the reasonableness of residual values with reference to sale proceeds from disposals of similar assets.</li> </ul>

### Responsibilities of the company for the financial report

The company's directors are responsible for the preparation of the financial report that gives a true and fair view in accordance with the *Corporations Act 2001*, the Corporations Regulations 2001 and Australian Accounting Standards, and for such internal control as the company's directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

The company's directors are also responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial report

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

## INDEPENDENT AUDITOR'S REPORT

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Group.
- Conclude on the appropriateness of the Group's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. I base my conclusions on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. I am responsible for the direction, supervision and performance of the audit of the Group. I remain solely responsible for my audit opinion.

I communicate with the company's directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

From the matters communicated with the company's directors, I determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. I describe these matters in my auditor's report.



B Worrall  
Auditor-General



Queensland Audit Office  
Townsville

## AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of Energy Queensland Limited

This auditor's independence declaration has been provided pursuant to s.307C of the *Corporations Act 2001*.

### *Independence Declaration*

As lead auditor for the audit of Energy Queensland Limited and its controlled entities for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.



B Worrall  
Auditor-General  
15 August 2017

Queensland Audit Office  
Brisbane

## Key Contact Numbers

### **Ergon Energy Retail Customer Service**

13 10 46

7.00am – 6.30pm, Monday to Friday

### **Ergon Energy Network Power Outages**

13 22 96

24 hours a day, 7 days a week

### **Energex Power Outages**

13 62 62

24 hours a day, 7 days a week

## Key Service Centres

### **Cairns**

109 Lake Street  
CAIRNS Qld 4870

### **Townsville (Head 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**

26 Reddacliff Street  
NEWSTEAD Qld 4006

### **Brisbane**

825 Ann Street  
FORTITUDE VALLEY Qld 4006

