

Annual Report 2010/11



Ausgrid



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The Hon Gregory Pearce MLC
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The Hon Mr Mike Baird MP
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Dear Ministers

Annual Report for Ausgrid for the year ended 30 June 2011

We are pleased to submit for presentation to Parliament, Ausgrid's annual report covering performance, operations and financial results for the year ended 30 June 2011.

The report has been prepared in accordance with section 24A of the State Owned Corporations Act (1989) and the Annual Reports (Statutory Bodies) Act (1984).

Copies of the report are being sent to the Premier of New South Wales, and the Auditor General, as well as being made available to key customers and other interest groups.

Yours sincerely

John C Conde AO
Chairman

George Maltabarow
Managing Director

Sydney
28 October 2011



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About this report

Ausgrid's 2010/11 Annual Report documents the operating, financial and sustainability performance for the period 1 July 2010 to 30 June 2011.

Ausgrid was known as EnergyAustralia up until 2 March 2011 and comprised an electricity network and retail business. In March, the EnergyAustralia retail brand, customer and wholesale contracts were sold to TRUenergy. The electricity network business is now called Ausgrid.

This report refers to Ausgrid throughout, and outlines the performance of the organisation over the period, including its operations as both EnergyAustralia and Ausgrid. It does not cover TRUenergy's use of the EnergyAustralia brand between 1 March and 30 June 2011.

The contents of this report are guided by:

- *The State Owned Corporations Act (1989)*
- *The Annual Report Statutory Bodies Act (1984)*
- The Global Reporting Initiative (GRI) Sustainability Reporting Guidelines Version 3.0 and Electric Utility Sector Supplement; and
- The Energy Supply Association of Australia (esaa) Sustainable Practice Framework.

Report layout

This report is separated into three main sections representing the material issues of EnergyAustralia and Ausgrid's key interest groups:

1. Performance highlights – a written account of EnergyAustralia and Ausgrid's operations and performance based on its corporate scorecard areas including workplace, community, marketplace, operational excellence, finance and environment.
2. Consolidated financial report – the company's financial statements for the 2010/11 financial year.
3. Statutory information – the information the company is legally obliged to disclose.

A glossary and index are included on pages 125–128.

Ausgrid's Sustainability Indicators Supplement provides a full account of the organisation's performance in meeting the core indicators identified in the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines version 3.0 and Electric

Utility Sector Supplement; and the Energy Supply Association of Australia Sustainable Practice Framework. The supplement is available at www.ausgrid.com.au.

Together with the 2010/11 Annual Report, this sustainability supplement provides a full account of Ausgrid's financial and organisational performance during the reporting period.

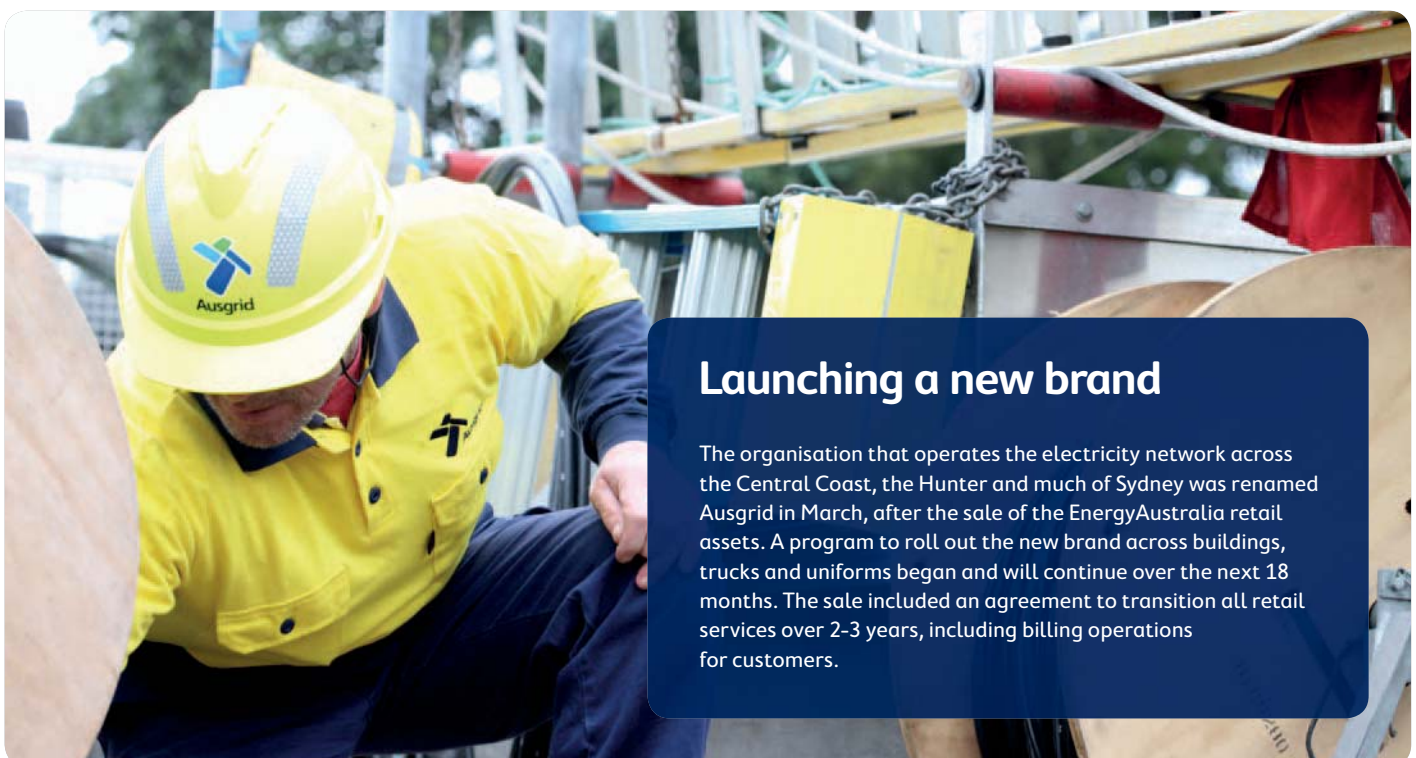
Assurance

The consolidated financial report has been audited by the Audit Office of NSW and the Independent Auditor's report can be found on page 96. The non-financial content of this report has also been externally audited by Net Balance to the AA1000 Assurance Standard 2008 and a detailed assurance statement is on pages 122–124.

Feedback

Ausgrid encourages your feedback on this report. Any feedback can be provided to:

- annualreport@ausgrid.com.au or via Twitter and Facebook, or
- GPO Box 4009, Sydney NSW 2001.

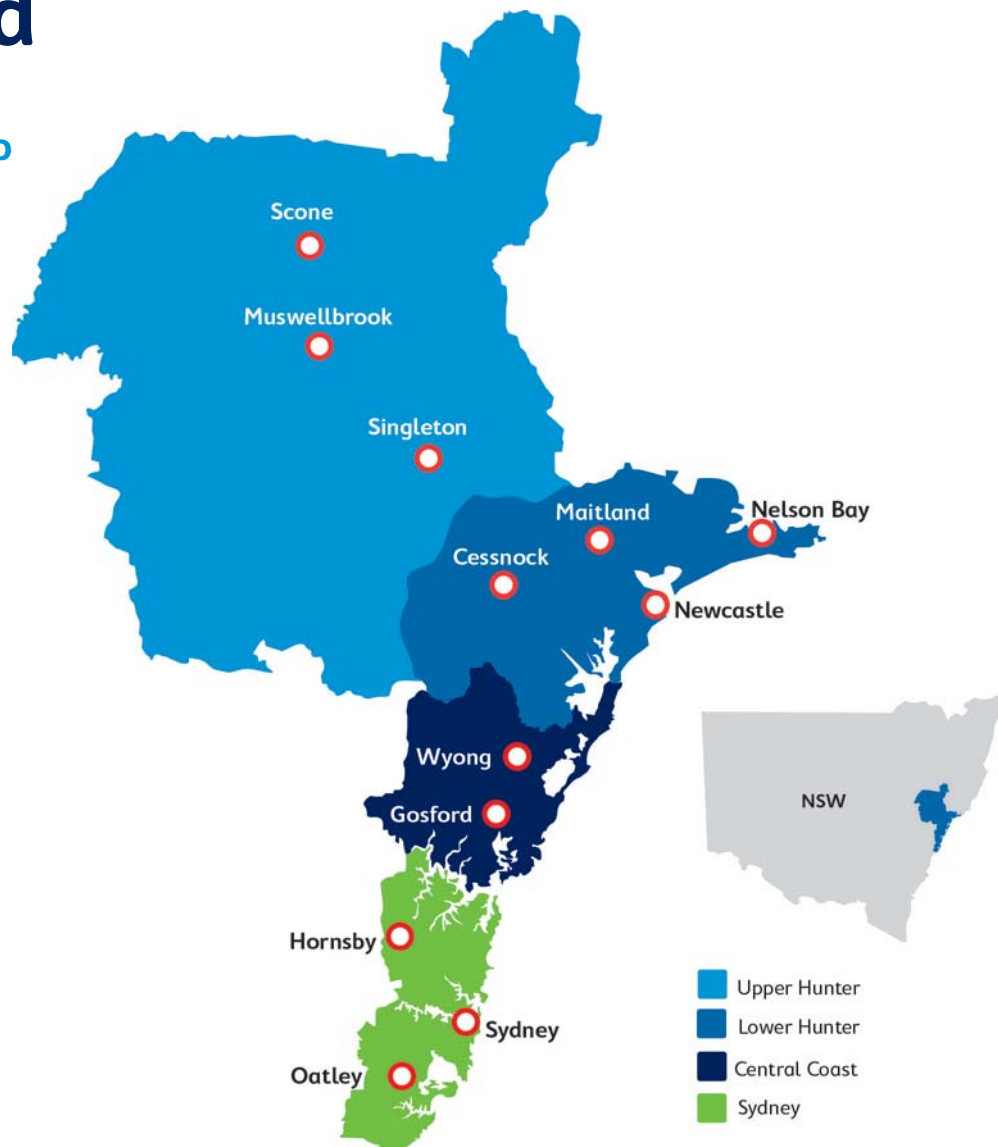


Launching a new brand

The organisation that operates the electricity network across the Central Coast, the Hunter and much of Sydney was renamed Ausgrid in March, after the sale of the EnergyAustralia retail assets. A program to roll out the new brand across buildings, trucks and uniforms began and will continue over the next 18 months. The sale included an agreement to transition all retail services over 2-3 years, including billing operations for customers.

Ausgrid

Network map



Ausgrid's distribution network covers 22,275 square kilometres from Waterfall in Sydney's south to Auburn in western Sydney and the upper Hunter Valley in the north.

Ausgrid supplies electricity to more than 1.6 million customers in Sydney, the Central Coast and the Hunter Region in New South Wales (NSW). Its electricity network powers large and small businesses, as well as major industry including mining, shipping, tourism, manufacturing and agriculture.

Up until 1 March 2011, the organisation was also a retailer of electricity and gas to more than 1.54 million homes and businesses in New South Wales, the Australian Capital Territory (ACT), Victoria (VIC) and Queensland (Qld).

Purpose and vision

Ausgrid re-examined its purpose and vision following the sale of its retail assets. Its vision is to be a world leader in distributing electricity and providing energy services by being:

- Australia's safest network and cause zero harm to its employees and the public
- Australia's most efficient and respected energy services provider
- Australia's most reliable network and a leader in smart grid technology
- A culture of innovation and sustainability.

This vision will be achieved through Ausgrid's company values of:

- Safe and reliable
- Future focussed
- Efficient; and
- Caring.

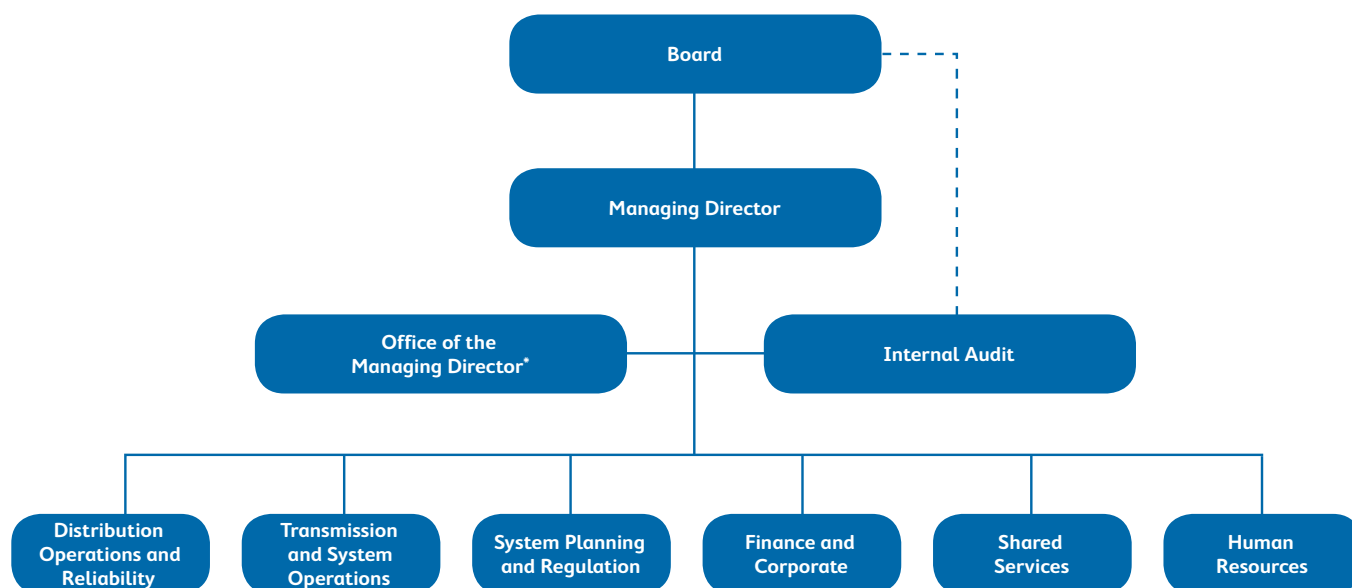
Ausgrid's operations are guided by a number of important policies and codes, including a Code of Conduct, Safety Policy, Environmental Code of Conduct and Policy and Statement of Ethics.

The organisation publishes a Statement of Corporate Intent, outlining its strategies, risks and operational and commercial objectives. A document called *Supply and Demand: Investment in the Electricity Network* is also published and outlines planned investments in Ausgrid's electricity network.

Additional information on average household electricity use, solar panel installations, streetlight repair times, graffiti clean ups and network upgrades are also published on its website according to local government areas.

Ausgrid

Organisation structure



• Distribution, Operations and Reliability

Responsible for planning, designing, building and maintaining the 11kV and low voltage network, along with new customer connections, security, claims management, logistics and fleet management.

• Transmission and System Operations

Responsible for the development, design, construction, commissioning and maintenance of our high-voltage network as well as making investment decisions and prioritising the delivery of our capital works program and the daily operation of our network.

• System Planning and Regulation

Responsible for long-term planning of major projects, including maintenance, managing all regulatory and pricing issues, managing major customer connections and metering.

• Finance and Corporate

Responsible for managing the organisation's finances, information technology and property portfolio.

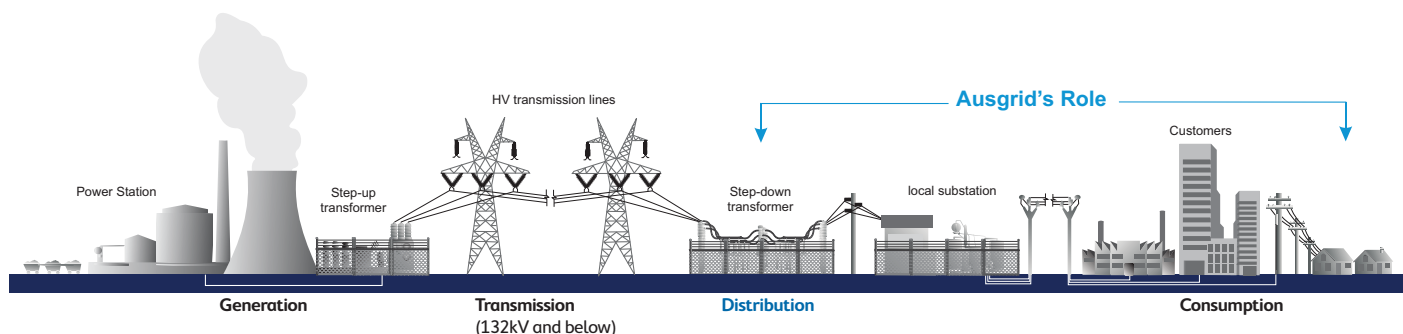
• Shared Services

Responsible for servicing the Ausgrid network customer and retail billing, contact centre operations, geospatial information, metering data services, responding to customer complaints and revenue collection. This division also provides services for TRUenergy.

• Human Resources

Responsible for recruitment, development, mentoring and coaching, performance management, payroll services, health and safety framework, workplace relations and workers compensation.

* The Office of the MD includes Secretariat, Legal, Energy Services & Corporate Communications. Operational functions commenced transition from Shared Services to the new Energy Services business from April until July 2011.



A performance dashboard, *Our Scorecard 2010/11* is published and is available on the Ausgrid website, www.ausgrid.com.au.

Principal activities and governance

Ausgrid is a NSW State Owned Corporation established under the *Energy Services Corporations Act 1995* and the *State Owned Corporations Act 1989*. Ausgrid's main activities are the safe ownership and management of its electricity network. Prior to March 2011, activities also included the retailing of electricity and gas in the national market.

The business is regulated by a large number of statutory and legislative requirements including OH&S, environmental, trade practices, industrial, consumer protection and information laws, the National Electricity and Gas Law Rules, the *NSW Electricity Supply Act 1995*, and a NSW Distribution Network Service Provider licence.

Ausgrid ensures compliance with these laws and regulations through its internal codes and policies by a common control framework. It comprises plans, policies, procedures, delegations, instruction and training, audit and risk management.

Internal control and compliance is monitored by the Board of Directors. Ausgrid has robust risk management policies and processes, including a strong internal audit function and emergency management system. Maintaining ethical behaviour is core to effective corporate governance and Ausgrid has a Business Ethics Committee, a Statement of Ethics and a Business Guideline for its suppliers.

Ausgrid delivers its business activities through six business divisions, Internal Audit and the Office of the Managing Director, which includes Corporate Secretary, Legal and Corporate Communications.

Ausgrid's Shareholding Ministers are the NSW Treasurer and the Minister for Finance. The Shareholding Ministers appoint the Ausgrid Board. The Directors' Report section (see page 35) includes a description of the Board functions and structure, the members of the Board and the Executive.

Scale

In 2010/11, Ausgrid's network supplied more than 30,691 GWh of electricity to over 1.6 million network customers. It had 5,941 full-time equivalent employees and net profit after tax of \$325.9 million (excluding the sale of the retail assets). Total company assets were \$11.27 billion with shareholders equity of \$1.93 billion.

Ausgrid's distribution network includes:

- A subtransmission system of 33kV, 66kV and 132kV assets
- A high-voltage distribution system of 5kV and 11kV assets
- A low-voltage distribution system of 240V and 415V assets.

These assets are referred to throughout the report as "the network". Ausgrid's network customers are therefore customers who are connected to this network of assets.

Stakeholder engagement

Ausgrid has a range of stakeholders who, as individuals or as a group, could potentially be affected by its operations or could affect its ability to provide services to its customers.

Ausgrid is committed to engaging with stakeholders on key issues to help achieve best outcomes. These stakeholders include but are not limited to:

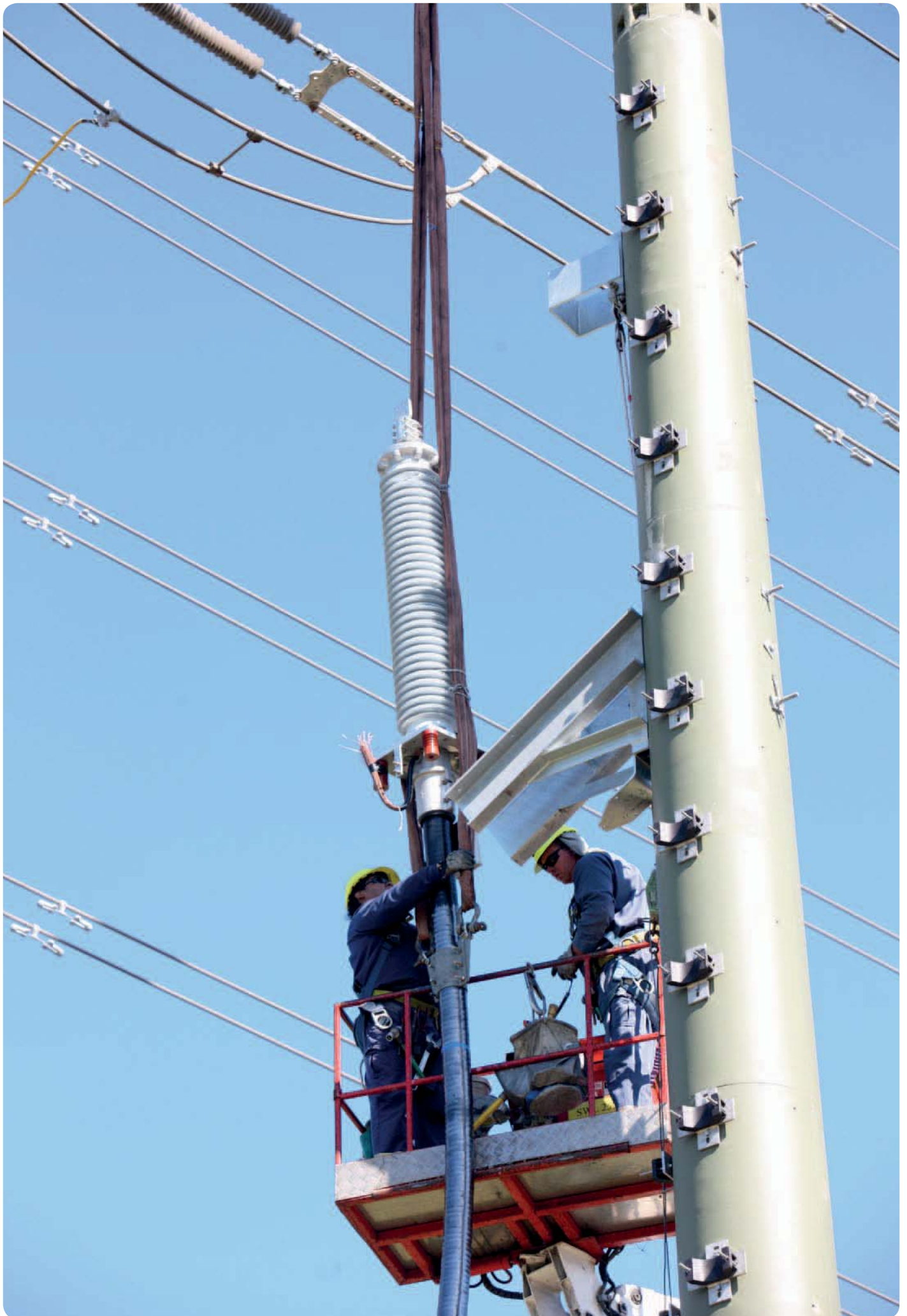
- Employees
- Network customers
- Energy retailers
- Shareholders
- Local communities
- Partners and suppliers
- Government and regulators
- Industry associations.

A more comprehensive list of stakeholders and how Ausgrid engages with them is available on Ausgrid's website www.ausgrid.com.au.

Key issues

Ausgrid is committed to consulting with stakeholders and identifying key issues to address and report against. The issues raised included:

- Keeping employees and the community safe
- Providing a safe and reliable electricity supply for customers
- Promoting energy efficiency to help customers reduce their energy use and costs and greenhouse emissions
- Protecting and preserving the environment
- Supporting local communities and minimising adverse impacts from its operations
- Ensuring responsible procurement and maintaining high standards of ethical behaviour
- Developing employees; and
- Delivering shareholder value.



Chairman and Managing Director's report

Ausgrid's vision is to be a world leader in distributing electricity and providing energy services. The strategies we pursue to achieve this vision focus on delivering innovative, efficient and safe energy solutions to the public, our customers and retailers.

Business changes

This year there was a significant change to our business when Ausgrid's retail assets were sold on 1 March 2011 as part of the NSW Government's re-structuring of the industry. The EnergyAustralia brand formed part of the assets sold to TRUenergy and the new Ausgrid brand was launched for the network business. Ausgrid will provide retail business services to TRUenergy for up to three years under the Transition Services Agreement.

Safety

The safety of the public and our workers remains our highest priority. It is also our main focus for improvement. While there was an increase in the number of safety procedures, including safety inspections and hazard alerts over this reporting period, our overall safety performance declined.

The number of staff injuries increased over the period and the organisation's lost time injury frequency rate was outside our targets.

As a Board and Executive Team we have spent a great deal of time this year considering our safety performance and improving our safety culture is a clear priority. We are confident that a new behavioural change and safety leadership program, improved risk identification and management, and greater communication will lead to a safer workplace.

Replacing and renewing the network

Ausgrid is now delivering one of the country's largest infrastructure programs to replace and renew our electricity network. About half of our large zone substations were built in the 1960s and 1970s and we are now replacing and upgrading much of this infrastructure. At the end of the 2010/11 year, our program had delivered seven zone substations, installed more than 900km of high and low voltage cable and commissioned 473 local distribution substations. Our staff and our alliance partners are to be commended for their commitment to this work.

Supporting customers

The cost of investment in the electricity network is one of the reasons why electricity prices have increased quite rapidly over the past two years. While the work is essential to keep our network safe and reliable, we have also taken steps to reduce the impact on household budgets. Ausgrid continued to roll out time-of-use or smart meters to its customers to help them control their electricity use and costs. There are now more than 380,000 households and businesses on network time-of-use billing in our network area. We have also continued to provide customers with advice and programs to use energy more efficiently to help them manage their bills.

Tradesmen and women are important decision-makers on energy consumption equipment and they are now able to learn more about better energy management at our new energy efficiency centre. The centre is also open to schools and the public to learn more about energy efficiency.

We also continue to advocate broad changes to the rules governing demand management for the industry to help reduce the need for electrical infrastructure and return greater savings to customers. We support the Australian Energy Market Commission's review into these rules.

Financial performance and efficiency

Ausgrid delivered a strong financial result for the year with Earnings Before Interest and Tax (EBIT) of \$984 million, excluding the sale of our retail business. Total distributions to government after the sale were \$1,734 million. The organisation continues to maintain a strong balance sheet with gearing at approximately 78 percent.

During the reporting period, we have also delivered a number of productivity improvements to ensure that our operations are being conducted as efficiently as possible. Underlying operational expenditure has been reduced by \$67 million, contributing to a \$110 million reduction over the full five-year regulatory period.

A further \$800 million in savings are being targeted from the capital program 2009-14, without compromising the reliability of the electricity network.

Smart grid technology

Ausgrid has continued to implement new smart grid technology and is leading the Commonwealth Government's three-year \$100 million Smart Grid, Smart City program. These smart grid initiatives will provide network operators and households with more real-time information, improved reliability, and better control over electricity use and costs. Over time, these technologies will enable customers to reduce peak demands and hence their bills. Reducing energy consumed at peak times will also allow us to reduce the costs of providing the networks of the future.

Reliability

Ausgrid's reliability performance of an average 99 minutes per customer is within targets. The result was influenced by the extreme weather in some regions, as well as the need to take significant parts of the network out of service to allow new equipment to be commissioned. Taking into account these factors, the result is consistent with a strong trend of improving reliability on our network. This trend will continue as our capital program progresses.

Supporting staff

We are proud that Ausgrid continued to be one of the state's largest single employers of apprentices over the past 12 months. This is a valuable investment in our future frontline workforce. Our crews will now learn their trade in a new purpose-built learning centre, which opened this year in Sydney, and will serve as an important vocational training and community facility for many years to come.

This has been a demanding year for Ausgrid staff. The results we have delivered are a credit to their efforts throughout the year. We would like to thank all our customers, staff and fellow directors for their commitment.

Performance highlights

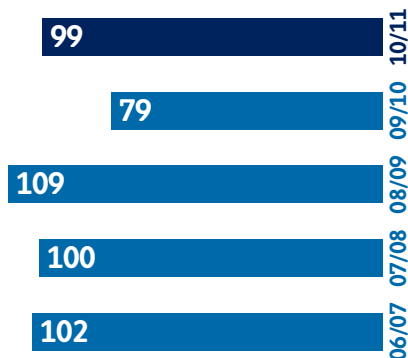
Ausgrid delivered nearly \$1,578 million in capital investment in 2010/11, including seven new major zone substations. More than 445,500 maintenance tasks were completed on the electricity network throughout the year.



Key results

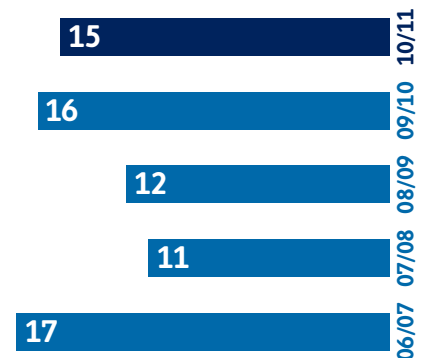
Customer minutes without supply

Average: 98 (Average performance per year, calculated since 2006/07)



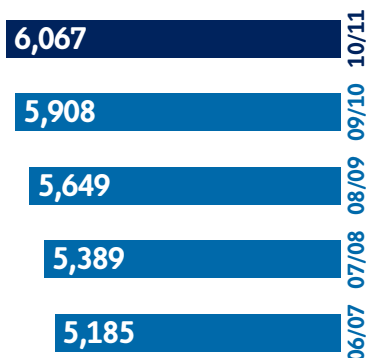
Notifiable environmental incidents

Average: 14.2 (Average incidents per year, calculated since 2006/07)



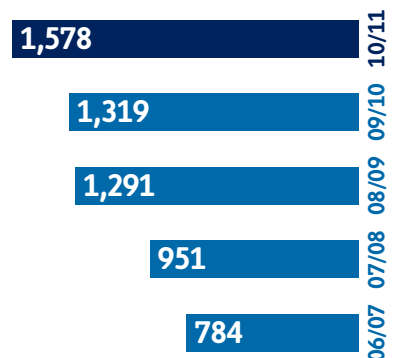
Employees

Average: 5,640 (Average number of employees per year, calculated since 2006/07)



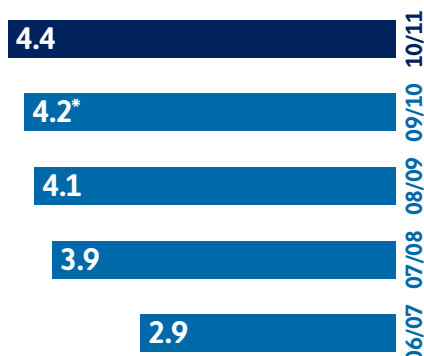
Capital expenditure (\$ millions)

Average: 1,185 (Average performance per year, calculated since 2006/07)



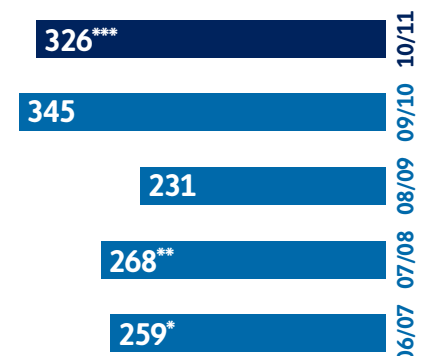
Lost time injury frequency rate (per million hours worked)

Average: 3.9 (Average performance per year, calculated since 2006/07)



Net profit after tax (\$ millions)

Average: 286 (Average performance per year, calculated since 2006/07)



* See p.103 for explanation of increase

* The 2006/07 and 2007/08 results included the impact of the EA - IPR partnership

** Adjusted for accounting policy change

*** This excludes the sale of retail business for \$1,247.9 million

Strategic achievements, challenges and targets



Operational excellence

2010/11 Objectives

- Deliver almost \$1.6 billion in system and non-system capital investment
- Deliver 95% or more of the sub-transmission and distribution maintenance program
- Increase level of business continuity
- Implement smart grid program including the Smart Grid, Smart City program.

Performance in 2010/11

- Delivered nearly \$1,578 million in system and non-system projects
- Completed more than 445,500 or 98.2% of planned maintenance tasks
- Reached 96.1% level of business continuity preparedness
- Implemented Smart Grid, Smart City program and met deployment targets for smart grid roll out.

Challenges

- Delivering a large number of network projects, while achieving internal efficiency targets
- It becomes more challenging to maintain a reliable supply of electricity for customers when new electricity infrastructure is being commissioned.
- Testing and implementing new smart grid technology that has not been deployed before.

2011/12 Objectives

- Deliver 90% or more of the capital works program
- Deliver 95% or more of the maintenance program
- Continue to lead the deployment of smart grid technology
- Develop new demand management strategy.



Marketplace

2010/11 Objectives

- Achieve System Average Interruption Duration Index (SAIDI) less than 102 minutes
- Achieve System Average Interruption Frequency Index (SAIFI) less than 1.2 outages
- Grow and maintain customer numbers to 1.46 million or more
- Maintain customer service and support levels to greater than 95%.

Performance in 2010/11

- Reached average reliability levels of 98.59 minutes and 1.08 outages per customer
- Achieved customer satisfaction of 93% to end of February 2011
- Reached 1.54 million retail customer accounts at the end of February 2011
- More than 4.3 million bills were issued to retail customers to the end of February 2011.

Challenges

- Delivering new energy services to customers to help manage household energy use
- Continuing to improve reliability to meet community and government expectations while keeping electricity prices as low as possible
- Meet our obligations to the new owner of the retail business.

2011/12 Objectives

- Meet reliability standards for CBD, urban and rural categories
- Deliver the energy services strategy
- Prepare for the 2014-19 regulatory submission
- Deliver services under the Transitional Services Agreement.



Community

2010/11 Objectives

- Keep the community safe from the dangers of electrical equipment
- Raise awareness of electrical safety
- Support the community where we work
- Keep the community informed of work around the network and services.

Performance in 2010/11

- Met and consulted with the local community on 100 separate major projects
- Supported over 300 community groups through financial grants
- Completed 118,686 bushfire patrols around bushfire prone areas
- Ran 13 public electrical safety awareness campaigns
- Five members of the public were injured after coming into contact with the electricity network. There was one public fatality as a result of contact with the electricity network.

Challenges

- Respecting the views of local communities while delivering one of the largest capital works programs in the country
- Keeping the public safe from electrical infrastructure 24 hours a day
- Maintaining support for the local community at an acceptable cost.

2011/12 Objectives

- Improving the way Ausgrid engages with the local community
- Keep the public safe near electrical infrastructure
- Continue support for the local community where we work.



Environment

2010/11 Objectives

- Deliver 95% or greater targets from the environmental action plans
- Demonstrate leadership in energy efficiency services and demand management
- Deliver operational work without environmental incidents.

Performance in 2010/11

- 98% of activities targeted in the Environmental Improvement Plan were completed
- Met 100% of greenhouse and energy efficiency obligations to the end of February 2011
- 129 environmental investigations undertaken with 15 notifiable to environmental regulators.

Challenges

- Delivering an increasing capital works program while minimising environmental incidents or impacts
- Achieving changes to the regulatory structure to encourage greater demand management opportunities
- Reducing energy, water and waste from our operations.

2011/12 Objectives

- Develop demand management strategy
- Reduce notifiable environmental incidents
- Deliver 95% or more of targets from environmental action plans.



Workplace

2010/11 Objectives

- To keep our staff safe and free from injury
- Achieve a Lost Time Injury Frequency target of less than three
- Complete the Learning Centre
- Employ and train new apprentices.

Performance in 2010/11

- There were 3,238 safety inspections and 546 hazard alerts issued and 236 near miss reports
- There were 1,148 safety incidents and 311 medically treated injuries contributing to a Lost Time Injury Frequency Rate of 4.4
- The new Ausgrid Learning Centre at Silverwater was opened in May 2011
- 153 new apprentices employed, taking apprentice training numbers to 590 at the end of June 2011.

Challenges

- Protecting a less experienced workforce, completing a larger number of jobs
- Communicating new safety measures to ensure risks are properly managed
- Ensuring the workforce is delivering outcomes in the most efficient and reliable manner.

2011/12 Objectives

- Improve safety performance and safety culture
- Develop skills and knowledge of workforce
- Increase indigenous employment in the workforce from 0.9%.



Financial

2010/11 Objectives

- Achieve underlying earnings before interest and tax (EBIT) of \$770 million
- Achieve return on assets (ROA) of 7.3%
- Meet regulatory outcomes
- No significant breach of compliance obligations.

Performance in 2010/11

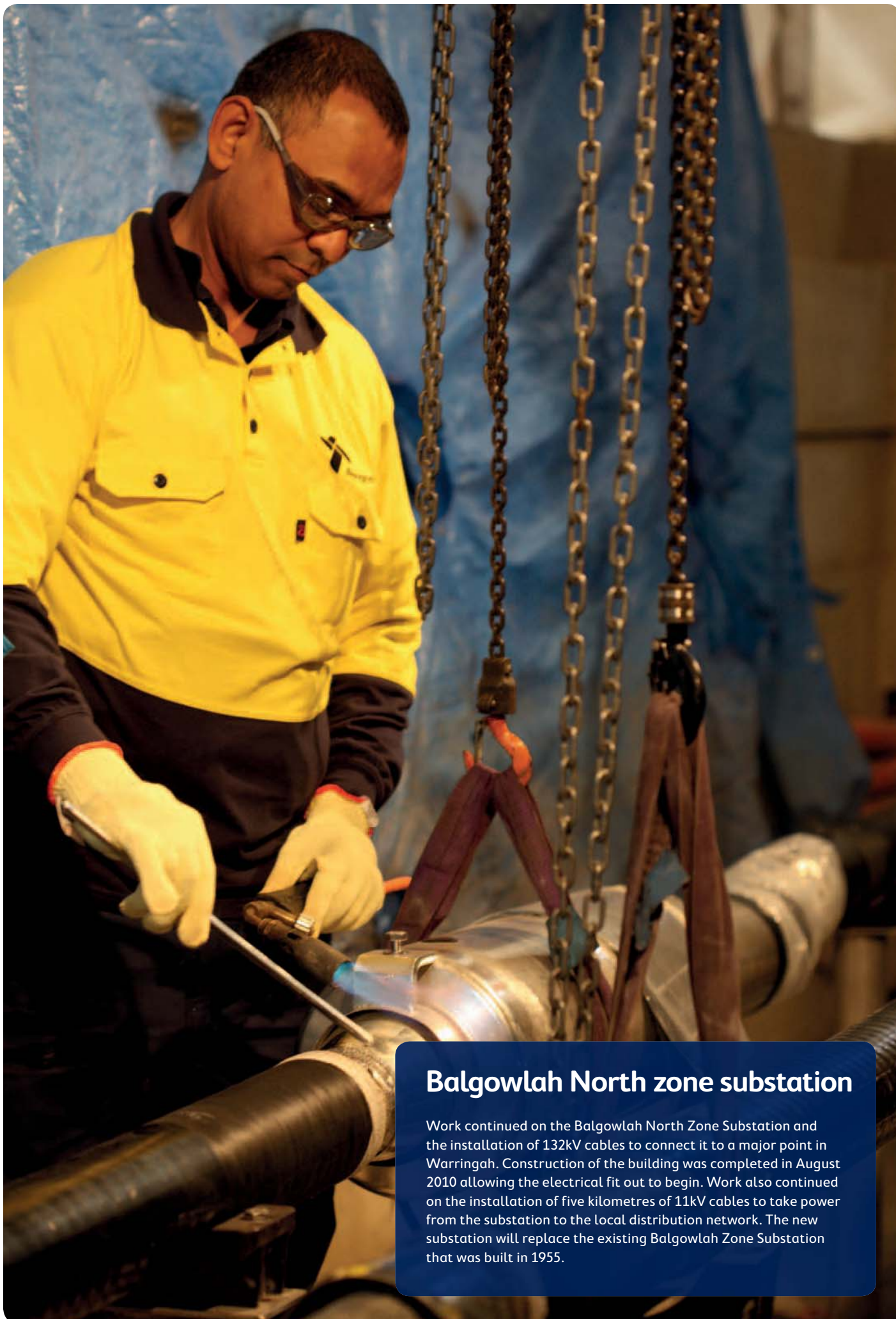
- Achieved EBIT (excluding the profit on the sale of the retail assets) of \$984 million
- Achieved a ROA of 9.1%
- Reduced underlying operational expenditure by 8.4% or \$67 million
- Delivered 94% productivity measures
- No significant breaches of compliance obligations
- Successfully completed the sale of the EnergyAustralia retail assets in March 2011.

Challenges

- Deliver operational and capital efficiencies while achieving all outcomes of the capital program
- Supporting the NSW Government on the next stage of its industry reform while delivering a record capital program.

2011/12 Objectives

- Achieve outcomes of procurement strategy
- Achieve operational expenditure efficiency targets
- Achieve underlying EBIT and ROA.



Balgowlah North zone substation

Work continued on the Balgowlah North Zone Substation and the installation of 132kV cables to connect it to a major point in Warringah. Construction of the building was completed in August 2010 allowing the electrical fit out to begin. Work also continued on the installation of five kilometres of 11kV cables to take power from the substation to the local distribution network. The new substation will replace the existing Balgowlah Zone Substation that was built in 1955.

Operational excellence

Ausgrid continued to deliver one of Australia's largest infrastructure programs during 2010/11. This \$8 billion network investment is driven by the need to replace older electrical equipment, meet increasing peak demand for power and reliability standards. It also includes the rollout of new smart grid technology to help make the electricity network more efficient.

Determining network investment

2010/11 was the second year of a five-year network investment program that is set out in a regulatory submission to the Australian Energy Regulator (AER), the national regulator for electricity distribution and transmission networks.

The AER determines the revenue required for these essential upgrades which makes sure the electricity network delivers a safe and reliable supply of electricity.

In 2009, the AER approved Ausgrid's proposal to invest \$8 billion in the electricity network over the five years to 2014. It also allowed \$630 million in expenditure to support the electricity network – known as non-system capital expenditure.

The main driver behind this program is to upgrade or renew infrastructure that is due for replacement. About 45 percent of Ausgrid's major substations were built in the 1960s and 1970s, while an additional 25 percent were built in the 1950s. This major infrastructure generally has a life of 40 or 50 years and it is now time for much of it to be replaced.

The capital program is also driven by the need to meet reliability standards set by the NSW Government. It is also catering for future growth in electricity use and in particular growing peak demand for power.

A new peak demand record of 6,072 MW for the Ausgrid network was set on Thursday, 3 February 2011, a day on which the maximum temperature across the network was 38.1 degrees. It occurred during a week of successive hot days driving the use of air-conditioning in homes in the Ausgrid network.

Network investment

Ausgrid invested about \$1,376.4 million in the electricity network during 2010/11. Ausgrid releases a 12-month snapshot of completed works and maintenance across its electricity network to allow its customers to see exactly where investment across the electricity network is occurring.

Network investment included \$558.9 million on major substation projects, including the development of high-voltage cables connecting the substations to the network.

Network maintenance

Ausgrid carries out a comprehensive maintenance program across the supply area to ensure the network is capable of delivering a safe and reliable energy supply to homes and businesses. A combination of age, performance and condition of electrical assets is considered when determining maintenance schedules along side the need to replace assets.

Crews completed more than 445,500 maintenance tasks during 2010/11 across the network.

More than \$200 million in operational expenditure funded this maintenance work, which is in addition to Ausgrid's capital works program.

A range of technologies was used to identify potential hazards prior to the bushfire season, including vehicle and helicopter patrols, thermal imaging of power lines, and high-definition video images captured by Ausgrid's unmanned aerial vehicle.

✓ Crews installed or replaced about

450

distributors, the wires that connect with distribution substations, and

17,758

service wires across the network.

440km

of high-voltage cables to connect and bring power into commissioned substations

468km

of below and above-ground low-voltage cables to distribute power from substations to the street-level network, and

473

smaller distribution substations.

✓ Maintenance tasks undertaken in 2010/11

Underground and overhead line inspections

134,383

Pole inspections and treatments

133,837

Bushfire patrols

118,686

Substation inspections

22,145

Other

36,495

Total: 445,546

Supporting the network

During 2010/11, Ausgrid invested \$201.5 million in projects that supported network operations.

This included key areas such as the purchase, maintenance and upgrading of property, information technology, telecommunications and plant to help technicians maintain and upgrade the electricity network.

Development of office and workspace at the Wallsend, Muswellbrook, Maitland and Merriwa depots and refurbishment of administration buildings at Wallsend continued throughout the reporting period.

On the Central Coast, a new major warehouse at Somersby began operation in January. The 22,000m² warehouse replaces two smaller warehouses in Sydney and is needed to handle an increase in material deliveries required for Ausgrid's capital works program.

Ausgrid spent \$72 million on 244 IT projects during 2010/11, including a SAP upgrade, a new intranet, Contact Centre upgrade and the completion of application and infrastructure migrations to Ausgrid's data centre. Significant IT initiatives were also completed to meet obligations under the sale of the retail assets.

Twenty-five elevated work platforms and five crane borers were purchased to help support network operations.

Ongoing major works

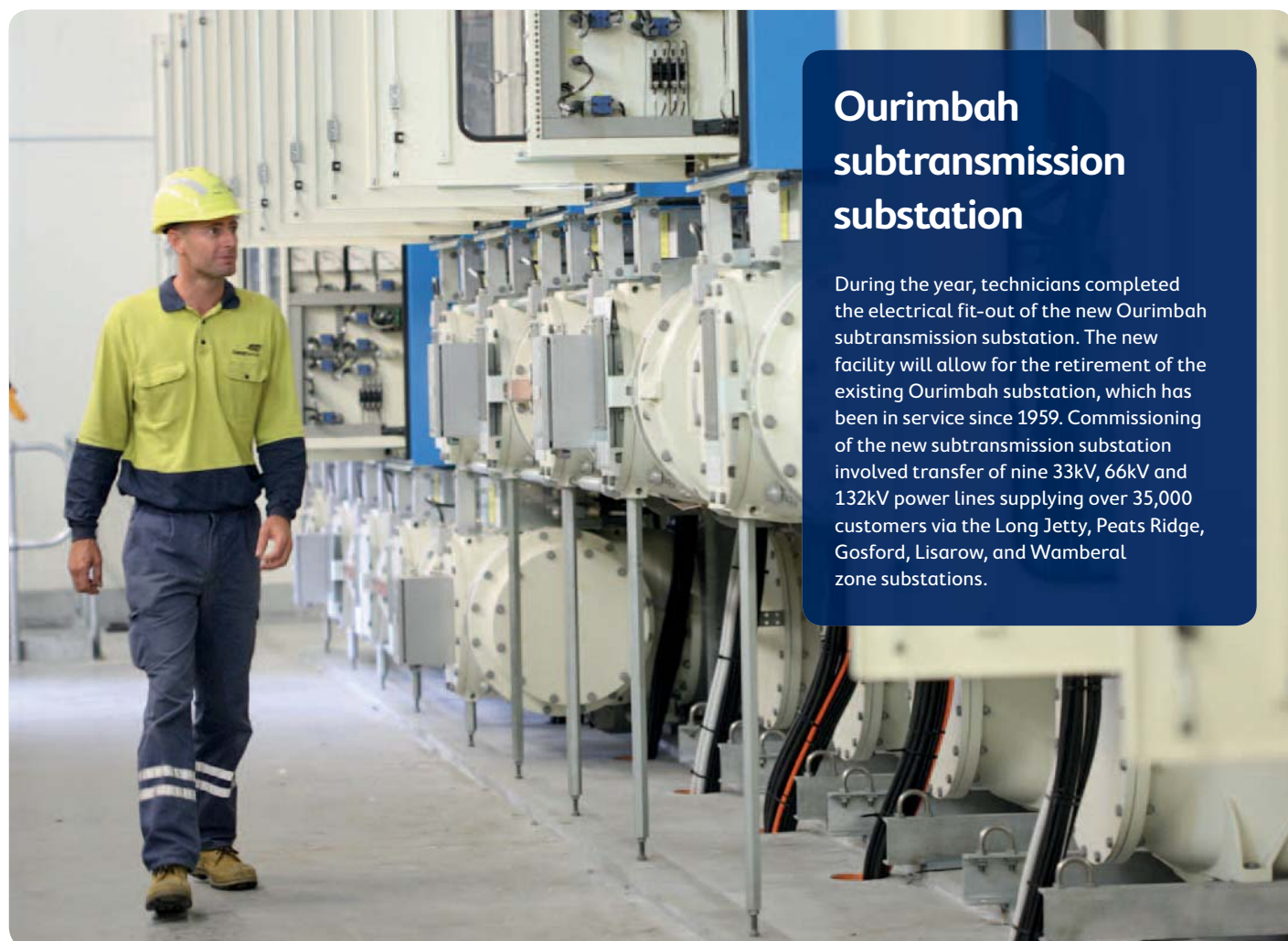
In 2010/11, 20 new zone substations went from detailed design to construction phase, while 50 projects were underway to replace and upgrade equipment and facilities at zone and subtransmission substations.

These works included replacement zone substation projects for Top Ryde, Balgowlah North, Bankstown, Rose Bay, Lake Munmorah, Empire Bay, Tomago, Brandy Hill, Tomaree Peninsula, Crows Nest and Gwawley Bay.

Major work to increase security of supply in Sydney's CBD included installation of additional capacity at the City North 132/11kV substation.

Three major substations in Earlwood (Canterbury), Marrickville and Kogarah are being connected to Beaconsfield Bulk Supply Point as part of a \$214 million replacement of the southern Sydney region's underground electricity supply. Work started on this project in February 2011. It involves the installation of 21 kilometres of double-circuit and seven kilometres of single-circuit underground 132kV cable. The route of the cables involves the crossing of rivers, railway lines and major roads.

Work also continued on Ausgrid's 132kV and 66kV transmission system during the reporting period.



Ourimbah subtransmission substation

During the year, technicians completed the electrical fit-out of the new Ourimbah subtransmission substation. The new facility will allow for the retirement of the existing Ourimbah substation, which has been in service since 1959. Commissioning of the new subtransmission substation involved transfer of nine 33kV, 66kV and 132kV power lines supplying over 35,000 customers via the Long Jetty, Peats Ridge, Gosford, Lisarow, and Wamberal zone substations.

Milestones were reached in the \$155 million Botany Bay cable project, which involves installation of new 132kV cables to connect major substations in Kurnell and Bunnerong (Matraville) via Botany Bay. The work will improve power supply to about 61,000 homes and businesses in Sydney's inner suburbs and the CBD.

All land-based work for the 132kV cable project was completed during 2010/11. Electrical fit-out of Kurnell subtransmission substation was completed during the year, while preparations were in place to bury the new cables into the Botany Bay seabed.

Construction of a 132kV power line connecting the new Wamberal zone substation to the Ourimbah subtransmission substation was completed during the year, while transfer of 132kV, 66kV and 33kV services from the old Ourimbah subtransmission substation to the new facility also continued. (See story left).

Upgrading the Upper Hunter transmission network from 33kV to 66kV also continued. This included further progress on conversion of the 48km Denman-Merriwa 33kV power line.

Work was completed on six new 132kV power lines from Transgrid's Bulk Supply Point at Tomago, boosting capacity at key points along Ausgrid's 132kV Lower Hunter transmission network.

Building a smarter electricity grid

Ausgrid continued to roll out new technologies while this major replacement and upgrade work was taking place.

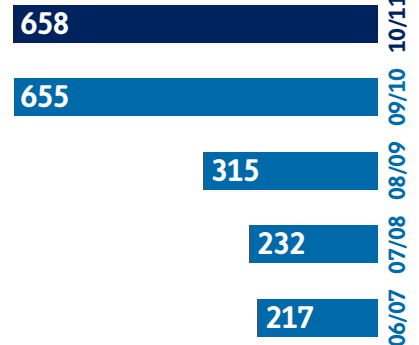
New monitoring and communication technology is transforming Ausgrid's network into a smarter system that will make operations more reliable and provide accurate information on performance and condition of the network, particularly the low voltage part.

As part of this transformation to a smart grid, in 2010/11, 1,071 smart sensors were commissioned in distribution substations across local streets. These devices monitor the power supply to homes and businesses. A 4G wireless communications network is being built to transmit this information back to Ausgrid's control rooms.

This smart grid technology is also being rolled out to support the Australian Government's *Smart Grid, Smart City* program. Australia's first commercial-scale smart grid is being trialled under this project, which is being led by Ausgrid. It began trialling electric vehicles and the first offers for gas fuel cells and battery storage units were sent to homes in Newcastle during 2010/11.

Ausgrid has installed six smart switches. The pulse closers have the ability to automatically isolate, test and re-energise equipment on Ausgrid's overhead distribution network, thus reducing the duration of unplanned interruptions. More than 100 sites have been identified and are being scheduled for installation.

Completed replacement projects



Seven major zone substations completed

Project	Commissioning Month
Port Botany substation	Aug
Kurri Kurri substation	Sep
Kurnell subtransmission substation	Oct
Bankstown substation	Oct
Jesmond substation	Dec
Ourimbah subtransmission substation	Feb
Royal North Shore Hospital zone substation's 11kV feeders and switch gear	May



Safe and reliable

A number of underground and overhead cables in local shopping areas are being replaced or relocated underground to make them safer and reduce the chance of blackouts. Along King Street in Newtown, 11kV cables located along shop awnings are being replaced and installed underground, while existing underground cables along Oxford Street, Paddington that are more than 50 years old are also being replaced. Small pillar boxes are also installed to provide a more reliable access to customers' premises and safer restoration if a fault occurs.

Marketplace

For 10 years, the name EnergyAustralia represented both the electricity network serving parts of Sydney, Central Coast and the Hunter, as well as an electricity retail business.

On 1 March 2011, the retail customer and wholesale contracts were sold to TRUenergy, including the rights to the EnergyAustralia brand. The remaining electricity network was renamed Ausgrid and it continues to provide a safe and reliable electricity supply to customers connected to its network in Sydney, the Central Coast and the Hunter Valley. Therefore, the reporting period in Ausgrid's accounts for retail operations ended on 28 February 2011.

Network services for customers

In addition to providing a safe and reliable electricity supply to homes and businesses connected to its electricity network, Ausgrid also provides its customers with 24-hour emergency repairs and power restoration, street lighting and household electrical repairs.

Government standards and customer expectations help drive part of the network investment program, including targeted reliability work. The Design Reliability and Performance licence conditions set out by the Minister for Energy outline reliability targets. These are categorised by different electricity cables, or feeders, and whether they are located in urban or rural areas.

Ausgrid also reports reliability across its entire system via a normalised index covering the average number of interruptions (SAIFI) and the average time customers are without electricity (SAIDI) during the year.

Ausgrid uses this data to invest in both the subtransmission network and the local distribution network to meet its safety and reliability targets. That investment is targeted in direct response to the performance of power lines and other equipment on the network.

Meeting customer expectations

Ausgrid crews completed a number of targeted projects during 2010/11 to improve reliability of supply for customers, and to increase capacity at key connection points.

Analysis of power line performance coupled with customer feedback helps field staff to target reliability investigations and improvement projects across the network. A total of 121 11kV feeders were inspected under this program during 2010/11.

Related projects involved replacement of bare overhead mains with covered conductor or undergrounding short sections of overhead power line from substations to the distribution network to improve performance. Locations where this work was successfully completed included zone substations at Bass Hill, Sefton and Pennant Hills.

Extensive work was carried out to improve capacity on the 11kV network delivering electricity to homes and businesses. Upgrade work was completed on power lines from zone substations at Gwawley Bay, Drummoyne, and East Charmhaven.

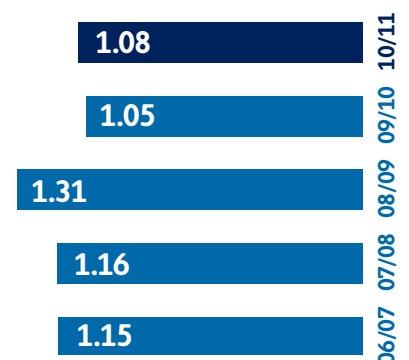
Work also continued to replace older-style aluminium cables throughout parts of the electricity network including Caringbah, Marsfield and Auburn. The newer underground cables are more reliable and connect with small above ground pillar boxes that allow quick and more efficient restoration of power during outages.

Customer service standards

The NSW Government Customer Service Standards require a minimum level of service to customers in metropolitan and non-metropolitan areas. If customers experience outages that are longer or more frequent than the standards allow, they may be entitled to compensation. During 2010/11, 1,425 customers who were not provided with the level of supply required by the Customer Service Standards received a total of \$114,000 in compensation.

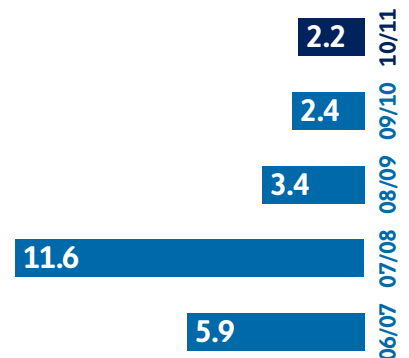
Compensation can also be paid on a case-by-case basis on other occasions when there may be an interruption to the electricity supply. This can include damage to a customer's installation or electrical appliances or food spoilage. Over \$1.9 million was provided to customers in 2010/11 in additional compensation payments.

Frequency of interruptions per customer (SAIFI)



Streetlight repair times

Average days to repair streetlights



Public lighting

Streetlights are managed on behalf of 41 councils and other customers throughout Ausgrid's network. It had 251,298 streetlight connections at the end of 2010/11 and 15,475 energy efficient streetlights were installed throughout the year. More than 75,880 streetlights or 31 percent across the Ausgrid network now have energy-efficient globes.

Ausgrid systematically replaces globes to reduce faults before they occur and reduce maintenance costs. Crews responded to 15,251 streetlight faults – 460 were underground faults, and 14,791 were overhead problems. The average response time for repair of overhead faults was 2.2 days.

Energylight provides external floodlighting to customers on a rental basis for safety and security purposes. This floodlighting is connected directly to the Ausgrid electricity network and 3,050 services were provided to customers in 2010/11.

EnergyFix

During 2010/11, Ausgrid provided 18,042 EnergyFix services to customers. EnergyFix is one of the largest networks of qualified electrical specialists in Australia. It's available 24 hours a day, seven days a week. This service includes the provision of safety services for electrical wiring.

It also provides hot water installations and general electrical contracting, such as the installation of new appliances, and electrical repairs and maintenance.

Working with suppliers

Ausgrid continued to implement the Supply Chain Management Module of the NSW Government's Sustainability Advantage program. In 2010/11, 24 percent of office supplies expenditure was for products with recycled content.

Providing retail services – EnergyAustralia

The reporting period for EnergyAustralia (Ausgrid) retail operations includes activity from 1 July 2010 to 28 February 2011 when it offered electricity and gas products to residential and business customers throughout NSW, VIC and the ACT and electricity for QLD customers.

Prior to 1 March 2011, the retail business provided customers with competitive prices for their electricity and gas products, billing services and call centre services. Ausgrid (since March under a Transition Services Agreement), now provides customer services, including billing and call centre services.

EnergyAustralia had 1.54 million retail electricity and gas customers prior to the sale of the retail assets, compared to 1.47 million at the end of 2009/10. The increase reflected the growth in gas connections and electricity connections outside the network area in NSW, VIC and Qld. In the commercial and industrial sector EnergyAustralia had sales of 7.1 TWh of energy.

New Energy Efficiency Centre

Ausgrid's Energy Efficiency Centre was relocated from Homebush to its new Learning Centre at Silverwater. The centre is a show case for energy efficiency technology and education and is available to the general public, school groups and technical or trade groups.



EnergyAustralia electricity customers in NSW could choose either a two-tier domestic rate or a time-of-use rate, called Powersmart. There were 231,127 customers on Powersmart rates to the end of February 2011.

A range of accredited GreenPower products were provided to 54,012 customers at 28 February 2011 by the EnergyAustralia retail business. Customers chose to have 10 percent, 25 percent, 50 percent or 100 percent of the electricity they used matched with electricity from renewable sources and delivered to the national electricity grid.

Metering and billing

The sale of its retail assets has not affected Ausgrid's meter reading process which it provides for all retailers in its network area. Ausgrid completed more than 6.97 million electricity meter reads in 2010/11. More than 4.3 million bills were issued to retail customers to the end of February 2011.

Supporting customers

Electricity prices have been a topic of community concern, so a range of payment options were available for customers experiencing difficulty paying their electricity bills, as well as tools to help reduce their energy use and bills. These options were targeted at providing both short term and long term support.

Customers having difficulty paying their bills chose from a number of options to help them manage. Throughout the shortened reporting period, 235,281 payment extensions were granted, providing customers with more time to pay their bills. Alternatively, customers could choose an instalment plan. There were 38,996 instalment plans approved during this period. These customers had their bills broken into manageable portions to be paid over a period of time. In the reporting period, 8,569 new customers chose to pay their bills using EnergyAustralia's regular payment option, totalling 45,580 customers who chose to pay this way. About 21,200 chose to pay their bills via Centrepay.

EnergyAssist is EnergyAustralia's hardship prevention program designed to support customers experiencing long-term financial difficulty. Staff have been trained to recognise these customers and offer the program where deemed appropriate. EnergyAssist customers are provided with payment extensions, budgeting assistance and energy efficiency

advice. About 2,925 customers joined the program in the shortened reporting time, compared to about 3,400 in 2009/10.

In addition to paper reminder notices, EnergyAustralia issued more than 135,742 SMS reminders to customers in the period to 28 February 2011. About 32 percent of customers who received a reminder sent to their mobile phone in 2010/11 made a payment towards their bill within seven days of receiving it.

Customers who were disconnected for non-payment were assisted by Contact Centre staff and through referrals to the EnergyAssist program, where appropriate. For the period from 1 July 2010 to 28 February 2011, disconnections for non-payment (electricity and gas) was 2.3 for every 1,000 customers. There were 3,567 EnergyAustralia customers disconnected from the electricity network for non-payment in the adjusted reporting period, compared to 6,819 the full year before.

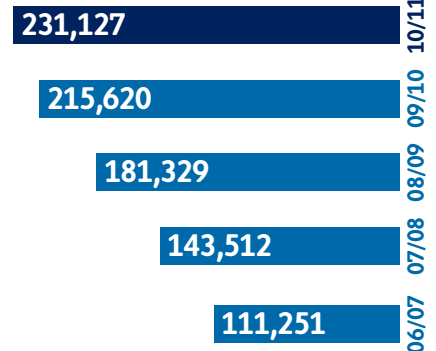
Customer satisfaction

Monthly surveys of customers who had recently called EnergyAustralia's Contact Centre during the adjusted reporting period showed 93 percent of customers were extremely satisfied, very satisfied or satisfied with the level of service they received, compared with a target of 95 percent. Surveys of customers who had recently called the Contact Centre also highlighted that 88.8 percent advised their concern was resolved on the first call against a target of 90 percent. The result showed an increase in performance compared with the score of 86 percent the previous year.

Contact Centre performance

Under a Transition Services Agreement, calls for EnergyAustralia retail operations, as well as Ausgrid's network operations were answered by a combined Contact Centre in 2010/11. More than 3.14 million calls were received, almost a 12 percent increase on 2009/10. Of these, approximately 1.86 million were retail-related calls during the shortened reporting period.

Number of Customers on Time of Use Billing (retail)





Public safety survey

In 2010/11, Ausgrid launched its Annual Electrical Safety Survey to better educate the community on electrical safety. More than 1,353 residents across the electricity network participated in the online survey. Human error was revealed as the major cause of electric shocks followed by faulty appliances and faulty wiring. The results of the survey will be used to advance the Public Electrical Safety Awareness Plan.

Community

Ausgrid has an obligation to support the community that it serves by keeping them safe from the dangers of electricity, respecting their local neighbourhoods and making every effort to consult and communicate about upgrades and services.

Public safety

The electricity network operates 24 hours a day and contains live electrical equipment. Ausgrid invests in security measures and electrical safety campaigns to keep the community safe and educate the public on the dangers of live electricity.

In 2010/11, there were five incidents that resulted in members of the public receiving an injury after coming into contact with the electricity network. This included incidents when tradespeople did not take adequate steps when working around powerlines and other occasions when members of the public allegedly attempted illegal entry into electrical facilities. On 31 October 2010, a member of the public was killed while attempting to climb a power pole.

Security

Unfortunately, members of the public are continuing to place themselves at risk of injury and death by attempting theft and vandalism of electrical infrastructure. In 2010/11, there were 86 incidents of theft at Ausgrid depots and substations, costing \$194,000. This was a substantial increase from the previous year, more than \$100,000. The international price of copper and scrap metal is a substantial driver for illegal entry and theft.

In 2010/11, Ausgrid invested more than \$3.3 million to secure electrical equipment to keep the community safe and protect essential infrastructure, including a program to install perimeter fencing and ongoing distribution substation security upgrades. Regular security patrols and inspections of electrical equipment were also carried out to help deter and detect these sorts of incidents.

Public awareness

Each year, Ausgrid delivers a range of campaigns to help educate the public about how to stay safe around electricity. These campaigns are based on research on public attitudes, analysis of past incidents

and potential risks. There were 13 separate public campaigns delivered in 2010/11 under the \$1.98 million electrical safety awareness program.

Electrical safety campaigns included overhead power line awareness and Electricity Safety Week. These were primarily aimed at school children, tradespeople and homeowners. Major campaigns included Christmas light safety, Dial Before You Dig and storm safety. Ausgrid took part in joint initiatives with Endeavour Energy and Essential Energy providing electricity safety resources for primary schools. In 2010/11 Ausgrid ran almost 6,000 electrical safety messages in print and on radio across the electricity distribution network area.

Dial Before You Dig

Striking underground electricity cables can endanger the lives of anyone who comes into contact with them and could potentially blackout thousands of homes and businesses. Dial Before You Dig (DBYD) is a non-profit, free, referral service designed to give residents, plumbers, builders and other trades people, information on the location of underground assets to prevent damage to pipes and underground cables. In 2010/11, Ausgrid received and processed 92,737 DBYD referrals.

Graffiti

Ausgrid makes every effort to keep its electrical infrastructure clean and free from graffiti vandalism. In 2010/11, it invested more than \$1.1 million to clean up graffiti, about \$500,000 more than last financial year. Specially trained graffiti crews cleaned all 3,276 reported incidents of graffiti, about 23 percent more than last financial year. Ausgrid also delivered 188,000 safety notices to residents and businesses urging the community to report graffiti. Safety messages were delivered to about 376,000 residences living within 1km of identified zone substations in 2011.

▼ Graffiti – number of clean ups

3,276

2,658

2,107

10/11
09/10
08/09

▼ Electric shocks on private premises

There were

363

reported electric shocks on private premises in 2010/11 compared to

344

in 2009/2010.

Bushfire prevention

Ausgrid conducts additional aerial and land-based patrols of overhead power lines in bushfire prone areas of its network, to help reduce the risk of bushfire. Any high-risk defects identified on our network are corrected on a prioritised basis. In 2010/11, around 118,000 poles and overhead wires were inspected in bushfire prone areas, as part of our targeted bushfire safety program.

Ausgrid works closely with stakeholders such as the Rural Fire Service, local councils and community groups to help reduce the risk of bushfire damage to our assets. This includes significant hazard reduction activities, such as the removal of vegetation along transmission line corridors and access ways. There were more than 280 radio and 15 print advertisements to remind those property owners with private electricity infrastructure on their land of their legal obligations.

EMF

Ausgrid operates and builds its electricity network and smart grid electricity network in line with national health standards to protect the public. Electric and Magnetic Fields (EMF) are present in the natural environment and wherever electricity or electrical equipment is used. Ausgrid policy works to minimise public exposure to EMF from electrical infrastructure. In 2010/11 Ausgrid received and responded to 199 customer and community enquiries about EMF.

Corporate responsibility

In 2010/11, Ausgrid maintained its platinum ranking in Corporate Responsibility Index benchmarking with an overall score of 96 percent. In its first year participating in benchmarking against the Dow Jones Sustainability Index (DJSI), Ausgrid received a score of 65 percent, placing it in the top quarter for electricity

companies world-wide. Ausgrid scored 100 percent in biodiversity and scorecards/measurement systems.

Community investment and partnerships

The State Owned Corporations Act sets out financial and social objectives for a government-owned energy corporation, such as Ausgrid. It also states that state owned corporations must operate in a socially responsible manner toward the community within which it operates.

Ausgrid supports a diverse number of community, sporting, artistic and education organisations to help meet those aims. That support is aligned to company values including safety, energy efficiency and building the skills base of the energy industry.

Voluntary contributions to the community are measured using the London Benchmarking

Respecting the community

In 2010/11, Ausgrid started work replacing 132 kV cables along a 21km route between a bulk supply point in Beaconsfield and zone substations in Kogarah, Rockdale and Canterbury. More than 8,000 homes and businesses along the cable route received newsletters with information about the project. A series of community displays were also held across Sydney's south to inform the community and seek feedback on the project plans. Ausgrid planners also worked closely with local road authorities to minimise the impact on traffic and the environment.



Group (LBG) framework. This is the international standard for valuing corporate community investment. The LBG measured Ausgrid's contribution to the community at more than \$2.5 million for 2010/11, compared to more than \$2.2 million in 2009/10. For the full list of Ausgrid partnerships see page 108.

Ausgrid's Community Care program awards small grants to organisations where staff are active volunteers. Electrical fit-outs are also offered to community buildings or facilities where staff volunteer. This work is carried out by apprentices and helps build their skill base in becoming electrically qualified workers.

In 2010/11, over 670 grants were provided to more than 300 community organisations totalling over \$200,000 and 10 electrical fit-outs were completed.

Employees participated in fundraising for Movember in 2010, which raised over \$125,000 towards men's health. As part of Movember, about 1,600 staff undertook a free confidential health check at 18 locations across the network.

In 2010/11, more than 1,200 staff contributed about \$191,000 to 18 charities through the Ausgrid Employee Payroll Giving Program, including the Cancer Council NSW, Ausgrid Employees' Children's Appeal and the Westpac Rescue Helicopter Service. Employees also donated more than \$55,000 to the Queensland Floods Appeal, dollar-matched by Ausgrid to a total of over \$110,000.

Ausgrid supported 31 organisations through its partnership program (refer to full list on page 108). A key focus of Ausgrid's partnership program is energy efficiency.

Ausgrid undertook energy audits of 39 surf life saving clubs from Sydney's Northern Beaches to the Hunter region. Activities at Ausgrid's Zoo Month at Taronga Zoo also focused on energy efficiency actions for households.

As part of fostering educational pathways for careers in the energy industry, Ausgrid also supported the Science and Engineering Challenge education program in Sydney, Central Coast and Hunter regions.

Ausgrid funds a Chair of Power Engineering at the University of Sydney, a Chair of Intelligent Networks at Newcastle University and Chair of Electrical Power Economics at the University of New South Wales. These partnerships aim to foster skills development, research, innovation and investment within the energy industry.

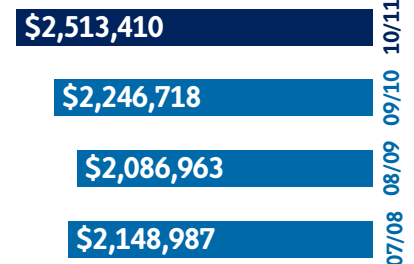
Respecting the community

To minimise the impact on local streets, homes and businesses, Ausgrid works closely with the community. Planners consult with the community and local councils during the planning and construction stages of major infrastructure work. In 2010/11, Ausgrid consulted with the local communities on more than 100 major projects, including meeting key local and state government representatives, residents, chambers of commerce and local businesses. Community displays were also held to seek input on project planning and newsletters were distributed to keep the public updated of construction progress. In 2010/11, Ausgrid also responded to questions and comments from the public via its Facebook and Twitter pages. Ausgrid provided local 1800 telephone information lines to allow community members to quickly access the project team to seek information or raise issues whenever they occur.

Noise

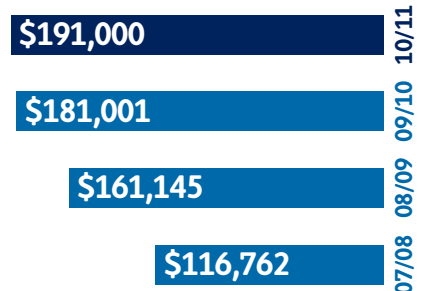
Ausgrid works to minimise the impact on customer's power supply, local traffic, businesses and residents. Noise and vibration can however occur during construction work and during the operation of electrical assets. Noise mitigation options are investigated during the assessment phase of both major and minor projects. Ausgrid guidelines reflect regulations set by the NSW Office of the Environment and Heritage (OEH). Ten construction noise complaints about night works were received in 2010/11.

Voluntary community contributions*



* London Benchmarking Group
Australia/New Zealand data

Payroll giving





Reducing waste

In 2010/11 Ausgrid recycled 47,943 tonnes of vegetation, 522 tonnes of steel and 228 tonnes of electricity meters. A trial was run at Ausgrid's Homebush Depot during the reporting period to help reduce the amount of waste being sent to landfill. The trial involved the use of dedicated recycling bins and more visible signage to further improve waste recycling.

Environment

Ausgrid carries out its operations in line with laws and regulations set by local, state and federal governments. Additional projects are undertaken to improve the energy efficiency of its operations and reduce the production of waste.

This section reports the environmental performance of both parts of the business. However, some key indicators from the retail side of the operations are only reported up until the end of February 2011.

Environmental management

Ausgrid's environmental management team prioritises projects, training and management strategies as part of an Environmental Improvement Plan. This plan is endorsed by the Environmental Steering Committee. During the reporting period, 98 percent of the plan was completed.

Ausgrid investigated 129 environmental incidents that were reported to it during 2010/11. Not all these reports related to its operations. Of these, 15 were notifiable incidents and were reported to the NSW Office of the Environment and Heritage or the Department of Planning and Infrastructure. The majority of incidents related to noise or sediment from projects to replace, upgrade or maintain the electricity network. Other incidents involved the impacts on threatened species, heritage items and land or water contamination. The number of notifiable environmental incidents have not increased significantly in the past four years. This is despite the large increase in work on the electricity network.

Energy use

Under the National Greenhouse Energy Reporting framework, businesses that consume more than 350TJ of energy or over 87.5kt of greenhouse gas emissions are required to submit a report. Ausgrid has prepared a report for 2010/11, including how much energy it consumed, generated and lost from its electricity network and the greenhouse gas emissions generated from its operations.

The EnergyAustralia retail business complied with all its greenhouse obligations in 2010. This included the NSW and ACT Greenhouse Gas Abatement Schemes, NSW Energy Savings Scheme, Commonwealth Renewable Energy Target, Queensland Gas Scheme and the Victorian Energy Efficiency Target.

Under the NSW Greenhouse Gas Abatement Scheme, the retail business delivered 3.19 million tonnes of greenhouse gas savings associated with electricity use in the year until the end of February 2011. This saving includes a forecast component.

The retail business surrendered 1.24 million large scale generation certificates in February 2011 as part of its obligations under the Commonwealth Renewable Energy Target.

Renewable energy

The retail business bought renewable energy and owned a small portfolio of renewable generators including the 600 kW Kooragang Wind Turbine and 407 kW Singleton Solar Farm. These purchases and the small portfolio helped support EnergyAustralia's accredited GreenPower products.

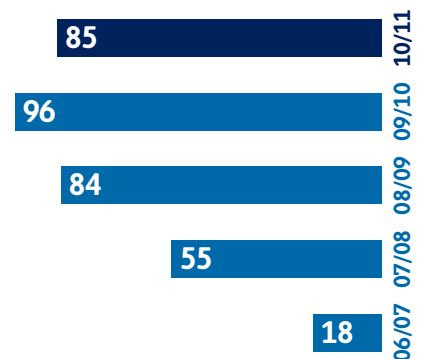
The GreenPower program is externally audited on a calendar year. During 2010, 347,870 renewable energy certificates were surrendered to support these GreenPower products.

Waste

Ausgrid conducted a review into its waste and recycling services in 2009/10 with the results helping to guide new practices, policies and projects in this reporting period. An improved recycling system has reduced waste going to landfill at the Homebush Depot, while new excavation, trenching and backfill practices on an underground cable project in the Newcastle suburb of Jesmond was expected to eliminate the need to send approximately 3,600 tonnes of soil to landfill.

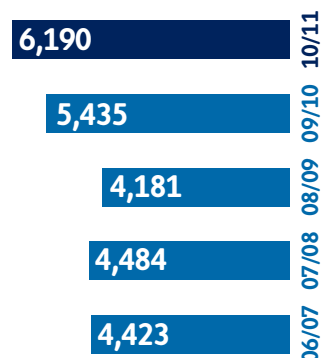
Ausgrid produces waste from its day-to-day maintenance operations, such as tree trimming, streetlight lamp replacements, power pole replacements, and the use of lubricants and insulating material, such as oil.

Number of Aboriginal groups consulted with



Environmental training

Number of employees and contractors trained



The increasing number of large electrical infrastructure projects also produce waste. Ausgrid attempts to reduce the production of this waste during the construction and maintenance process, as well as reusing or recycling remaining material.

Electricity transformers contain oil to assist in the safe operation of electrical equipment. Historically, transformer oil contained PCB (polychlorinated biphenyl), a known hazardous substance. In 1989, Ausgrid began a program to remove PCBs from its network, in line with the Environmentally Hazardous Chemicals Act 1985. All known pure PCBs have been removed from the network.

In 2010/11, 444,444 litres of PCB-contaminated oil and 1,054 tonnes of PCB-contaminated equipment were removed from the network and sent to a licensed facility for recovery.

Impact of vehicles

Upgrading and maintaining the electricity network often requires staff and materials to travel large distances across the distribution area. Vehicle and fuel use creates a challenge when attempting to reduce the impact of its operations on the environment. Ausgrid's hybrid vehicles increased from

13 in 2009/10 to 45 during the reporting period. There are also 20 electric-only vehicles in use. Nineteen of those cars are part of the *Smart Grid, Smart City project*, jointly funded by the Federal Government.

Demand management

Ausgrid investigates demand management options for all network constraints where the cost of the proposed supply-side augmentation project is more than \$1 million. It undertook 18 demand management screening tests during the reporting period. Three more detailed demand management investigations were completed, and it was concluded that all were cost effective demand management solutions. These activities are detailed on page 113. In 2010/11 Ausgrid:

- Completed implementation of power factor correction programs in the Willoughby and Greenacre Park areas.
- Entered into a network support agreement with the owner of a co-generation site in North Sydney from November 2010 to March 2011. This provided the equivalent of 2.3MVA of demand reduction during summer peak demand periods.

- Installed a 500kVA temporary generator in summer 2010/11 to provide network support during peak demand periods. This enabled the deferral of 11kV cable works in the North West Pennant Hills area.

Customers

Ausgrid offers a number of services and programs to help customers reduce their energy use, including an online energy reporting tool called Webgraphs. There were 2,903 companies using this service for energy management in 2010/11, including 848 schools.

More than 6,500 down lights were replaced with more efficient lights in hairdressing salons under a program that finished in December 2010. There were 245 lighting upgrades completed, saving an estimated 508 tonnes of greenhouse gas emissions each year.

Ausgrid also provides a number of educational materials on energy efficiency, including booklets on winter heating, swimming pool efficiency, summer cooling, hot water and an energy usage guide.

An average residential customer used about 6,600 kilowatt hours at the end of the reporting period. In April 2011, Ausgrid began listing information on its website showing the

Working with WIRES

Some outages are caused by environmental factors such as trees or animals coming into contact with powerlines. Unfortunately, this can also cause injuries to native animals such as flying foxes and possums. To help rescue, care and re-release these protected species, two workers from Ausgrid's environmental services team have become trained NSW Wildlife Information Rescue and Education Service (WIRES) volunteers. This means that they are now licensed to rehabilitate and release sick, injured or orphaned animals.



average amount of electricity used by local government area.

This new service was designed to encourage more discussion on energy use and how to use electricity more efficiently.

Solar buyback

Energy distributors in NSW are tasked with the operation of the NSW Government's solar bonus scheme. Eligible customers under the scheme are paid either 60 or 20 cents for every kilowatt hour they export to the electricity grid from their roof top solar panels. EnergyAustralia paid an additional six cents per kilowatt hour.

Members of the public can now also go to Ausgrid's website to see the number, location and generation capacity of rooftop solar panels connected to its electricity network.

There were 46,365 customers with solar panels connected to Ausgrid's electricity network at the end of the reporting period. There were an additional 7,007 customers waiting to have solar panels connected to the network. When all systems are connected, the generation capacity of all renewable energy generators was expected to be 110 MW.

Our operations

Ausgrid purchased 28,342 gigawatt hours of accredited GreenPower during the 2010 calendar year to match the energy consumption for all its offices, depots and training centres.

Work across the electricity network is planned to minimise its impact on local ecology. Where there is an impact, additional work is sometimes carried out to help compensate, repair or improve biodiversity of an area. A 12 metre tree was removed at a depot in Chatswood in Sydney's north for safety reasons. Four nest boxes were placed in an adjacent tree to help provide a safe place for local native species to nest. The tree hollows that were removed were donated to the Australian Reptile Park and to local council to provide tree hollows for other native species.

Similar steps were taken around projects at Rathmines in the Lower Hunter and Wamberal on the Central Coast. More than 130 nest boxes have now been installed in these areas. An audit of 42 nest boxes near Tomago produced evidence of recent habitation by native species.

Ausgrid crews changed scheduled work at a site near Galston in Sydney's north-west to help protect a rare plant species, *Epacris purpurascens*, and tunnelling underneath the Cooks River in Sydney's south was relocated to protect the roots of iconic Port Jackson figs.

Crews had to disturb plants on a large median strip near Belrose on Sydney's Northern Beaches to lay a new 33kV underground cable. After the work was complete 1,742 shrubs and 11,510 grasses were replanted.

Ausgrid's new Learning Centre was opened in May 2011 (see page 30), incorporating the latest energy and water-efficient design. The main building incorporates a tri-generation plant which comprises a 125kVa combined heat and power unit and a 95kW absorption chiller. It also helps to heat and cool the building. Geothermal bores help to remove waste heat from water for the air-conditioning plant while a hollow-core slab thermal mass system maintains building temperature more evenly. A 260 panel, 51 kilowatt photovoltaic system has been installed on the roof and rainwater is collected in a 147,000 litre rainwater tank. The centre also includes 10 electric-vehicle charging stations.

An Energy Efficiency Centre is also located at the building to help the general public learn about electricity. It aims to give them practical advice to understand how much energy they use, what appliances are energy efficient, and how to reduce their energy use without affecting their lifestyle. (see page 18)

Heritage

Ausgrid consulted with local Aboriginal Land Councils on seven of its larger projects throughout the reporting period, including the Denman 66kV powerline and Mitchell Line subtransmission substation.

A building containing a small distribution substation in Annandale turned 100 years old in 2010. Its detailed federation freestyle façade has been retained. It originally operated as a zone substation and is still an excellent example of early electricity infrastructure.

Special information panels were placed on the external wall of the new Kogarah Zone Substation in Sydney's south to celebrate early use of the site as a silent movie theatre, boxing ring and World War II navy ammunition store.

✓ Ausgrid's motor fleet improvements

In 2010/11, Ausgrid's motor vehicle fleet used

4.78

megalitres of unleaded petrol,

5.34

megalitres of diesel and

0.19

megalitres of LPG.

Ausgrid replaced

225

leased passenger vehicles and reduced the comparative CO₂ emissions by 15%.

181

light commercial vehicles were replaced and the new vehicles delivered a 10% reduction in CO₂ emissions when compared to those replaced.

✓ Re-using water

Stormwater is now being captured from Ausgrid's Homebush Depot and re-used on local playing fields. The run-off is collected from two buildings via stormwater pipes, and filtered through a pollutant trap before flowing into a 100,000 litre storage tank built under the local park.



A new Learning Centre

The new Ausgrid Learning Centre at Silverwater officially opened on 17 May for Sydney-based apprentices. The purpose-built training facility includes a pole yard for heights training, jointing pits for cable jointers, electrical mechanics workshops and a substation simulator. These allow apprentices to hone their skills in different simulated electrical environments. The \$75 million project was jointly funded by Ausgrid and the Federal Government through the Commonwealth Education Investment Fund. It also includes an energy efficiency centre for school students and other public groups to learn more about how to use energy wisely.

Workplace

Improving workplace safety remains the highest priority at Ausgrid. There was also an increased focus on improving staff engagement, performance management and delivering quality training to build the skills base of the technical workforce.

The large-scale replacement and renewal of the electricity network continued to be the focus throughout 2010/11. After the sale of the EnergyAustralia retail business, staff in that area continued to be employed by Ausgrid, but started providing services to the new owners of the retail business under a Transitional Services Agreement.

The workforce

A total of 440 employees joined Ausgrid in 2010/2011, compared to 471 who joined the year before. Approximately half of those new starters were employed in technical positions. At the same time, 83 employees retired from Ausgrid, compared to 44 the year before. The total workforce was 5,941 full time equivalents with an actual head count of 6,067 at the end of the reporting period.

The average workforce tenure at Ausgrid over the last five years has remained at 12.6 years. About 837 employees are aged between 55 and 65 years of age, and a further 116 staff are older than 65 years of age.

Apprenticeship training

A total of 153 apprentices joined Ausgrid in 2010/11. The new recruits, aged 16 to 50 years, will complete a four-year apprenticeship and undertake training in Sydney, Newcastle and Muswellbrook. At the end of the reporting period, Ausgrid was one of the largest employers of apprentices in NSW.

Graduate, cadet and trainee programs

A total of 22 engineering graduates, three commercial graduates, five cadets and 12 trainees started their careers at Ausgrid in the reporting period. A two-year rotational job program is offered to graduates with a choice of 50 job-rotation positions to gain experience and knowledge. Traineeships are a four-year part-time program offering the chance to study for an Advanced Diploma in Electricity Supply Industry at TAFE while gaining work experience.

Safety performance

The electricity industry around the world is acknowledged as a hazardous industry and so Ausgrid ranks safety as its highest priority. During the reporting period, there was an increase in the number of safety activities, including safety inspections and hazard alerts.

There was also an increase in the number of reported safety incidents and near-miss incidents after a deliberate and high-profile campaign to encourage staff reporting. Ausgrid also continued to report the total number of safety injuries. This step was taken to create greater transparency and better safety awareness.

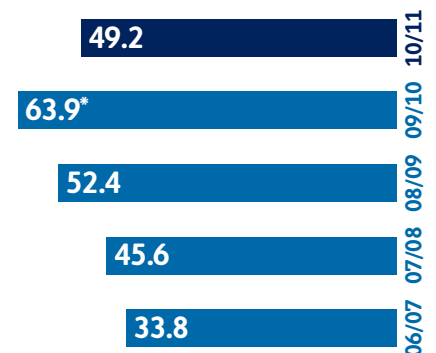
However, overall safety performance of the workforce declined during the reporting period. The number of medically treated injuries increased as did the safety indicator used across the industry known as Lost Time Injury Frequency Rate (LTIFR). The rate is determined by the number of lost time injuries and illnesses for each million hours worked. At the end of the reporting period the LTIFR was 4.4 per employee against a target of less than three.

There were three serious reportable safety incidents involving employees working around the electricity network in 2010/11. This included an employee who was seriously injured in Newcastle when his leg became entangled in a winder, resulting in extensive lacerations and amputation. The worker has since returned to work.

Workers compensation

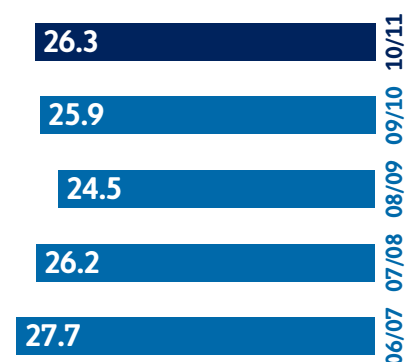
There were 408 workers compensation claims during the reporting period with expenditure on all open claims of more than \$3.7 million. This compares to 336 new claims in the last period and a total on all open claims of \$2.7 million.

Lost Time Injury Severity Rate (LTISR)



* See p.103 for explanation of increase

Medical Treatment Injury Frequency Rate (MTIFR)



Safety improvements

A number of programs are underway for the 2011/12 year to improve safety performance. A common safety management system called Be Safe is being developed. The objective of Be Safe is to have a single, outcome-driven system for managing health and safety across Ausgrid. This system consists of policies and procedures to help provide a safe workplace for employees, contractors, consultants and visitors to worksites.

A safety video competition was launched to encourage participation in safety initiatives. A new OHS incident reporting form was also launched in March 2011.

A new drug and alcohol program began in 2010/11. The phased rollout of the program included 268 drug and alcohol awareness sessions that more than 5,100 staff attended.

Developing people

There was a strong focus on developing skills to assist staff in their careers. Succession planning, a Talent Program, mentoring, coaching and additional training was provided. Underpinning this has been a workforce planning program to help ensure Ausgrid has the right mix of people and skills to deliver its capital works plan.

The reporting of performance recognition began in 2010/11 as did an annual company-wide staff awards program. New performance recovery and discipline policies were also implemented in 2010/11 as well as awareness sessions for 253 managers.

E-learning is proving to be a cost-effective alternative to consistently train staff across the business. This year new modules were released – 117 staff completed online induction, 119 staff accessed the working

with equity and respect module, and the target for the business continuity awareness online session reached 75 percent for affected staff.

The results from a staff engagement survey held in 2010 were used to help improve communication via team briefs, the management of change in the workplace and addressing staff performance. A similar survey will be held in March 2012 to measure the success of these programs.

Diversity

Ausgrid is committed to providing equal opportunity employment and promoting the principles of equity and respect in the workplace. Training is provided for all new employees and the principles of equity and respect continue to be promoted through the Code of Conduct.



Safety field days

Each year field staff are selected to represent Ausgrid at the Electrical Field Safety Days, where teams from other energy businesses compete in a variety of events designed to test their safety skills. At the 2011 event, the Ausgrid team gained five first places, three second and two third places.

The Code was reviewed to reflect the new Ausgrid brand and values and re-issued to all staff in March 2011.

Ausgrid's Equity and Diversity Strategy reflects a commitment to increasing employment in the workforce by 2015. Currently, 55 employees have identified themselves as indigenous through their membership of the Ausgrid Indigenous Steering Committee.

Ausgrid's Women @ Work Network was launched in 2010/11 and there are 382 members. It aims to empower and support women in the workplace to reach their full potential. Fifteen activities were held in Sydney and Newcastle.

Indigenous programs

Ausgrid's Aboriginal and Torres Strait Islander Pre-Apprenticeship Program began in 2005. Ninety-two indigenous apprentices have completed the program and 41 have joined Ausgrid since it began. Of these, 35 are still employed, an 85 percent retention rate for pre-apprenticeship graduates.

In 2010, 28 participants completed the program, 11 were offered apprenticeships and began work at Ausgrid in January 2011.

Ausgrid was a finalist for the 2010 Diversity @ Work Award – Employment and Inclusion of Indigenous Australians and joint winner of the 2010 Business/Higher Education Round Table Award for Best Vocational Education and Industry Collaboration, shared with TAFE Sydney Institute – Petersham College.

Workplace relations

Ausgrid has a two-year enterprise agreement covering the employment conditions of 5,554 staff. This agreement was renegotiated in March 2011.

A Memorandum of Understanding with the Electrical Trades Union (ETU) remained in operation during 2010/11. That agreement deals with workforce issues surrounding Ausgrid's expanding capital works program. This includes the need for external contract resources for overflow work in street lighting, routine pole replacements, aerial bundled cables (ABC), and fire-stopping. An additional alliance was introduced this year.

This is in addition to prior agreements with two alliance partners which provide extra resources to deliver projects on the high-voltage and subtransmission network.

Employee support programs

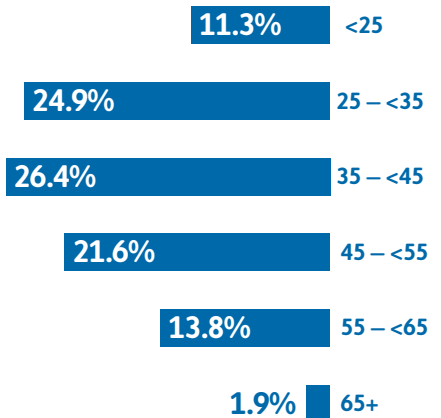
Ausgrid offers all employees parental leave, flexibility in balancing work and family responsibilities and encouragement to return to work following parental leave. A part-time work procedure enables negotiation for part-time and job-sharing arrangements, while a redeployment procedure provides redeployment as the first consideration for employees whose positions are excess to requirements.

Two employee assistance programs provide confidential counselling services to all employees and their immediate families, including specific counselling for employees exposed to trauma or critical incidents. Other support includes a manager advisory hotline service, Energy Industries Superannuation Scheme information sessions, an active staff club and a retired employees' staff club.

Health and well-being

Ausgrid again offered free gym membership and combined seasonal flu and H1N1 vaccines in 2010/11 to promote ongoing staff health and well-being. The Dust Diseases Board's Lung Bus offered all current and previous Ausgrid staff free lung testing, starting in June 2011 and continuing until November.

Age distribution of employees



Employee facts 2010/11

12.6

Average years length of employee service

153

Apprentices joined Ausgrid

3

Serious reportable employee safety incidents

55

Indigenous employees

Finance report

Financial results

	2010/11 result	2010/11 SCI*	2010/11 plan	variation to plan	2009/10 result
Operating revenue (\$m)	4,070	2,408	4,662	(592)	3,980
EBIT (\$m)**	984	770.8	854.5	129.5	913
EBITDA (\$m)**	1,391.7	1,157.8	1,241.5	150.2	1,246
Net profit after tax(\$m)**	325.9	155.9	220.1	105.8	345
Dividend (\$m)	175.08	109.1	154	21.08	250
Other payments (\$m)	1,370.0	-	-	1,370.0	-
Total distributions to Government (\$m)	1,734	175.9	248.9	1,485.1	386
Return on equity (%)	17.2	8.8	11.7	5.5	19
Capital expenditure (\$m)	1,578	1,595	1,595	17	1,319

* The Statement of Corporate Intent (SCI) targets do not include the retail business, the 2010/11 results should be compared with the plan, which include combination of the retail and network business. ** For comparison, the sale from the retail business of \$1,247.9 million has been excluded from the 10/11 results.

Financial highlights

Ausgrid achieved Earnings Before Interest and Tax (EBIT) of \$2,231.9m and includes profit on sale from the retail assets of \$1,247.9m. Excluding this, EBIT was \$984 million from total revenues of \$4.07 billion. EBIT in 2010/11 was \$71 million higher than last year's reported result (see table above). The network business performed well, reflecting favourable energy volume variances and favourable demand/capacity variances offset by unfavourable price variances. At the date of sale, the retail business was well ahead of target, which represented the strong operational performance of the business driven by higher gross margins and lower operational costs.

Return on shareholders' funds

Total company assets were \$11.27 billion at 30 June 2011 and the return on these assets was 9.1 per cent. Shareholders' equity increased during 2010/11 to \$1.93 billion due to the increased earnings. Ausgrid achieved a 17.2 per cent return on equity which was better than the Statement of Corporate Intent target of 8.8 per cent. Total earnings provided a net profit after tax of \$1,573.8 million or \$325.9 million, excluding the sale of the retail business. Ausgrid's distributions to the NSW Government were \$364 million from a dividend of \$175 million and income tax expense of \$189 million. Total distributions to government were \$1,734 million including \$1,370 million arising from the sale of the retail business on 1 March 2011. Excluding the sale of retail, distributions were \$115 million higher than plan.

Productivity savings and efficiencies

During the reporting period, both operating and capital cost reduction savings were targeted to ensure Ausgrid's operations were being conducted as efficiently as possible. Total Ausgrid funded capital expenditure of \$1,578 million was \$17 million less than target, reflecting efficiencies in major projects, including the replacement of 33kV cables at Lindfield and Belmore Park, Balgowlah, Hurstville North and Tomago zone substations.

Underlying operational expenditure was reduced by \$67 million partly through reductions in corporate overheads. Over the five year regulatory period, \$800 million savings in capital costs are being targeted.

Directors' report

Governance at Ausgrid

Ausgrid is a State Owned Corporation established under the Energy Services Corporations Act 1995 and the State Owned Corporations Act 1989. It is subject to a significant number of statutory and subordinate legislative requirements. The Board has overall responsibility for corporate governance at Ausgrid. The governance framework establishes the approach of the organisation to various economic, environmental and social practices. However, governance is not just a matter for the Board and it is important that a good governance culture is fostered throughout the organisation. In determining the governance practices the Board has taken into consideration the Australian Securities Exchange (ASX) Corporate Governance Council, Principles of Good Corporate Governance and Best Practice Recommendations and other relevant best practice guides.

The Board has a formal Charter which sets out its role and key responsibilities among other things. The Charter was reviewed and

updated during the year. The Board has adopted the organisation's Code of Conduct as its model of behaviour.

Ausgrid's operational performance is monitored at Board and Sub-Committee meetings. Reports to the Board include monthly reports on the financial and operational performance of the business (via the Managing Director's report), approval of large capital investment projects or awarding of contracts, business operational and risk management reports.

Beyond the matters reserved for its decision, the Board has delegated all remaining authority to the Managing Director. The Managing Director is accountable to the Board for the authority that has been delegated and for the performance of the business. The businesses objectives and performance targets are established each year in the Statement of Corporate Intent, business plans and Network Management Plans. Other plans available at www.ausgrid.com.au establish the objectives and targets for electrical safety, community education

and bushfire risk management. Ausgrid's strategic plan to 2014 incorporates the key strategic themes of safety, reliability, innovation, managing costs, driving process improvement and performance management, building foundations for the future and sustainable growth.

The Board undertakes a formal process to review the performance of the Managing Director and Executive team. The evaluation is based on pre-agreed criteria which incorporates an independent assessment of organisational and business performance.

A copy of the Board and Sub-Committee Charters are available on Ausgrid's website, www.ausgrid.com.au.

A Board performance review was completed in September 2010. The review recommendations were considered by the Board and a number of those have been implemented including the formation of a Nomination committee and additional non-executive director sessions.

	Board of Directors Meeting		Audit & Risk Sub-Committee		Retail & Energy Services Sub-Committee		Human Resources Sub-Committee		Capital Investment & Economic Regulation Sub-Committee	
Scheduled	A	B	A	B	A	B	A	B	A	B
J Conde, AO	14	14	2	5	4	8	3	3	-	6
G Maltabarow	14	14	* 5	5	8	8	3	3	8	8
P Akopiantz	14	13	3	3	8	7	3	2	-	3
P Jeans	14	13	3	4	4	6	3	3	8	8
M Lambert	1	1	1	1	-	-	-	-	1	1
R Mifsud	14	14	5	5	4	5	-	-	8	7
P Dodd	13	11	2	2	-	1	-	-	4	4

A - Indicates number of meetings held during the period the Director was entitled to attend/a member of the Sub-Committee

B - Indicates the number of meetings attended by the Director during the period

* - Attended meeting as an invitee

Michael Lambert's appointment ceased on 31 August 2010. Peter Dodd was appointed 6 September 2010. Where the number of attendances exceeds the number of meetings held, the attendee was not a member of the Sub-Committee for the entire period and attended some meetings as a guest. Sub-Committee membership changed on 1 January 2011.

Directors' report

The Board

In accordance with the State Owned Corporations Act 1989, up to seven directors can be appointed by the Shareholders including a director nominated by Unions NSW. The Board currently has six members. In August 2010 Mr Michael Lambert's term expired. The vacancy was filled by Dr Peter Dodd on 6 September 2010. The remuneration of non-executive directors is determined by the shareholders and paid for by Ausgrid. The directors holding office at 30 June 2011 were:



John Conde AO
BSc, BE (Hons), MBA
Chairman

A non-executive director since November 1997. Chairman of the Nomination Sub-Committee and member of the Audit & Risk and Human Resources Sub-Committees. Chairman of Sydney Symphony Limited, Whitehaven Coal Limited, BUPA Australia Health Pty Ltd, Homebush Motor Racing Authority Advisory Board, Downtown Utilities, Australian Olympic Committee (NSW) Fundraising Committee, Ausgrid Pty Limited and Events NSW. President of the Commonwealth Remuneration Tribunal and the Dermatology Research Foundation – University of Sydney. Director of DEXUS Property Group.



George Maltabarow
BE, BEc
Managing Director

An executive director since May 2005. A member of the Capital Investment & Economic Regulation, Human Resources and Retail & Energy Services Sub-Committees. An attendee at the Audit & Risk Sub-Committee. Director of Ausgrid Pty Limited, the Energy Networks Association of Australia and the Energy Supply Association of Australia. President of the Council of Electrical & Information Engineering Foundation of the University of Sydney and Member of the CSIRO Energy and Transport Sector Advisory Council.



Patricia Akopiantz
BA, MBA

A non-executive director since March 2006. Chairman of the Human Resources Sub-Committee and member of the Retail & Energy Services and Nomination Sub-Committees. Director of AXA APH, National Mutual Life Association and National Mutual Funds Management until 31 March 2011. Director of AMP from 31 March 2011 and NSW Library Foundation.



Peter Dodd
PhD, MSc MCom, BCom, Dip Ed

A non-executive director since September 2010. Chairman of the Audit & Risk Sub-Committee and member of the Nomination and Capital Investment & Economic Regulation Sub-Committees. A director of Collgar Wind Farm Pty Ltd, CWF Holdings Pty Ltd, Macquarie Uni Property Investment Co Pty Ltd, North American Energy Partners, The Centre of Independent Studies, Macquarie Graduate School of Management Pty Ltd, MUH Operations Pty Ltd, Investa Listed Funds Management Limited. Deputy Vice Chancellor and Chief Operating Officer of Macquarie University.



Paul Jeans
BE

A non-executive director since March 2000. Chairman of the Capital Investment & Economic Regulation Sub-Committee and member of the Human Resources and Retail & Energy Services Sub-Committees. Chairman of Newcastle Port Corporation.



Rebecca Mifsud
BA, LLB

A non-executive director since October 2009. Chairman of the Retail & Energy Services Sub-Committee and member of the Capital Investment & Economic Regulation and Audit & Risk Sub-Committees.

Board responsibilities and meetings

The responsibilities of the Board include:

- Approving the business plan and reports to the shareholders on progress against the business plan
- Considering and determining the strategic direction of the organisation
- Monitoring reports on issues including the safety of the workforce, environmental performance and issues, compliance, financial performance and risk management
- Appointing, evaluating and remunerating the Managing Director and Executive and
- Ensuring that assets are effectively utilised to achieve the desired outcomes for the shareholders, customers and the community.

The Board meets as often as necessary to fulfil its functions. Senior managers attend Board meetings by invitation to discuss matters for approval, provide updates on significant issues, for example: safety incidents or to discuss strategic issues. The non-executive directors meet regularly in the absence of the Managing Director and other management.

During the course of its work, the Board is able to obtain independent advice as required. The Board reviews its performance regularly.

Board Sub-Committees

The Board has established Sub-Committees to assist it in monitoring the performance of the business including the management of risk, compliance and the core business operations of Ausgrid. Arising from a Board review undertaken, the Board established a Nomination Sub-Committee. Information on each Sub-Committee appears below.

Audit & Risk

The Sub-Committee assists the Board in assuring the integrity of the statutory and regulatory financial statements and the operation of the internal control, business risk and compliance frameworks in the organisation. A new Charter for the Sub-Committee was approved in February 2011. The main changes related to the responsibilities for monitoring of Risk Management activities.

Activities during the year

The Sub-Committee completed all activities under its Charter including:

- Approval of Internal Audit plans, monitoring the performance of Internal Audit and progress with implementing internal audit recommendations
- Endorsement of the statutory and regulatory financial statements prior to Board approval

- Reviewing business continuity plans, IT back-up and application forward remediation program, insurance coverage
- Monitoring the outcome of investigations into alleged corrupt conduct
- Endorsing changes to the presentation of the monthly financial report to the Board, and
- Reviewing the action plans in place for major risks.

Retail & Energy Services

This Sub-Committee was previously known as the Retail Performance & Risk Management Sub-Committee. In February 2011 the Charter for the Sub-Committee was substantially changed in line with the proposed sale of retail assets to TRUenergy.

This Sub-Committee assists the Board of Directors in fulfilling its responsibilities in relation to the monitoring of service delivery obligations under internal and external service agreements, monitoring activities required to transition the retail operations to its new owners; and review of the development of new energy products and services.

Activities during the year

The Sub-Committee completed all activities under its Charter including:

- Monitoring activity associated with the NSW Government's Energy Reform Strategy
- Reviewing the monthly performance reports associated with the provision of services to TRUenergy and residual retail risks retained by Ausgrid, and
- Reviewing the development of the energy services strategy.

Human Resources

This Sub-Committee assists the Board in its oversight of the Human Resources & safety management systems and practices including succession & workforce planning, remuneration and the safety governance framework and its operation. The Charter for the Sub-Committee was reviewed and updated in February 2011.

Activities during the year

The Sub-Committee completed all activities under its Charter including:

- Overseeing the implementation of an enhanced safety reporting framework focussing on lead and lag indicators including improved incident and near miss reporting

- Monitoring the implementation of the succession planning and learning and development frameworks
- Monitoring the progress with workforce planning activities to ensure that the organisation has identified and is taking action to manage risks associated with any skills and capability gaps arising from the significant capital program
- Reviewing the development of the framework to measure productivity offsets that underpin wage increases, and
- Considering the recommended changes to remuneration for the Executive team and their performance prior to Board approval.

Capital Investment & Economic Regulation

The Sub-Committee assists the Board in its oversight of the planning and delivery of the capital program, the economic impacts of the regulatory framework on business performance and the approach to maintenance and utilisation of major assets. The Charter for the Sub-Committee was reviewed and updated in February 2011.

Activities during the year

The Sub-Committee completed all activities under its Charter including:

- Endorsed the capital budget, significant investments and regularly reviewed progress with the capital program
- Reviewed strategy associated with the rollout of the transmission and distribution automation programs and the proposed funding arrangements for the programs
- Considered the strategy for CBD to 2017 and the key projects underway to ensure licence compliance
- Reviewed the distribution licence compliance report, and
- Reviewed pricing strategies for the distribution business.

Nomination

This Sub-Committee was formed in 2011. The role of the Nomination Sub-Committee is to assist the Board of Directors in fulfilling its responsibilities in relation to identifying, evaluating and recommending candidates for appointment as non-executive directors; and performance evaluation and effective operation of the Board, including its Sub-Committees and individual directors.

Activities during the year

The Sub-Committee did not meet in 2010/11.

Ausgrid's leadership team



Managing Director
George Maltabarow BE,
BEc



**Distribution Operations
& Reliability**
Executive General
Manager - John Eisenhuth
BE, GradDipMgmt



Human Resources
Executive General
Manager - Maree Slater
BA(Hons), MA, MBA, Dip
Ind. Law & IR, Dip Ed



**Transmission & System
Operations**
Executive General
Manager - Trevor
Armstrong BE



Shared Services
Executive General
Manager - Mike Bailey



Finance & Corporate
Executive General
Manager - Craig
James B-Fin Admin,
DipFinServices



**System Planning &
Regulation**
Executive General
Manager - Peter Birk
BSc Elec Eng, MBA



Corporate Secretary
Lisa Maffina BBus,
GradDipMgmt



Legal Branch
General Counsel -
Susan Bailey BA, LL.M



**Chief Internal
Auditor**
Noel Kean BBus,
DipComm



Energy Services
Executive General
Manager - Jane Mills
BComm

Internal control

Ausgrid has in place effective internal control processes monitored by its Board of Directors, and administered by management and staff to deliver corporate objectives and ensure that laws and regulations, codes and policies are being complied with, and financial reporting is accurate. Ausgrid has a strong internal audit function that provides independent assessments of the effective design and operation of this internal control framework and the management of key business risks.

Risk management

Ausgrid has in place a robust business risk management policy and process for embedding risk management practices into the organisation's culture and actions. The policy is consistent with the Australian/New Zealand Standard on risk management (AS/NZS ISO 31000:2009). A formal strategic risk management assessment is conducted annually as part of the corporate planning process. For 2010/11, 21 key strategic risks were identified, assessed, mitigated and

reported to the Board. Operational risk assessments are completed annually for each business area which establish the key business risks to be managed and action plans to address gaps. Ausgrid's emergency procedures for managing incidents such as fires, storms, natural disasters or anything else that may affect the electricity network or critical business processes are defined in its Incident Management System available to all staff. Ausgrid's response to emergencies centres around three priorities – safety for both people and property, the environment and restoring the network. Ausgrid has a comprehensive insurance program in place and reviews the adequacy of its insurance limit annually. This includes a review of participating insurers' financial position.

Ethics

Maintaining ethical behaviour is core to effective corporate governance. This requires leading by example and building a culture of performance aligned to integrity and Ausgrid's performance behaviours of collaboration,

accountability, reliability, safety, commerciality, innovation and leadership. Ausgrid is committed to maintaining high standards of accountability and ethics. Ausgrid's Business Ethics Committee comprises senior divisional management representatives who oversee the implementation and effectiveness of appropriate ethical programs. Ausgrid's leadership has accepted responsibility to promote its corporate values, create commitment to these values and generate improved performance within the organisation. There have been no cases referred to Ausgrid's Business Ethics Committee by either Ausgrid employees or contractors in 2010/11. Employees can also call the St James Ethics Centre helpline on 1800 672 303 if they do not wish to raise an issue with Ausgrid's Business Ethics Committee.



Ausgrid (formerly known as EnergyAustralia Group)

Consolidated Financial Report

For the year ended 30 June 2011

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Ausgrid and controlled entities

Statements of Comprehensive Income

For the year ended 30 June 2011

		Consolidated Entity		Ausgrid	
	Note	2011 \$M	2010 \$M	2011 \$M	2010 \$M
Continuing Operations					
Revenue	2	2 635.6	1 997.9	2 635.6	1 997.9
Expenses, excluding finance costs and fair value movements in financial instruments	3(a)	(1 862.3)	(1 499.6)	(1 862.4)	(1 499.6)
Finance costs	3(b)	(469.7)	(431.7)	(469.7)	(431.7)
Gain / (Loss) on disposal	4	(3.6)	(6.9)	(3.6)	(6.9)
Profit before income tax and financial instrument fair value movements		300.0	59.7	299.9	59.7
Income tax expense on profit before financial instrument fair value movements	5	124.2	10.1	124.2	10.1
Profit before financial instrument fair value movements		175.8	49.6	175.7	49.6
Fair value movements in financial instruments	3(c)	(0.7)	0.9	(0.7)	0.9
Income tax expense / (credit) on financial instrument fair value movements	5	(0.2)	0.3	(0.2)	0.3
Profit after tax from continuing operations		175.3	50.2	175.2	50.2
Profit after tax from discontinuing operations		1 398.5	294.8	1 398.5	294.8
Profit for the year		1 573.8	345.0	1 573.7	345.0
Other Comprehensive Income					
Net increase/(decrease) in revaluation reserve		25.2	4.3	25.2	4.3
Net increase/(decrease) in hedging reserve		30.6	(2.6)	30.6	(2.6)
Superannuation actuarial gains/(losses)	30	8.3	(33.4)	8.3	(33.4)
Income tax expense/(credit) on other comprehensive income	5	18.3	(8.8)	18.3	(8.8)
Other comprehensive income for the year, net of income tax		45.8	(22.9)	45.8	(22.9)
Total comprehensive income for the year		1 619.6	322.1	1 619.5	322.1
Profit attributable to:					
Owners of the Corporation		1 573.8	345.0	1 573.7	345.0
Non-controlling interest		-	-	-	-
Profit for the year		1 573.8	345.0	1 573.7	345.0
Total comprehensive income attributable to:					
Owners of the Corporation		1 619.6	322.1	1 619.5	322.1
Non-controlling interest		-	-	-	-
Total comprehensive income for the year		1 619.6	322.1	1 619.5	322.1

The above statements of comprehensive income should be read in conjunction with the accompanying notes.

Ausgrid and controlled entities

Statements of Financial Position

As at 30 June 2011

	Note	Consolidated Entity		Ausgrid	
		2011 \$M	2010 \$M	2011 \$M	2010 \$M
Current assets					
Cash and cash equivalents	6	99.4	156.6	99.4	156.6
Trade and other receivables	7	538.4	688.0	538.4	688.1
Other financial assets - including derivatives	8	76.1	43.8	76.1	43.8
Inventories	9	31.6	34.7	31.6	34.7
Other current assets	10	66.3	133.4	66.3	133.4
Total current assets		811.8	1 056.5	811.8	1 056.6
Non-current assets					
Other financial assets - including derivatives	8	7.0	54.0	7.0	54.0
Property, plant and equipment	11	9 949.7	8 715.5	9 949.7	8 715.5
Intangible assets	12	269.1	255.6	269.1	255.6
Deferred tax assets	14	232.8	255.9	232.8	255.9
Total non-current assets		10 458.6	9 281.0	10 458.6	9 281.0
Total assets		11 270.4	10 337.5	11 270.4	10 337.6
Current liabilities					
Trade and other payables	15	570.4	620.8	570.4	620.8
Borrowings	16	168.9	286.0	168.9	286.0
Other financial liabilities - including derivatives	18	77.1	26.4	77.1	26.4
Deferred revenue		37.4	65.9	37.4	65.9
Employee benefits	29	426.6	428.4	426.6	428.4
Provisions	17	288.9	306.9	288.9	306.9
Deposits		2.7	24.8	2.7	24.8
Current tax liabilities	13	164.3	40.2	164.3	40.2
Deferred government grants		6.7	1.0	6.7	1.0
Total current liabilities		1 743.0	1 800.4	1 743.0	1 800.4
Non-current liabilities					
Borrowings	16	6 622.9	5 549.1	6 622.9	5 549.1
Other financial liabilities - including derivatives	18	7.9	92.1	7.9	92.1
Employee benefits	29	196.0	221.5	196.0	221.5
Provisions	17	45.3	47.4	45.3	47.4
Deposits		9.5	1.8	9.5	1.8
Deferred tax liabilities	14	639.9	714.9	639.9	714.9
Deferred government grants		76.3	55.2	76.3	55.2
Total non-current liabilities		7 597.8	6 682.0	7 597.8	6 682.0
Total liabilities		9 340.8	8 482.4	9 340.8	8 482.4
Net assets		1 929.6	1 855.1	1 929.6	1 855.2
Equity					
Parent entity interest					
Contributed equity and share capital		402.1	402.1	402.1	402.1
Reserves		998.5	961.5	998.5	961.5
Retained earnings		529.3	491.8	529.0	491.6
Total parent entity interest		1 929.9	1 855.4	1 929.6	1 855.2
Non-controlling interest in controlled entity		(0.3)	(0.3)	-	-
Total equity		1 929.6	1 855.1	1 929.6	1 855.2

The above statements of financial position should be read in conjunction with the accompanying notes.

Ausgrid and controlled entities

Statements of Changes in Equity

For the year ended 30 June 2011

		Contributed equity and share capital	Revaluation reserve	Hedging reserve	Retained earnings	Total	Non- controlling interest	Total equity
Consolidated Entity	Note	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Balance at 1 July 2010		402.1	983.0	(21.5)	491.8	1 855.4	(0.3)	1 855.1
Comprehensive income for the year								
Profit for the year		-	-	-	1 573.8	1 573.8	-	1 573.8
Other comprehensive income								
Net increase/(decrease) in revaluation reserve, net of tax	5,19	-	18.5	-	-	18.5	-	18.5
Net increase/(decrease) in hedging reserve, net of tax	5,19	-	-	21.5	-	21.5	-	21.5
Transfers to and from reserves/ retained profits		-	(3.0)	-	3.0	-	-	-
Superannuation actuarial gains/ (losses), net of tax	5,19	-	-	-	5.8	5.8	-	5.8
Total other comprehensive income for the year		-	15.5	21.5	8.8	45.8	-	45.8
Total comprehensive income for the year		-	15.5	21.5	1 582.6	1 619.6	-	1 619.6
Transactions with owners, recorded directly in equity								
Dividends and other payments to shareholders	19	-	-	-	(1 545.1)	(1 545.1)	-	(1 545.1)
Total transactions with owners		-	-	-	(1 545.1)	(1 545.1)	-	(1 545.1)
Balance at 30 June 2011		402.1	998.5	0.0	529.3	1 929.9	(0.3)	1 929.6

The above statements of changes in equity should be read in conjunction with the accompanying notes.

Ausgrid and controlled entities

Statements of Changes in Equity

For the year ended 30 June 2011

		Contributed equity and share capital	Revaluation reserve	Hedging reserve	Retained earnings	Total equity
Ausgrid	Note	\$M	\$M	\$M	\$M	\$M
Balance at 1 July 2010		402.1	983.0	(21.5)	491.6	1 855.2
Comprehensive income for the year						
Profit for the year		-	-	-	1 573.7	1 573.7
Other comprehensive income						
Net increase/(decrease) in revaluation reserve, net of tax	5,19	-	18.5	-	-	18.5
Net increase/(decrease) in hedging reserve, net of tax	5,19	-	-	21.5	-	21.5
Transfers to and from reserves/retained profits		-	(3.0)	-	3.0	-
Superannuation actuarial gains/(losses), net of tax	5,19	-	-	-	5.8	5.8
Total other comprehensive income for the year		-	15.5	21.5	8.8	45.8
Total comprehensive income for the year		-	15.5	21.5	1 582.5	1 619.5
Transactions with owners, recorded directly in equity						
Dividends and other payments to shareholders	19	-	-	-	(1 545.1)	(1 545.1)
Total transactions with owners		-	-	-	(1 545.1)	(1 545.1)
Balance at 30 June 2011		402.1	998.5	0.0	529.0	1 929.6

The above statements of changes in equity should be read in conjunction with the accompanying notes.

Ausgrid and controlled entities

Statements of Changes in Equity

For the year ended 30 June 2010

		Contributed equity and share capital	Revaluation reserve	Hedging reserve	Retained earnings	Total	Non- controlling interest	Total equity
Consolidated Entity	Note	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Balance at 1 July 2009		402.1	978.4	(19.7)	422.7	1 783.5	(0.3)	1 783.2
Comprehensive income for the year								
Profit for the year		-	-	-	345.0	345.0	-	345.0
Other comprehensive income								
Net increase/(decrease) in revaluation reserve, net of tax	5,19	-	2.3	-	-	2.3	-	2.3
Net increase/(decrease) in hedging reserve, net of tax	5,19	-	-	(1.8)	-	(1.8)	-	(1.8)
Transfers to and from reserves/ retained profits		-	2.3	-	(2.3)	-	-	-
Superannuation actuarial gains/ (losses), net of tax	5,19	-	-	-	(23.4)	(23.4)	-	(23.4)
Total other comprehensive income for the year		-	4.6	(1.8)	(25.7)	(22.9)	-	(22.9)
Total comprehensive income for the year		-	4.6	(1.8)	319.3	322.1	-	322.1
Transactions with owners, recorded directly in equity								
Dividends and other payments to shareholders	19	-	-	-	(250.2)	(250.2)	-	(250.2)
Total transactions with owners		-	-	-	(250.2)	(250.2)	-	(250.2)
Balance at 30 June 2010		402.1	983.0	(21.5)	491.8	1 855.4	(0.3)	1 855.1

The above statements of changes in equity should be read in conjunction with the accompanying notes.

Ausgrid and controlled entities

Statements of Changes in Equity

For the year ended 30 June 2010

		Contributed equity and share capital	Revaluation reserve	Hedging reserve	Retained earnings	Total equity
Ausgrid	Note	\$M	\$M	\$M	\$M	\$M
Balance at 1 July 2009		402.1	978.4	(19.7)	422.5	1 783.3
Comprehensive income for the year						
Profit for the year		-	-	-	345.0	345.0
Other comprehensive income						
Net increase/(decrease) in revaluation reserve, net of tax	5,19	-	2.3	-	-	2.3
Net increase/(decrease) in hedging reserve, net of tax	5,19	-	-	(1.8)	-	(1.8)
Transfers to and from reserves/retained profits		-	2.3	-	(2.3)	-
Superannuation actuarial gains/(losses), net of tax	5,19	-	-	-	(23.4)	(23.4)
Total other comprehensive income for the year		-	4.6	(1.8)	(25.7)	(22.9)
Total comprehensive income for the year		-	4.6	(1.8)	319.3	322.1
Transactions with owners, recorded directly in equity						
Dividends and other payments to shareholders	19	-	-	-	(250.2)	(250.2)
Total transactions with owners		-	-	-	(250.2)	(250.2)
Balance at 30 June 2010		402.1	983.0	(21.5)	491.6	1 855.2

The above statements of changes in equity should be read in conjunction with the accompanying notes.

Ausgrid and controlled entities

Statements of Cash Flows

For the year ended 30 June 2011

The Statements of Cash Flows and their Notes apply to both Ausgrid and the Consolidated Entity.

		2011	2010
	Note	\$M	\$M
Cash flows from operating activities			
Receipts from customers		3 775.6	4 173.9
Payments to suppliers and employees		(2 450.5)	(2 998.6)
Cash generated from operations		1,325.1	1,175.3
Interest received		4.8	1.5
Interest paid		(445.6)	(330.9)
Income tax equivalent paid		(134.6)	(120.8)
Net cash from operating activities	28	749.7	725.1
Cash flows from investing activities			
Proceeds from sale of investments (discontinuing operations)		1 441.4	-
Proceeds from sale of property, plant and equipment		4.7	3.9
Payments for property, plant and equipment and intangible assets		(1 577.8)	(1 318.7)
Net cash used in investing activities		(131.7)	(1 314.8)
Cash flows from financing activities			
Proceeds from borrowings		945.0	999.3
Dividend and other payments to shareholders		(1 620.2)	(173.0)
Net cash from financing activities		(675.2)	826.3
Net increase/(decrease) in cash and cash equivalents		(57.2)	236.6
Cash and cash equivalents at 1 July	6	156.6	(80.0)
Cash and cash equivalents at 30 June	6	99.4	156.6

The above statements of cash flows should be read in conjunction with the accompanying notes.

Ausgrid and controlled entities

Notes to the financial statements

For the year ended 30 June 2011

1 SIGNIFICANT ACCOUNTING POLICIES

Ausgrid (formerly known as EnergyAustralia) is a NSW statutory state owned corporation (for-profit) established on 1 March 1996 by the *Energy Services Corporations Act 1995* and the *Energy Services Corporations Amendment (Change of Name) Regulation 2011*. The consolidated financial report of the Corporation for the year ended 30 June 2011 comprises the Corporation and its subsidiaries (together referred to as the “consolidated entity”) and the consolidated entity’s interest in jointly controlled entities.

On 14 December 2010, the NSW Government announced the successful outcome of the first tranche of transactions in the State’s energy reform process. The Government reached agreement to sell the electricity retailing operations of EnergyAustralia and two Marulan development sites to TRUenergy. The transactions were completed on 1 March 2011. On 2 March 2011, the name change to Ausgrid was gazetted.

The financial report was authorised for issue by the Directors on 14 September 2011.

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including the Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board, the requirements of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2010*, and the *State Owned Corporations Act 1989*. Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (IFRSs). The financial reports of the consolidated entity and the Corporation also comply with IFRSs and interpretations adopted by the International Accounting Standards Board.

(b) Basis of preparation

The financial report is presented in Australian dollars.

The financial report is prepared on the historical cost basis, except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held for trading, financial instruments classified as available-for-sale and items of property, plant and equipment.

The Corporation is exempt from Clause 9 of the *Public Finance and Audit Regulation 2005*. The amounts shown in the accounts have been rounded to the nearest tenth of a million dollars, unless otherwise stated.

Use of estimates and judgements

The preparation of a financial report requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the consolidated entity.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of AASBs that have significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in Note 1(w) and various respective notes.

Unless otherwise indicated, the accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report. The accounting policies have been applied consistently by consolidated entities.

Certain comparative amounts have been reclassified to conform with the current year’s presentation (see Statement of Comprehensive Income and Notes 2, 3 and 5). This has resulted from the sale of Ausgrid’s electricity retailing operation on 1 March 2011 (see Note 31).

Certain new and revised accounting standards and the Australian Accounting Interpretations have been published that are not mandatory for the 30 June 2011 reporting period. The Ausgrid Group has elected not to apply these new standards and interpretations to the annual reporting period beginning 1 July 2010 (see Note 1(z)).

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Corporation. Control exists when the Corporation has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from Intragroup transactions are eliminated in preparing the consolidated financial statements.

(d) Income tax

Ausgrid and its controlled entities (“the Group”) are exempt from federal income tax under the Income Tax Assessment Acts. However, the Group is subject to the National Tax Equivalent Regime which is based on the Income Tax Assessment Acts. Tax equivalents are payable to the Office of State Revenue. Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

Notes to the financial statements

For the year ended 30 June 2011

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends and other payments are recognised at the same time as the liability to pay the related dividend or payment.

Tax consolidation

The Corporation and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Ausgrid.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'group allocation' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the head entity in the tax-consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below).

The Corporation recognises deferred tax assets arising from unused tax losses 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.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) is at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdraft and short term accommodation from NSW Treasury Corporation (T-Corp) form an integral part of the consolidated entity's cash management.

(f) Revenue recognition

Revenue

(i) Sale of energy and services rendered

The Group recognises revenue involving the rendering of electricity supply services in the Statement of Comprehensive Income using a percentage stage of completion methodology for customers on fixed term contracts. The stage of completion is assessed by reference to how the proportion that costs incurred to date bear to the estimated total costs over the life of the service transaction. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, or the costs incurred or to be incurred can not be measured reliably.

(ii) Rental income

Rental income from properties leased under property leases is recognised in the Statement of Comprehensive Income on a straight line basis over the term of the lease.

Lease incentives granted are recognised as an integral part of the total rental income.

(iii) Government grants

Government grants are recognised in the Statement of Financial Position initially as deferred income when they are received and the consolidated entity complies with the conditions attaching to them.

Grants that compensate the consolidated entity for the cost of an asset are recognised in the Statement of Comprehensive Income as revenue on a systematic basis over the useful life of the asset.

Grants that compensate the consolidated entity for expenses incurred are recognised as revenue in the Statement of Comprehensive Income in the same period in which the expenses are incurred.

(iv) Contributions for capital works

This represents sums contributed by customers and developers, mainly towards the capital cost of electricity connections. Cash and non-cash capital contributions have been reported in order to comply with Australian Accounting Interpretation 18 *Transfers of Assets from Customers*.

Cash capital contributions are initially recorded as liabilities. Once the network asset is completed or modified as outlined in the terms of the contract, the contribution amount is transferred to revenue, and the asset is recognised at fair value.

Contributions of non-current assets are recognised as revenue and an asset when the Ausgrid Group gains control of the asset. The fair value of contributed assets is recognised at the date at which control is gained.

(v) Social programs

Pensioner rebates are funded by the NSW Government. However the Government, at reporting date, has not reimbursed all of the rebates for the year ended 30 June 2010 and as at 28 February 2011. An income accrual has been recognised for rebates not yet reimbursed. As at 1 March 2011, the pensioner rebate revenue and obligation was transferred to TRUenergy.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the average purchase price of each item. In the case of manufactured stock for internal use, costs include direct labour, materials and a portion of variable overhead which is allocated on the basis of labour hours. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Property, plant and equipment**(i) Owned assets****System assets**

System assets are stated at fair value less accumulated depreciation and impairment losses. This is in accordance with NSW Treasury Accounting Policy *Valuation of Physical Non-Current Assets at Fair Value* [TPP07-1]. Fair value is best represented as current market price, however where this cannot be observed, an asset's fair value is measured at depreciated replacement cost in accordance with AASB 116 *Property, Plant and Equipment*.

The *Policy Guidelines for the Valuation of Network Assets of Electricity Network Business* (December 1995) were developed by industry regulators and NSW Treasury and issued as a NSW Treasury technical paper. The guidelines developed Optimised Depreciated Replacement Cost (ODRC) as the method of valuing network assets for the electricity transmission and distribution industries.

A revaluation of the network system assets was undertaken and booked during 2005/06. All network assets were revalued at ODRC. The valuations used were based on the revaluation method applied in the *NSW Treasury Report for Ausgrid on the NSW Electricity Supply Industry ODRC Valuation of Distribution Assets* (March 2003) and Sinclair Knight Merz (SKM) report *ODRC Valuation of Transmission Assets* (30 June 2004). The ODRC values were indexed through to 30 June 2005 using the Australian Bureau of Statistics CPI figures for Sydney. Ausgrid's policy has been to revalue system assets on an ODRC basis every five years.

The net carrying value of system assets has been reviewed at each balance sheet date since 2005/06 on a "cash generating unit" basis using a discounted cash flow calculation. Ausgrid has not applied the "frequency of revaluation" requirements as defined under TPP07-01. The net carrying amount of system assets does not differ materially to the discounted cash flow value. This approach is in full compliance with Australian Accounting Standards.

Non-system land and buildings

Non-system land and buildings are valued at fair value of the asset. Non-system land and buildings were revalued during 2010/11 to reflect fair value in accordance with AASB 116 and the NSW Treasury Accounting Policy *Valuation of Physical Non-Current Assets at Fair Value* [TPP07-1]. Independent valuers, Preston Rowe Paterson NSW Pty Limited (PRP) were engaged to value these assets. The 2010/11 valuations were assessed at fair value based upon existing use which was provided by PRP.

Other property, plant and equipment

Other property, plant and equipment assets are recorded initially at cost in the Statement of Financial Position and are depreciated as outlined in Note 1(h)(v) (deemed to be fair value in accordance with NSW Treasury Accounting Policy *Valuation of Physical Non-Current Assets at Fair Value* [TPP07-1] as there is no material difference between the two).

(ii) Revaluations

Revaluation increments are credited directly to the asset revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that asset previously recognised as an expense in net profit or loss, the increment is recognised immediately as revenue in net profit or loss. Revaluation decrements are recognised immediately as expenses in net profit or loss, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect of the same asset, they are debited directly to the asset revaluation reserve.

Gains and losses on disposal of revalued assets are included in the Statement of Comprehensive Income for the year. Any related revaluation increments in the asset revaluation reserve upon disposal are transferred to Retained Earnings.

(iii) Capitalisation policy

Non-system assets purchased below \$500 are expensed as acquired. All cost of assets constructed by the Ausgrid Group (system assets) are capitalised. This includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and a proportion of overhead is allocated on the basis of labour hours.

(iv) Subsequent costs

The consolidated entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other costs are recognised in the Statement of Comprehensive Income as an expense as incurred.

(v) Depreciation

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate components of property, plant and equipment.

Depreciation is charged to the Statement of Comprehensive Income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives in the current and comparative periods are as follows:

- buildings 40 years
- system assets 4 – 70 years
- plant and equipment 3 – 25 years

System assets with 70-year useful lives relate to the City South Cable Tunnel and City West Cable Tunnel respectively.

The residual value, if significant, is reassessed annually.

(i) Intangible assets

Intangible assets that are acquired externally or internally generated by the consolidated entity are stated at cost less accumulated amortisation and impairment losses (see Note 1(j)).

Notes to the financial statements

For the year ended 30 June 2011

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is charged to the Statement of Comprehensive Income on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite.

Intangible assets with an indefinite useful life are systematically tested for impairment at each statement of financial position date. Other intangible assets are amortised from the date they are available for use. Easements are not amortised as they are granted for an unlimited time. The estimated useful lives in the current and comparative periods are as follows:

- computer software 4 years
- customer acquisitions 1 month – 3 years

(j) Impairment

(i) Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired.

A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by

placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of the consolidated entity's assets, other than inventories, derivatives and deferred tax assets are reviewed at each Statement of Financial Position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount

is estimated at each Statement of Financial Position date.

The recoverable amount of an asset or cash generating unit is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the Statement of Comprehensive Income, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill (if any) allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

(k) Trade and other payables

These amounts represent liabilities for goods and services provided to the Ausgrid Group prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Subsequent to initial recognition of these liabilities at fair value, they are measured at amortised cost using the effective interest rate method.

(l) Financial instruments

The Ausgrid's accounting policies for financial instruments are set out below.

(i) Foreign exchange contracts

The Ausgrid Group enters into foreign exchange contracts for anticipated purchase

commitments for the supply of parts and equipment which are denominated in foreign currencies. Where the instruments are not designated to hedging relationships, movements in the fair value of these instruments are recognised in the Statement of Comprehensive Income.

(ii) Loans and receivables

Receivables assets are initially accounted for at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method, less any impairment losses.

The Ausgrid Group's primary objective in the management of its investments and borrowings is to optimise economic returns for given risk levels. These risk levels have been defined in terms of the modified duration of the respective portfolios managed and have been set relative to appropriate benchmarks.

In order that the Ausgrid Group's portfolios are aligned with these benchmarks, financial securities of varying maturities are sold (issued) by T-Corp on Ausgrid's behalf. These securities comprise the core debt portfolio. These are initially recognised at fair value, net of transaction costs incurred and then are subsequently measured at amortised costs. The difference between the face value and the capital value of these debt securities is amortised over the life of the specific instrument. Interest associated with these instruments is brought to account on an accrual basis.

T-Corp utilises financial instruments to manage the modified duration of the Ausgrid Group's debt portfolios. The gains and losses on derivatives are recognised in the Statement of Comprehensive Income.

Loan debt shown as a current liability is nominally due for repayment within twelve months. However, due to the availability of roll-over facilities and the liquidity of the underlying debt instruments, the Ausgrid Group may not necessarily need to repay these loans within twelve months.

(iii) Energy derivatives

The Ausgrid Group was a participant in the wholesale energy market. Market volatility

was managed by entering into commodity based contracts (swaps and options) as cash flow hedges against movements in spot prices. Energy trading activities were conducted in accordance with Board approved policies. Under the Group's energy risk management policies, derivatives that do not qualify for hedge accounting were required to be accounted for as trading instruments.

Energy derivative instruments were stated at fair value and were revalued against observed market data. Movements in the unrealised fair value of all designated hedges (to the extent they were effective) were written to a revaluation reserve within Equity and recognised in the Statement of Comprehensive Income only when realised. Similar movements in the unrealised and realised fair value of all other instruments were recognised within the Statement of Comprehensive Income.

The fair value of energy derivatives designated as hedges was classified as a non-current asset or non-current liability when the maturity of the derivative was more than twelve months and as a current asset or current liability when the remaining maturity of the hedge relationship was less than twelve months from reporting date. The fair value of all other energy derivatives was classified as a current asset or current liability as they were deemed to be held for trading, as they did not qualify for hedge accounting.

Non-novated energy derivatives

For any energy derivative contracts that are not novated in the Retail sale, a back to back arrangement is created for each contract that transfers the energy price risk back to Ausgrid. Derivative assets and liabilities for non-novated contracts are continued to recognise in the Statement of Financial Position, with an offsetting asset and liability.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Ausgrid Group's investments in equity securities and certain debt securities are classified as available-for-

sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign currency differences on available-for-sale equity instruments, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

(v) Derecognition of financial instruments

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and the associated liability.

The Group derecognises a financial liability when, and only when, the Group's obligation specified in the contract is discharged, cancelled or expires.

(m) Employee benefits

All liabilities for employee benefits that are expected to be paid for services provided by employees to balance date are fully provided for in the financial report.

Liabilities for employee benefits for wages, salaries, annual leave, sick leave and long service leave that are expected to be settled within twelve months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as workers compensation, insurance and payroll tax.

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given

Notes to the financial statements

For the year ended 30 June 2011

to expected future wage and salary levels, experience of employees' departures and periods of service.

Expected future payments (over twelve months) are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(n) Superannuation

In 1996/97 the Ausgrid Group contributed to three defined benefits schemes, namely the State Authorities Superannuation Scheme (SASS), the State Authorities Non-Contributory Superannuation Scheme (SANCS) and the State Superannuation Scheme (SSS). On 1 July 1997 the bulk of employees' benefits was transferred from these superannuation schemes to three divisions of the Energy Industries Superannuation Scheme (EISS) as follows (one employee remains as the member of both SASS and SANCS as at 30 June 2011):

SASS	- Division B
SANCS	- Division C
SSS	- Division D

The consolidated entity's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted.

The discount rate is the yield at the statement of financial position date on government bonds that have maturity dates approximating to the terms of the consolidated entity's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

All actuarial gains and losses as at 1 July 2004, the date of transition to Australian equivalents to IFRSs, were recognised.

Where the calculation results in a benefit to the consolidated entity, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and

the present value of any future refunds from the plan or reductions in future contributions to the plan.

Past service cost is the increase in the present value of the defined benefit obligation for employee services in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service costs may either be positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

The Ausgrid Group has determined that detailed disclosure of the defined benefit schemes (for one member) of SASS, SANCS, SSS will not materially influence the users of the financial report and therefore has not been disclosed in detail.

The Group has classified the defined benefits schemes wholly as non-current liability to reflect the appropriate timing of the obligation.

(o) Provisions

A provision is recognised in the Statement of Financial Position when the consolidated entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(i) Workers' compensation insurance

The Ausgrid Group is a self-insurer through its insurance provision for workers' compensation and meets all liabilities under the Workers' Compensation legislation in NSW and other States. The liabilities cover claims incurred but not yet reported and the anticipated fund management fees in respect of the management of those claims.

During 2010/11, a consulting actuary, David A. Zaman, undertook the annual investigation of the Ausgrid Group's estimated liability for workers' compensation as at 30 June 2011. The liability is measured as the present value of future payments at

30 June 2011 and was estimated to be \$15.3 million (2010: \$15.5 million). This includes the liability for dust related diseases which is estimated at \$5.7 million (2010: \$6.1 million).

(ii) Dividends and other payments

Provision is made for the amount of any dividend and other payments determined by the Directors on or before the end of the financial year but not distributed at balance date. The dividend has regard to the annual performance agreement (Statement of Corporate Intent) with NSW Treasury.

The dividend is calculated according with TPP09-6 *Financial Distribution Policy for Government Businesses*. The dividend payable of \$175.1 million (2010: \$250.2 million) is calculated based on profit adjusted for certain non-cash items.

Pursuant to Section 59B(2) of the *Public Finance and Audit Act 1983*, Ausgrid has made a payment of \$1,370.0 million on 11 March 2011 to the NSW Government against the retail sale proceeds received from TRUenergy on 1 March 2011 (see Note 19).

(iii) Other

Provision for site remediation

A provision for site remediation was created in 2001/02 to cover all asbestos remediation costs to be incurred during subsequent years. An additional provision to cover all contaminated land remediation costs to be incurred in subsequent years was made in 2009/10.

The provision as at 30 June 2011 was estimated to be \$10.6 million (2010: \$11.8 million). The provision is the best estimate of the present value of the expenditure required to settle the obligation at the reporting date, based on current legal requirements and technology. Future costs are reviewed annually and any changes are reflected in the present value of the provision at the end of the reporting period.

Provision for removal and disposal of equipment (restoration provision)

A provision for removal and disposal of system equipment was created in 2004/05 to cover future end of life removal costs where there is a legislative obligation to perform this.

The provision as at 30 June 2011 was estimated to be \$26.1 million (2010: \$24.9 million). The provision is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology.

Future restoration costs are reviewed annually and any changes are reflected in the present value of the restoration provision at the end of the reporting period.

The amount of the provision for future restoration costs is capitalised and is depreciated in accordance with the policy set out in Note 1(h)(v). The unwinding of the effect of discounting on the provision is recognised as a finance cost.

Provision for costs relating to the Retail Sale

A provision for costs relating to the Retail Sale was created in 2010/11 to cover expected future costs incurred during subsequent years. The provision as at 30 June 2011 was estimated to be \$71.1 million.

Other provisions

Other provisions also include a provision for costs relating to decommissioning assets of \$6.3 million. This provision was created in 2010/11 to cover the expected future costs associated with decommissioning Ausgrid's assets.

(p) Deferred revenue

Deferred revenue is recognised for revenue from electricity supply contracts and customer prepayments for external, recoverable and contestable works carried out by Ausgrid at reporting date. The revenue is deferred pending completion of the works and services.

In previous years, deferred revenue ensured costs associated with extreme events over a contract's life were matched with recognition of the revenue for the contract. This related deferred revenue was derecognised upon the sale of the retail operations as at 1 March 2011.

(q) Deposits

Deposits represent liabilities for customer and contractors' deposits which can be refunded at any time after the end of

the financial year and unclaimed monies which are held up to 6 years before being transferred to the Office of State Revenue. The amount which can be refunded in the succeeding financial year and at any time is shown as current and the remainder of the liability as non-current. Deposits relating to customer deposits were transferred to TRUenergy as at 1 March 2011.

(r) Share capital

Ausgrid (formerly known as EnergyAustralia) was corporatised on 1 March 1996 with issued capital of two \$1 shares.

Ausgrid's shareholding Ministers are the Treasurer and the Minister for Finance. The \$2 share capital is included in Contributed Equity in the Statement of Financial Position.

Ausgrid attributes the distribution to members only on consolidated operating profit as in agreement with the Statement of Corporate Intent.

(s) Financing costs

Finance costs are recognised as expenses in the period in which they are incurred and include:

- Interest expenses calculated using the effective interest method as described in AASB 139 *Financial Instruments: Recognition and Measurement*, e.g. interest on overdrafts and short-term and long-term borrowings, including amounts paid or received on interest rate swaps, and amortisation of discounts or premiums relating to borrowings;
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings; and
- a government loan guarantee fee assessed by NSW Treasury.

Finance costs are expensed as incurred in the Statement of Comprehensive Income unless they relate to qualifying assets, in which case they are capitalised as part of the cost of those assets in accordance with AASB 123 *Borrowing Costs*. Qualifying assets are assets that take a substantial period of time to get ready for their intended use. The Corporation considers this to be 12 months or more.

Capitalisation of borrowing costs is undertaken where a direct relationship can be established between the borrowings and the relevant projects giving rise to qualifying assets. Typically, these are projects whose expected total project expenditure is approximately \$10 million or greater.

The amount of borrowing costs capitalised during the year was \$10.6 million (2010: \$1.2 million), and the capitalisation rate used to determine this amount was at a weighted average interest rate of 7.9% (2010: 8.1%).

(t) Leases as lessee and as lessor

Payments made under operating leases are recognised in the Statement of Comprehensive Income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the Statement of Comprehensive Income as an integral part of the total lease expense and spread over the lease term.

The Ausgrid Group has not entered into any finance leases as at reporting date. Leases in terms of which the consolidated entity assumes substantially all the risks and rewards of ownership are classified as finance leases.

The Ausgrid Group does have material leases of land with a term exceeding 50 years. The title of these leases has been retained and the aggregate fair value of the leased assets is negligible.

The Ausgrid Group leases out its properties, including premises, land and communications towers, under operating lease agreements at market rentals, predominantly on a fixed term basis.

Rentals received from the tenants during the year are recognised as income in the Statement of Comprehensive Income and the costs of repairs and maintenance incurred on these properties for the year are recognised as an expense in the Statement of Comprehensive Income.

(u) Greenhouse legislation

Under various legislation described below, the Corporation is required to surrender certificates in 2011/12 to acquit obligations

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as at 31 December 2011 placed on it by the various Commonwealth and States' greenhouse schemes. The obligations relate to the retail business of the former EnergyAustralia and ceased after the electricity sales transaction on 1 March 2011.

Commonwealth

All certificates acquired under the following scheme are accounted for as an asset at the lower of cost or net realisable value. The surrender of these certificates is recognised in the underlying purchase commitment as an element of electricity purchase costs.

The *Renewable Energy (Electricity) Act 2000* (as amended) imposed on electricity retailers, the obligation to 'surrender' sufficient certificates each year to meet the Commonwealth Government's Renewable Energy Target (RET) for the quantity of electricity generated from renewable sources. The Act imposed an obligation on the Ausgrid Group (up to 31 December 2010) to procure Renewable Energy Certificates (RECs) and surrender them and to lodge an annual liability statement to the Office of the Renewable Energy Regulator (ORER) in discharge of the Ausgrid Group's renewable energy obligations under the RET Scheme.

From 1 January 2011, the RET scheme is split into Small-scale Renewable Energy Scheme (SRES) and Large-scale Renewable Energy Target (LRET) requiring the surrender respectively of Small-scale Technology Certificates (STCs) and Large-scale Generation Certificates (LGCs).

Australian Capital Territory

The *Electricity (Greenhouse Gas Emissions) Act 2004 (ACT)* imposed on electricity retailers in ACT the obligation to 'surrender' sufficient certificates each year to satisfy the ACT Government's strategy to reduce greenhouse gas per capita emissions from electricity use. This imposed an obligation upon the Ausgrid Group (up to 28 February 2011) to purchase and surrender Greenhouse Gas Abatement Certificates (GACs), and to lodge an annual greenhouse benchmark statement with the Independent Competition and Regulatory

Commission (ICRC) in discharge of the Ausgrid Group's greenhouse gas emission reduction obligations in the ACT.

New South Wales

The *Electricity Supply Act 1995 No.94* imposed an obligation on electricity retailers in NSW to comply with the Greenhouse Gas Abatement Scheme and the Energy Savings Scheme. These obligations require the Ausgrid Group to acquire and surrender sufficient NSW Greenhouse Gas Abatement Certificates (NGACs) and Energy Savings certificates (ESCs), and to lodge an annual greenhouse benchmark statement with the Independent Pricing and Regulatory Tribunal (IPART) for each scheme in discharge of the Ausgrid Group's greenhouse gas emission reduction obligations.

Queensland

The *Electricity Act 1994 (Qld)* imposed on electricity retailers, the obligation to 'surrender' sufficient Gas Electricity Certificates (GECs) each year in line with the Queensland Government's strategy of encouraging the greater use of natural gas to generate electricity. The 15% target for electricity generated by natural gas also encourages the development of new gas sources and infrastructure in Queensland as well as reduces greenhouse gas emissions from the Queensland electricity sector. This imposed an obligation on the Ausgrid Group (up to 28 February 2011) to purchase GECs and surrender them and to lodge an annual self-assessment report to the Department of Mines and Energy (DME) in discharge of the Ausgrid Group's obligations under the scheme.

Victoria

The *Victorian Energy Efficiency Target Act 2007* aims to encourage the uptake of energy efficient technology. It imposes on retailers who sell electricity or gas to 5,000 or more residential customers in Victoria, the obligation to 'surrender' sufficient Victorian Energy Efficiency Certificates (VEECs) each year in order to meet the Victorian Government's mandated efficiency target for that year. The Ausgrid Group was thus obligated (up to 28 February 2011) to

purchase VEECs and surrender them to the Essential Services Commission in discharge of the Ausgrid Group's obligations under the VEET Scheme.

(v) 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 taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority 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 taxation authority are classified as operating cash flows.

(w) Accounting estimates and judgements

Investment properties

The consolidated entity leases out a portion of its properties. These properties are in excess of current usage requirements and are held for future use as owner occupied properties. Therefore these properties fall outside the definition of investment properties and are treated as leases of property, plant and equipment.

Asset definition

Ausgrid's view is that the distribution network as a whole should be considered to be a "single asset" for the purposes of revaluation. This is because all components within the network must work together in order to reliably supply electricity. Further, due to the specialised nature of Ausgrid's network, components cannot be readily sold to third parties for different uses.

(x) Assets and liabilities held for sale.

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal

group) is brought up-to-date in accordance with applicable accounting standards. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in profit or loss, even when there is a revaluation. The same applies to gains and losses on subsequent re-measurement.

(y) Discontinued operation

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale or distribution, or is a subsidiary acquired exclusively with a view to resale (see Note 31).

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation has been discontinued from the start of the comparative year.

(z) New and revised accounting standards and Australian Accounting Interpretations

Various new and revised accounting standards and Australian Accounting Interpretations have been published that are not mandatory for the 30 June 2011 reporting period.

The Group's assessment of the impact of new standards and interpretations which may have an impact and which have not been early adopted is set out below.

- i. **AASB 9 Financial Instruments and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)** [AASBs 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038] and Interpretations [2, 5, 10, 12, 19 & 127]
- ii. **AASB 9 (Revised)** and AASB 2010-7 are applicable to annual reporting periods beginning on or after 1 January 2013.

The Group has not elected to adopt this standard early. The Group will apply these standards in the 2013/14 financial statements.

- iii. **AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project** [AASBs 1, 7, 101 & 134] and Interpretation [13]
- iv. **AASB 2010-4** is applicable to annual reporting periods beginning on or after 1 January 2011. The Group has not elected to adopt this standard early. The Group will apply this standard in the 2011/12 financial statements.
- v. **AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13** [AASB 1, 2, 3, 4, 5, 7, 9, 2009-11, 2010-7, 101, 102, 108, 110, 116, 117, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132]
- vi. **AASB 13** and AASB 2011-8 are applicable to annual reporting periods beginning on or after 1 January 2013. The Group has not elected to adopt this standard early. The Group will apply these standards in the 2013/14 financial statements.

All other new standards and interpretations have no impact on the Group and will not affect the Group's financial statements.

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For the year ended 30 June 2011

2 REVENUE

	Consolidated Entity		Ausgrid	
	2011	2010	2011	2010
	\$M	\$M	\$M	\$M
Network use of system income	2 301.6	1 811.7	2 301.6	1 811.7
Public lighting system charge	47.3	29.9	47.3	29.9
Capital contributions ⁽¹⁾	54.5	47.8	54.5	47.8
Recoverable works	13.4	14.0	13.4	14.0
Interest Income	4.4	1.1	4.4	1.1
Transitional services agreement	63.4	-	63.4	-
Other	151.0	93.4	151.0	93.4
	2 635.6	1 997.9	2 635.6	1 997.9
⁽¹⁾ Capital Contributions				
Gross capital contributions	11.3	8.2	11.3	8.2
Contribution of assets	42.2	38.6	42.2	38.6
Government grants	1.0	1.0	1.0	1.0
	54.5	47.8	54.5	47.8

3 EXPENSES

	Consolidated Entity		Ausgrid	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
(a) Expenses, excluding finance costs and fair value movements in financial instruments				
Distribution of energy, including financial instrument fair value movements	1 862.3	1 499.6	1 862.4	1 499.6
These expenses include the following:				
Depreciation				
Buildings	21.5	10.3	21.5	10.3
System assets	260.9	235.6	260.9	235.6
Plant and equipment	50.9	37.3	50.9	37.3
Total depreciation	333.3	283.2	333.3	283.2
Amortisation				
Intangible - computer software	41.3	39.4	41.3	39.4
Bad debts and impairment of trade receivables	(1.5)	1.0	(1.5)	1.0
Total superannuation expense recognised in profit for the year	19.1	24.8	19.1	24.8
Other employee benefits expense	387.1	390.6	387.1	390.6
Maintenance expenses				
(i) Employee related maintenance expenses included in employee benefits expense	137.9	148.6	137.9	148.6
(ii) Contracted labour and other (non- employee related) expenses	140.7	137.0	140.7	137.0
	278.6	285.6	278.6	285.6
(b) Finance costs				
Interest and finance charges paid/payable	468.4	430.1	468.4	430.1
Unwinding of discount on provisions	1.3	1.6	1.3	1.6
Finance costs recognised in the Statement of Comprehensive Income	469.7	431.7	469.7	431.7
(c) Fair Value movements in financial instruments				
Net foreign exchange gain/(loss)	(0.7)	0.9	(0.7)	0.9
Gain/(loss) arising on derivatives in fair value hedge	(22.8)	15.4	(22.8)	15.4
Gain/(loss) arising on derivatives in supply commitment in fair value hedge	22.8	(15.4)	22.8	(15.4)
	(0.7)	0.9	(0.7)	0.9

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4 GAIN / (LOSS) ON DISPOSAL

	Consolidated Entity		Ausgrid	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
Loss on disposal of property, plant and equipment				
Proceeds from disposal	5.3	4.1	5.3	4.1
Less: Written down value of assets disposed	(8.9)	(11.0)	(8.9)	(11.0)
	(3.6)	(6.9)	(3.6)	(6.9)

5 INCOME TAX EXPENSE

Recognised in the Statement of Comprehensive Income				
Current tax expense				
Current year	260.8	127.3	260.8	127.3
Adjustments for prior years	(2.1)	(0.3)	(2.1)	(0.3)
	258.7	127.0	258.7	127.0
Deferred tax expense				
Origination and reversal of temporary differences	(70.2)	9.3	(70.2)	9.3
Benefit of tax losses recognised	-	-	-	-
	(70.2)	9.3	(70.2)	9.3
Total income tax expense in Statement of Comprehensive Income	188.5	136.3	188.5	136.3
Attributable to:				
Continuing operations	124.0	10.4	124.0	10.4
Discontinuing operations	64.5	125.9	64.5	125.9
	188.5	136.3	188.5	136.3
Numerical reconciliation between tax expense and pre-tax net profit				
Profit before tax	1 762.3	481.3	1 762.2	481.3
Income tax using the domestic corporation tax rate of 30% (2010: 30%)	528.7	144.4	528.7	144.4
Increase in income tax expense due to:				
Other deductible expenses	9.7	(1.9)	9.7	(1.9)
Investment allowance	(2.1)	(5.9)	(2.1)	(5.9)
Under / (over) provided in prior years	(2.1)	(0.3)	(2.1)	(0.3)
Non assessable capital gain on proceeds of Retail sale	(345.7)	-	(345.7)	-
Income tax expense on pre-tax net profit	188.5	136.3	188.5	136.3
Attributable to:				
Continuing operations	124.0	10.4	124.0	10.4
Discontinuing operations	64.5	125.9	64.5	125.9
	188.5	136.3	188.5	136.3
Deferred tax recognised in other comprehensive income				
Unfunded Superannuation	2.5	(10.0)	2.5	(10.0)
Relating to revaluation of property, plant and equipment	6.6	2.0	6.6	2.0
Relating to revaluation of hedge derivatives	9.2	(0.8)	9.2	(0.8)
	18.3	(8.8)	18.3	(8.8)

6 CASH AND CASH EQUIVALENTS

	Consolidated Entity		Ausgrid	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
Cash on hand	0.1	0.1	0.1	0.1
Bank balances	9.6	2.6	9.6	2.6
Money market securities and deposits	89.7	153.9	89.7	153.9
Cash and cash equivalents in the statement of cash flows	99.4	156.6	99.4	156.6

7 TRADE AND OTHER RECEIVABLES

Trade receivables	465.3	312.7	465.3	312.7
Less: impairment of trade receivables	(4.8)	(18.5)	(4.8)	(18.5)
	460.5	294.2	460.5	294.2
Prepayments	28.4	20.2	28.4	20.2
Receivables due from controlled entities	-	-	-	0.1
	488.9	314.4	488.9	314.5
Accrued sales of energy	49.5	378.2	49.5	378.2
Less: impairment of accrued sales of energy	-	(4.6)	-	(4.6)
	538.4	688.0	538.4	688.1

The movement in the impairment of trade receivables is detailed below:

Opening Balance at 1 July	(18.5)	(12.8)	(18.5)	(12.8)
- additional provisions	(3.6)	(8.5)	(3.6)	(8.5)
- amounts used	0.1	0.1	0.1	0.1
- amounts reversed	17.2	2.7	17.2	2.7
Closing Balance at 30 June	(4.8)	(18.5)	(4.8)	(18.5)

The movement in the impairment of accrued sales of energy is detailed below:

Opening Balance at 1 July	(4.6)	(3.8)	(4.6)	(3.8)
- additional provisions	- [#]	(0.8)	- [#]	(0.8)
- amounts reversed	4.6		4.6	
Closing Balance at 30 June	-	(4.6)	-	(4.6)

[#]Amount reduced to zero as a result of rounding to nearest \$0.1 million (see Note 1(b)).

Ausgrid and controlled entities

Notes to the financial statements

For the year ended 30 June 2011

8 OTHER FINANCIAL ASSETS - INCLUDING DERIVATIVES

	Consolidated Entity		Ausgrid	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
Current				
Energy derivatives-undesignated	76.1	43.8	76.1	43.8
	76.1	43.8	76.1	43.8
Non-current				
Energy derivatives	6.9	44.6	6.9	44.6
Other financial assets	0.1	9.4	0.1	9.4
	7.0	54.0	7.0	54.0

9 INVENTORIES

Stores and materials				
- at cost	31.6	33.9	31.6	33.9
- at net realisable value	-	0.8	-	0.8
	31.6	34.7	31.6	34.7

10 OTHER CURRENT ASSETS

Deferred costs – WIP on recoverable works	38.4	37.9	38.4	37.9
Greenhouse certificates				
- at cost	27.9	84.2	27.9	84.2
- at net realisable value	-	18.1	-	18.1
Less: impairment of greenhouse certificates - at net realisable value	-	(6.8)	-	(6.8)
	66.3	133.4	66.3	133.4

The movement in the impairment of greenhouse certificates is detailed below:

Opening balance at 1 July	(6.8)	(26.1)	(6.8)	(26.1)
-amounts reversed (on surrender)	-	30.2	-	30.2
-provision net movement	6.8	(10.9)	6.8	(10.9)
Closing balance at 30 June	-	(6.8)	-	(6.8)

11 PROPERTY, PLANT AND EQUIPMENT

Consolidated Entity and Ausgrid				
	Land and Buildings \$M	System Assets \$M	Other Assets \$M	Total \$M
At 1 July 2010 - fair value				
Gross carrying amount	522.7	10 231.0	504.6	11 258.3
Accumulated depreciation and impairment	(29.3)	(2 290.8)	(222.7)	(2 542.8)
Net carrying amount	493.4	7 940.2	281.9	8 715.5
At 30 June 2011 - fair value				
Gross carrying amount	589.3	11 633.4	551.3	12 774.0
Accumulated depreciation and impairment	(22.0)	(2 546.3)	(256.0)	(2 824.3)
Net carrying amount	567.3	9 087.1	295.3	9 949.7
Year ended 30 June 2011				
Net carrying amount at start of year	493.4	7 940.2	281.9	8 715.5
Additions	75.2	1 415.6	69.8	1 560.6
Disposals	(2.7)	(3.3)	(4.6)	(10.6)
Net revaluation increment less revaluation decrement recognised in reserves	24.7	(7.1)	-	17.6
Depreciation expense (Note 3(a))	(21.5)	(260.9)	(50.9)	(333.3)
Other movements	(1.8)	2.6	(0.9)	(0.1)
Net carrying amount at end of year	567.3	9 087.1	295.3	9 949.7
At 1 July 2009 - fair value				
Gross carrying amount	433.0	9 118.0	437.2	9 988.2
Accumulated depreciation and impairment	(20.3)	(2 062.3)	(203.9)	(2 286.5)
Net carrying amount	412.7	7 055.7	233.3	7 701.7
At 30 June 2010 - fair value				
Gross carrying amount	522.7	10 231.0	504.6	11 258.3
Accumulated depreciation and impairment	(29.3)	(2 290.8)	(222.7)	(2 542.8)
Net carrying amount	493.4	7 940.2	281.9	8 715.5
Year ended 30 June 2010				
Net carrying amount at start of year	412.7	7 055.7	233.3	7 701.7
Additions	92.6	1 127.5	87.7	1 307.8
Disposals	(0.3)	(7.1)	(3.1)	(10.5)
Depreciation expense (Note 3(a))	(10.3)	(235.6)	(37.3)	(283.2)
Other movements	(1.3)	(0.3)	1.3	(0.3)
Net carrying amount at end of year	493.4	7 940.2	281.9	8 715.5

Assets under construction

During the year ended 30 June 2011, the consolidated entity continued with its Network Capital Program. At the statement of financial position date, the construction in progress totalled:

Land and buildings	\$29.2 million (2010: \$92.3 million)
System assets	\$1,555.6 million (2010: \$1,352.6 million)
Other assets	\$33.6 million (2010: \$64.1million)

Historic cost of revalued assets

The carrying amount of assets had they been carried under the cost model is:

Land and buildings	\$471.0 million (2010: \$406.1 million)
System assets	\$8,411.7 million (2010: \$7,205.6 million)
Other assets	\$295.3 million (2010: \$281.9 million)

Ausgrid and controlled entities

Notes to the financial statements

For the year ended 30 June 2011

12 INTANGIBLE ASSETS

	Consolidated Entity and Ausgrid				
	Land and Buildings \$M	Computer Software \$M	Customer Acquisitions \$M	Other \$M	Total \$M
At 1 July 2010					
At cost	90.3	440.2	17.9	10.0	558.4
Accumulated amortisation and impairment	-	(284.9)	(17.9)	-	(302.8)
Net carrying amount	90.3	155.3	-	10.0	255.6
At 30 June 2011					
At cost	94.2	405.8	-	10.0	510.0
Accumulated amortisation and impairment	-	(238.9)	-	(2.0)	(240.9)
Net carrying amount	94.2	166.9	-	8.0	269.1
Year ended 30 June 2011					
Net carrying amount at start of year	90.3	155.3	-	10.0	255.6
Acquisitions	3.9	82.9	-	-	86.8
Disposals	-	(2.1)	-	-	(2.1)
Amortisation (Note 3(a))	-	(39.3)	-	(2.0)	(41.3)
Impairment loss	-	(30.0)	-	-	(30.0)
Other movement	-	0.1	-	-	0.1
Net carrying amount at end of year	94.2	166.9	-	8.0	269.1
At 1 July 2009					
At cost	87.0	443.8	9.0	-	539.8
Accumulated amortisation and impairment	-	(293.6)	(7.9)	-	(301.5)
Net carrying amount	87.0	150.2	1.1	-	238.3
At 30 June 2010					
At cost	90.3	440.2	17.9	10.0	558.4
Accumulated amortisation and impairment	-	(284.9)	(17.9)	-	(302.8)
Net carrying amount	90.3	155.3	-	10.0	255.6
Year ended 30 June 2010					
Net carrying amount at start of year	87.0	150.2	1.1	-	238.3
Acquisitions	3.3	44.6	18.5	10.0	76.4
Disposals	-	(0.4)	-	-	(0.4)
Amortisation (Note 3(a))	-	(39.4)	(19.6)	-	(59.0)
Other movement	-	0.3	-	-	0.3
Net carrying amount at end of year	90.3	155.3	-	10.0	255.6

12 INTANGIBLE ASSETS continued

Impairment loss

During the year ended 30 June 2011, a majority of the Group's retail business was sold, this caused the Group to assess the recoverable amount of the related remaining assets. The recoverable amount of the cash generating unit was estimated based on its value in use, over the term of the transitional services agreement. Based on the assessment at 30 June 2011 the carrying value was determined to be \$30.0m higher than its recoverable amount and an impairment loss was recognised. The estimate of value in use was determined using a discount rate of 8.4%.

Assets under construction

During the year ended 30 June 2011, the consolidated entity continued with its Capital Program. At the statement of financial position date, the construction in progress totalled:

Computer software \$61.1 million (2010: \$65.3 million)

13 CURRENT TAX LIABILITIES

The current tax liability for the consolidated entity and the corporation of \$164.3 million (2010: \$40.2 million) represent the amount of income taxes payable in respect of current and prior periods.

In accordance with the tax consolidation legislation, Ausgrid as the head entity of the Australian tax-consolidated group has assumed the current tax liability initially recognised by the members in the tax consolidation group.

14 DEFERRED TAX ASSETS AND LIABILITIES

	Assets		Liabilities		Net	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M	2011 \$M	2010 \$M
Recognised deferred tax assets and liabilities						
Deferred tax assets and liabilities are attributable to the following:						
Consolidated Entity						
Property, plant and equipment	-	-	607.3	644.7	607.3	644.7
Intangible assets	-	-	10.6	5.0	10.6	5.0
Hedge derivatives	-	-	-	(8.4)	-	(8.4)
Employee benefits	(121.7)	(119.4)	-	-	(121.7)	(119.4)
Deferred government grants	(16.6)	(16.9)	-	-	(16.6)	(16.9)
Provisions	(41.8)	(56.5)	-	-	(41.8)	(56.5)
Other items	(52.7)	(63.1)	22.0	73.6	(30.7)	10.5
Tax (assets) / liabilities	(232.8)	(255.9)	639.9	714.9	407.1	459.0
Set off of tax	-	-	-	-	-	-
Net tax (assets) / liabilities	(232.8)	(255.9)	639.9	714.9	407.1	459.0
Ausgrid						
Property, plant and equipment	-	-	607.3	644.7	607.3	644.7
Intangible assets	-	-	10.6	5.0	10.6	5.0
Hedge derivatives	-	-	-	(8.4)	-	(8.4)
Employee benefits	(121.7)	(119.4)	-	-	(121.7)	(119.4)
Deferred government grants	(16.6)	(16.9)	-	-	(16.6)	(16.9)
Provisions	(41.8)	(56.5)	-	-	(41.8)	(56.5)
Other items	(52.7)	(63.1)	22.0	73.6	(30.7)	10.5
Tax (assets) / liabilities	(232.8)	(255.9)	639.9	714.9	407.1	459.0
Set off of tax	-	-	-	-	-	-
Net tax (assets) / liabilities	(232.8)	(255.9)	639.9	714.9	407.1	459.0

The deductible temporary differences and tax losses do not expire under current tax legislation.

Ausgrid and controlled entities

Notes to the financial statements

For the year ended 30 June 2011

14 DEFERRED TAX ASSETS AND LIABILITIES continued

Movement in temporary differences during the year	Consolidated Entity				Ausgrid			
	Balance 1 July 10	Recognised in income	Recognised in equity	Balance 30 June 11	Balance 1 July 10	Recognised in income	Recognised in equity	Balance 30 June 11
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Property, plant and equipment	644.7	(44.0)	6.6	607.3	644.7	(44.0)	6.6	607.3
Intangible assets	5.0	5.6	-	10.6	5.0	5.6	-	10.6
Hedge derivatives	(8.4)	(0.8)	9.2	-	(8.4)	(0.8)	9.2	-
Employee benefits	(119.4)	(2.3)	-	(121.7)	(119.4)	(2.3)	-	(121.7)
Deferred government grants	(16.9)	0.3	-	(16.6)	(16.9)	0.3	-	(16.6)
Provisions	(56.5)	14.7	-	(41.8)	(56.5)	14.7	-	(41.8)
Other items	10.5	(43.7)	2.5	(30.7)	10.5	(43.7)	2.5	(30.7)
	459.0	(70.2)	18.3	407.1	459.0	(70.2)	18.3	407.1
	Balance 1 July 09	Recognised in income	Recognised in equity	Balance 30 June 10	Balance 1 July 09	Recognised in income	Recognised in equity	Balance 30 June 10
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Property, plant and equipment	633.9	8.8	2.0	644.7	633.9	8.8	2.0	644.7
Intangible assets	6.2	(1.2)	-	5.0	6.2	(1.2)	-	5.0
Hedge derivatives	(3.9)	(3.7)	(0.8)	(8.4)	(3.9)	(3.7)	(0.8)	(8.4)
Employee benefits	(118.4)	(1.0)	-	(119.4)	(118.4)	(1.0)	-	(119.4)
Deferred government grants	(9.6)	(7.3)	-	(16.9)	(9.6)	(7.3)	-	(16.9)
Provisions	(52.6)	(3.9)	-	(56.5)	(52.6)	(3.9)	-	(56.5)
Other items	2.9	17.6	(10.0)	10.5	2.9	17.6	(10.0)	10.5
	458.5	9.3	(8.8)	459.0	458.5	9.3	(8.8)	459.0

15 TRADE AND OTHER PAYABLES

	Consolidated Entity		Ausgrid	
	2011	2010	2011	2010
	\$M	\$M	\$M	\$M
Other trade payables and accrued expenses	570.4	620.8	570.4	620.8
	570.4	620.8	570.4	620.8

16 BORROWINGS

This note provides information about the contractual terms of the consolidated entity's interest-bearing loans and borrowings. For more information about the consolidated entity's exposure to interest rate and foreign currency risks, see Note 20.

	Consolidated Entity		Ausgrid	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
Current liabilities				
Current portion of loans	168.9	286.0	168.9	286.0
Non-current liabilities				
Non-current portion of loans	6 622.9	5 549.1	6 622.9	5 549.1
Financing facilities				
The Corporation has access to the following lines of credit:				
Total facilities available				
Bank overdraft ⁽²⁾	2.0	2.0	2.0	2.0
T-Corp short term accommodation	450.0	450.0	450.0	450.0
T-Corp loans	7 400.0	6 300.0	7 400.0	6 300.0
Inscribed stock ⁽³⁾	-	3.2	-	3.2
	7 852.0	6 755.2	7 852.0	6 755.2
Facilities utilised at reporting date				
Bank overdraft ^{(4), (5)}	-	-	-	-
T-Corp short term accommodation ⁽⁵⁾	-	-	-	-
T-Corp loans ⁽⁵⁾	6 791.8	5 831.9	6 791.8	5 831.9
Inscribed stock ⁽⁵⁾	-	3.2	-	3.2
	6 791.8	5 835.1	6 791.8	5 835.1
Facilities not utilised at reporting date				
Bank overdraft	2.0	2.0	2.0	2.0
T-Corp short term accommodation	450.0	450.0	450.0	450.0
T-Corp loans	608.2	468.1	608.2	468.1
Inscribed stock	-	-	-	-
	1 060.2	920.1	1 060.2	920.1

⁽²⁾ Represents the bank overdraft limit in relation to any debit balances of the daily bank statements.

⁽³⁾ All inscribed stock was extinguished on 31 October 2010.

⁽⁴⁾ The bank statement balance at reporting date was \$11.6 million credit (2010: \$2.4 million credit).

	Consolidated Entity		Ausgrid	
	2011 %	2010 %	2011 %	2010 %
⁽⁵⁾ Effective interest rates:				
Bank overdraft	4.5	4.2	4.5	4.2
T-Corp short term accommodation	4.9	4.7	4.9	4.7
T-Corp loans	5.7	5.9	5.7	5.9
Inscribed stock	-	7.0	-	7.0

Notes to the financial statements

For the year ended 30 June 2011

16 BORROWINGS continued

Financing arrangements

Bank overdrafts

Interest on bank overdrafts is charged at prevailing market rates plus an additional 5.0% on any balance in excess of the approved overdraft on the Group Limit Facility of \$2 million.

The total bank overdraft of the consolidated entity is secured by a charge over the consolidated entity's assets. The bank overdrafts are payable on demand and are subject to annual review.

T-Corp short term accommodation

Ausgrid has approval from the *Public Authorities (Financial Arrangements) Act 1987* ("PAFA Act") to obtain a \$450 million short term accommodation (Come-and-Go facility) from T-Corp.

Interest on T-Corp short term accommodation is charged at prevailing market rates.

T-Corp loans

Ausgrid has approval from the "PAFA Act" to obtain \$7,400 million (2010: \$6,300 million) loan funds from T-Corp.

The loans amount in current liabilities includes the portion of the consolidated entity's T-Corp loans payable within one year of \$168.9 million (2010: \$284.6 million).

The non-current T-Corp loans are payable on or before 15 April 2039, with maturity dates ranging between 2 and 28 years from reporting date.

All T-Corp debt is fully payable on maturity with the majority being fixed rate loans.

Inscribed stock

Ausgrid had borrowings by the issue of inscribed stock to private individuals, companies and various government bodies. There have been no new debt issues for this type of borrowing since 1980.

All outstanding borrowings were fully repaid by 31 October 2010.

17 PROVISIONS

	Consolidated Entity and Ausgrid			
	Insurance	Dividends & Other Payments	Other	Total
	\$M	\$M	\$M	\$M
Balance at 1 July 2010	17.5	250.2	86.6	354.3
Provisions made during the year	5.3	1 545.1	81.1	1 631.5
Provisions used during the year	(5.5)	(1 620.2)	(25.9)	(1 651.6)
Balance at 30 June 2011	17.3	175.1	141.8	334.2
Non-current	14.7	-	30.6	45.3
Current	2.6	175.1	111.2	288.9
	17.3	175.1	141.8	334.2

Note: See Note 1(o) for commentary on provisions.

18 OTHER FINANCIAL LIABILITIES - INCLUDING DERIVATIVES

	Consolidated Entity		Ausgrid	
	2011 %	2010 %	2011 %	2010 %
Current				
Energy derivatives-undesignated	76.1	6.3	76.1	6.3
Energy derivatives-designated	-	19.8	-	19.8
Forward exchange contracts	1.0	0.3	1.0	0.3
	77.1	26.4	77.1	26.4
Non-current				
Energy derivatives	-	60.8	-	60.8
Supply contract commitment	6.9	29.7	6.9	29.7
Other financial liabilities (Note 20(d))	1.0	1.6	1.0	1.6
	7.9	92.1	7.9	92.1

Ausgrid and controlled entities

Notes to the financial statements

For the year ended 30 June 2011

19 CAPITAL AND RESERVES

Contributed equity and share capital

The number of shares on issue (fully paid) at 30 June 2011 are 2 (2010: 2).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Corporation.

Revaluation reserve

The revaluation reserve relates to fair value movements in property and records movements in the fair value of available-for-sale financial assets.

Hedging reserve

The hedging reserve is used to record the unrealised gains or losses of effective cash flow hedges. The unrealised gains or losses of all other energy derivatives are recognised in profit and loss.

The hedging reserve also comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Dividends and other payments to shareholders

Dividends and other payments to shareholders recognised in the current year by the Corporation are:

	Consolidated Entity and Ausgrid	
	Total Amount \$M	Date of payment
2011		
Payment 2011	1 370.0	11 March 2011
Interim 2011	85.1	29 July 2011
Final 2011	90.0	30 November 2011
Total amount	1 545.1	
2010		
Interim 2010	125.1	30 July 2010
Final 2010	125.1	30 November 2010
Total amount	250.2	

Other payments to shareholders

A payment was made to shareholders for the current year of \$1,370,036,000 and related to the retail sale proceeds received from TRUenergy on 1 March 2011 [see Note 1(o)(ii)].

20 FINANCIAL INSTRUMENTS

Financial instruments apply to both Ausgrid and the consolidated entity.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

Exposure to credit, interest rate, energy price, foreign currency and liquidity risks arises in the normal course of the consolidated entity's business. Derivative financial instruments are used to trade and hedge exposure to fluctuations in foreign exchange rates, interest rates and energy prices.

(a) Foreign exchange risk

The consolidated entity is exposed to foreign currency risk in respect of purchases of capital equipment that are denominated in a currency other than the AUD.

The consolidated entity hedges all foreign exchange exposures that exceed \$A 500,000 in value.

The consolidated entity uses forward exchange contracts to hedge its foreign currency risk.

There are no other significant assets or liabilities denominated in currencies other than AUD.

The consolidated entity classifies its forward exchange contracts that are not designated to hedging relationships and states them at fair value.

The net fair value of forward exchange contracts used as hedges of forecasted transactions at 30 June 2011 was -\$1.0 million (2010: -\$0.3 million), comprising assets of \$4.4 million (2010: \$9.3 million) and liabilities of \$5.4 million (2010: \$9.6 million) that were recognised in fair value derivatives.

Recognised assets and liabilities

Changes in the fair value of forward exchange contracts that economically hedge monetary liabilities in foreign currencies and for which no hedge accounting is applied are recognised in the Statement of Comprehensive Income. There were nil forward exchange contracts designated as economic hedges at 30 June 2011 (2010: nil).

(b) Interest rate risk

Interest rate risk is managed using futures instruments and interest rate swaps. All derivatives are managed through T-Corp in accordance with Board policies for the purpose of managing interest rate exposures associated with external debt raised.

The consolidated entity adopts a policy of ensuring that its debt portfolio is managed within a risk framework including specified limits. In order to do this, interest rate futures and swap instruments denominated in AUD are used.

There were no swaps outstanding at balance date (2010: nil).

Notes to the financial statements

For the year ended 30 June 2011

20 FINANCIAL INSTRUMENTS continued

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the table in Note 20(h) indicates their effective interest rates at the statement of financial position date and the periods in which they reprice or mature (whichever is earlier). The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Corporation.

Capital risk management

Consistent with NSW Treasury Accounting Policy *Capital Structure Policy for Government Businesses* [TPP02-7] which is a component of the NSW Government's Commercial Policy Framework, the consolidated entity's objectives are to determine an appropriate capital structure to enable an appropriate return on equity and efficient investment decisions to be made on a commercial basis.

Under the policy, both an appropriate capital structure and a minimum-to-maximum capital structure range are determined whilst considering the following criteria:

- provision of an acceptable stream of dividends;
- maintenance of an appropriate investment grade rating, taking into account industry and entity specific factors;
- ability to meet key debt service criteria, based on industry benchmarks;
- capacity to finance the approved capital expenditure program through internally generated cash flows and debt, with consideration of the current phase of the investment cycle; and
- provision of sufficient flexibility for relevant contingencies.

The minimum-to maximum capital structure 'range' is an acceptable variation (indicated by gearing ratios) around the consolidated entity's capital structure. The consolidated entity monitors this on the basis of gearing levels and ratios. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total loans and T-Corp short term accommodation less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the Statement of Financial Position plus net debt.

	Consolidated Entity		Ausgrid	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
Total loans	6 791.8	5 835.1	6 791.8	5 835.1
Less: cash and cash equivalents	(99.4)	(156.6)	(99.4)	(156.6)
Net debt	6 692.4	5 678.5	6 692.4	5 678.5
Total equity	1 937.1	1 855.1	1 937.1	1 855.2
Total capital	8 629.5	7 533.6	8 629.5	7 533.7
Gearing ratio	77.6%	75.4%	77.6%	75.4%

The consolidated entity's agreed capital structure and range is reviewed every year as part of the SCI "Statement of Corporate Intent" process. The purpose of such a review is to confirm whether or not the current capital structure and range continue to be appropriate and, if not, to negotiate revised arrangements between the Board and Shareholders.

(c) Energy price risk

Up to 28 February 2011, the former EnergyAustralia Group maintained two broad energy derivative portfolios – a Trading Portfolio and a Hedge Portfolio.

The Trading Portfolio did not hedge an underlying cashflow exposure, and had only contained trading instruments. Segregated trading contracts held within the Trading Portfolio were marked to market with both realised and unrealised gains and losses recognised in the Statement of Comprehensive Income immediately. The terms of these contracts were generally for no more than 5 years.

The Hedge Portfolio did have an underlying cashflow exposure, and the former EnergyAustralia Group entered into hedging contracts in this portfolio to hedge against movements in spot prices in the National Electricity Market (NEM) for anticipated purchase commitments of energy. The former EnergyAustralia Group used a combination of swap and option contracts transacted with generators and other market participants in its hedging strategy. The terms of these contracts were generally for no more than 5 years, but some longer term contracts had been transacted to strategically manage the former EnergyAustralia Group's long term position structure. As these contracts were hedging anticipated future purchases, any realised gains and losses on the contracts were recognised in the measurement of the underlying purchase commitment as an element of electricity purchase costs.

While the derivative contracts within the Hedge Portfolio were true economic hedges, and most of these contracts were effective cashflow hedges within the strictures of AASB 139 *Financial Instruments: Recognition and Measurement*, some contracts had been treated as trading instruments. Movements in the unrealised and realised fair value of these trading instruments within the Hedge Portfolio were recognised within the Statement of Comprehensive Income. Movements in the unrealised fair value of all designated hedges were written to a revaluation reserve within Equity (to the extent that they were effective) and recognised in the Statement of Comprehensive Income only when the underlying hedge cashflow was also recognised in the Statement of Comprehensive Income.

Certain hedge transactions were de-designated from time to time as part of the management of the energy contract portfolio and related load risks in line with AASB 139 recognition criteria. Of the contracts that we had previously undesignated, the practice had been to hold the previous fair value prevalent in the previous reporting period (i.e. the month end prior to de-designation) in equity, and to record in the Statement of Comprehensive Income any subsequent changes in fair value. However when the contract in question enters into or is in the contract period, that amount that was held in equity was evenly released to the Statement of Comprehensive Income until its maturity.

As part of the retail sale transaction on 1 March 2011, the Corporation transferred its open energy trading contracts to the purchaser, TRUenergy. A number of energy trading contracts were unable to be novated to TRUenergy and are recorded in the balance sheet as at 30 June 2011. Non-novated contracts held in Ausgrid's name are matched to an equal and opposite position with TRUenergy pending their novation or expiration. Ausgrid does not derive any benefit associated with cash flow but still bears residual legal risks until the contract is novated or expires

Hedge Accounting	Consolidated Entity		Ausgrid	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
Cash flow hedges				
The effective portion of the gains/(losses) on cash flow hedges recognised in the cashflow hedge reserve	(57.6)	(2.6)	(57.6)	(2.6)

Note : All cashflow hedges were effective.

Notes to the financial statements

For the year ended 30 June 2011

20 FINANCIAL INSTRUMENTS continued

Net fair values of financial assets and liabilities

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows.

The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

The fair values of other financial assets and financial liabilities (excluding energy derivatives) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

(i) Electricity derivatives

Fair value of electricity derivatives was calculated either using readily observed market sources or internally adjusted market prices.

The forward curve against which electricity derivatives are revalued is constructed from readily observed market sources. The inputs for this curve are sourced from a combination of available brokers' screens on the Reuters electronic news service as well as closing Sydney Futures Exchange prices.

For those electricity derivatives, where directly appropriate market price valuations were not available, the net fair value for such contracts had been calculated based on internally adjusted market price estimates for similar products or reasonable extrapolation of the last observed relative reference prices. Certain other more exotic contracts involving term structures, conditions and strike prices for which there were no observable market prices had been valued based on entity specific inputs using models that were also used in risk management. In all of these cases, estimated future cashflows resulting from the valuation exercise were discounted to derive the relative net fair values as at balance date. The discount rates used were sourced from a zero coupon yield curve constructed by an independent content provider.

(ii) Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

(iii) Trade and other receivables / payables

For receivables / payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

(iv) Interest rates used for determining fair value

The entity uses the government yield curve as at 30 June 2011 plus an adequate constant credit spread to discount financial instruments.

The interest rates used are as follows:

(v) Foreign exchange contracts

	Consolidated Entity and Ausgrid	
	2011	2010
Loans and borrowings	4.8% - 5.7%	4.6 % - 5.6 %

The net fair value of foreign exchange contracts is calculated by reference to the current spot and forward market currency exchange rates.

(vi) Deposits

Customer deposits represent liabilities for customer and contractors' deposits which can be refunded at any time after the end of the financial year. The net fair value is the carrying value.

The carrying amounts and net fair values of financial assets and liabilities at balance date are:

	Consolidated Entity			
	2011 Carrying Amount \$M	2011 Net Fair Value \$M	2010 Carrying Amount \$M	2010 Net Fair Value \$M
Financial instruments				
Financial assets				
Cash and cash equivalents (Note 6)	99.4	99.4	156.6	156.6
Trade and other receivables (Note 7)	538.4	538.4	688.0	688.0
Energy derivatives (Note 8)	83.0	83.0	88.4	88.4
Other financial assets (Note 8)	0.1	0.1	9.4	9.4
	720.9	720.9	942.4	942.4
Financial liabilities				
Loans (Note 16)	6 791.8	6 958.4	5 835.1	6 033.2
Trade and other payables (Note 15)	570.4	570.4	620.8	620.8
Deposits	12.2	12.2	26.6	26.6
Deferred government grants	83.0	83.0	56.2	56.2
Energy derivatives (Note 18)	76.1	76.1	86.9	86.9
Forward exchange contracts (Note 18)	1.0	1.0	0.3	0.3
Supply contract commitment (Note 18)	6.9	6.9	29.7	29.7
Other financial liabilities (Note 18)	1.0	1.0	1.6	1.6
	7 542.4	7 709.0	6 657.2	6 855.3

	Ausgrid			
	2011 Carrying Amount \$M	2011 Net Fair Value \$M	2010 Carrying Amount \$M	2010 Net Fair Value \$M
Financial instruments				
Financial assets				
Cash and cash equivalents (Note 6)	99.4	99.4	156.6	156.6
Trade and other receivables (Note 7)	538.4	538.4	688.1	688.1
Energy derivatives (Note 8)	83.0	83.0	88.4	88.4
Other financial assets (Note 8)	0.1	0.1	9.4	9.4
	720.9	720.9	942.5	942.5
Financial liabilities				
Loans (Note 16)	6 791.8	6 958.4	5 835.1	6 033.2
Trade and other payables (Note 15)	570.4	570.4	620.8	620.8
Deposits	12.2	12.2	26.6	26.6
Deferred government grants	83.0	83.0	56.2	56.2
Energy derivatives (Note 18)	76.1	76.1	86.9	86.9
Forward exchange contracts (Note 18)	1.0	1.0	0.3	0.3
Supply contract commitment (Note 18)	6.9	6.9	29.7	29.7
Other financial liabilities (Note 18)	1.0	1.0	1.6	1.6
	7 542.4	7 709.0	6 657.2	6 855.3

Notes to the financial statements

For the year ended 30 June 2011

20 FINANCIAL INSTRUMENTS continued

(e) Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable input)

	2011			
	Level 1 \$M	Level 2 \$M	Level 3 \$M	Total \$M
Consolidated Entity				
Financial assets at fair value through profit or loss				
Energy derivatives – designated and undesignated	-	64.8	18.2	83.0
	-	64.8	18.2	83.0
Financial liabilities at fair value through profit or loss				
Energy derivatives – designated and undesignated	-	(64.8)	(11.3)	(76.1)
Supply contract commitment	-	-	(6.9)	(6.9)
Forward exchange contracts	-	(1.0)	-	(1.0)
	-	(65.8)	(18.2)	(84.0)
Ausgrid				
Financial assets at fair value through profit or loss				
Energy derivatives – designated and undesignated	-	64.8	18.2	83.0
	-	64.8	18.2	83.0
Financial liabilities at fair value through profit or loss				
Energy derivatives – designated and undesignated	-	(64.8)	(11.3)	(76.1)
Supply contract commitment	-	-	(6.9)	(6.9)
Forward exchange contracts	-	(1.0)	-	(1.0)
	-	(65.8)	(18.2)	(84.0)

	2010			
	Level 1 \$M	Level 2 \$M	Level 3 \$M	Total \$M
Consolidated Entity				
Financial assets at fair value through profit or loss				
Energy derivatives – designated and undesignated	-	32.7	55.8	88.5
	-	32.7	55.8	88.5
Financial liabilities at fair value through profit or loss				
Energy derivatives – designated and undesignated	-	(86.9)	-	(86.9)
Supply contract commitment	-	-	(29.7)	(29.7)
Forward exchange contracts	-	(10.0)	-	(10.0)
	-	(96.9)	(29.7)	(126.6)
Ausgrid				
Financial assets at fair value through profit or loss				
Energy derivatives – designated and undesignated	-	32.7	55.8	88.5
	-	32.7	55.8	88.5
Financial liabilities at fair value through profit or loss				
Energy derivatives – designated and undesignated	-	(86.9)	-	(86.9)
Supply contract commitment	-	-	(29.7)	(29.7)
Forward exchange contracts	-	(10.0)	-	(10.0)
	-	(96.9)	(29.7)	(126.6)

Notes to the financial statements

For the year ended 30 June 2011

20 FINANCIAL INSTRUMENTS continued

Reconciliation of Level 3 fair value measurements of financial instruments

	Financial assets		Financial liabilities		
	Fair value through profit or loss		Fair value through profit or loss		
	Energy derivatives \$M	Total \$M	Energy derivatives \$M	Supply contract commitment \$M	Total \$M
Consolidated Entity					
Balance at 1 July 2010	55.8	55.8	-	(29.7)	(29.7)
Total gains or losses:					
- in profit or loss	(37.6)	(37.6)	(11.3)	22.8	11.5
- in other comprehensive Income	-	-	-	-	-
New contracts during the Period	-	-	-	-	-
Contracts expired during the period	-	-	-	-	-
Transfers into level 3	-	-	-	-	-
Transfers out of level 3	-	-	-	-	-
Balance at 30 June 2011	18.2	18.2	(11.3)	(6.9)	(18.2)
Total gains or losses for the year included in profit or loss for assets held at 30 June 2011	(37.6)	(37.6)	(11.3)	22.8	11.5
Ausgrid					
Balance at 1 July 2010	55.8	55.8	-	(29.7)	(29.7)
Total gains or losses:					
- in profit or loss	(37.6)	(37.6)	(11.3)	22.8	11.5
- in other comprehensive income	-	-	-	-	-
New contracts during the period	-	-	-	-	-
Contracts expired during the period	-	-	-	-	-
Transfers into level 3	-	-	-	-	-
Transfers out of level 3	-	-	-	-	-
Balance at 30 June 2011	18.2	18.2	(11.3)	(6.9)	(18.2)
Total gains or losses for the year included in profit or loss for assets held at 30 June 2011 ⁽⁶⁾	(37.6)	(37.6)	(11.3)	22.8	11.5

⁽⁶⁾ Gains or losses reported in the profit or loss are presented separately in Note 3(c).

Reconciliation of Level 3 fair value measurements of financial instruments	Financial assets		Financial liabilities		
	Fair value through profit or loss		Fair value through profit or loss		
	Energy derivatives \$M	Total \$M	Energy derivatives \$M	Supply contract commitment \$M	Total \$M
Consolidated Entity					
Balance at 1 July 2009	28.9	28.9	-	(14.3)	(14.3)
Total gains or losses:					
- in profit or loss	26.9	26.9	-	(15.4)	(15.4)
- in other comprehensive Income	-	-	-	-	-
New contracts during the Period	-	-	-	-	-
Contracts expired during the period	-	-	-	-	-
Transfers into level 3	-	-	-	-	-
Transfers out of level 3	-	-	-	-	-
Balance at 30 June 2010	55.8	55.8		(29.7)	(29.7)
Total gains or losses for the year included in profit or loss for assets held at 30 June 2010	26.9	26.9	-	(15.4)	(15.4)
Ausgrid					
Balance at 1 July 2009	28.9	28.9	-	(14.3)	(14.3)
Total gains or losses:					
- in profit or loss	26.9	26.9	-	(15.4)	(15.4)
- in other comprehensive income	-	-	-	-	-
New contracts during the period	-	-	-	-	-
Contracts expired during the period	-	-	-	-	-
Transfers into level 3	-	-	-	-	-
Transfers out of level 3	-	-	-	-	-
Balance at 30 June 2010	55.8	55.8	-	(29.7)	(29.7)
Total gains or losses for the year included in profit or loss for assets held at 30 June 2010 ⁽⁶⁾	26.9	26.9	-	(15.4)	(15.4)

⁽⁶⁾ Gains or losses reported in the profit or loss are presented separately in Note 3(c).

Notes to the financial statements

For the year ended 30 June 2011

20 FINANCIAL INSTRUMENTS continued

The following tables show the sensitivity of level 3 fair values to reasonably possible alternative assumptions as at 30 June 2011 and 30 June 2010 respectively:

As at 30 June 2011				
	Reflected in profit or loss		Reflected in other comprehensive income	
	Favourable change \$M	Unfavourable change \$M	Favourable change \$M	Unfavourable change \$M
Energy derivatives	-	-	-	-
Supply contract commitments	-	-	-	-

As at 30 June 2010				
	Reflected in profit or loss		Reflected in other comprehensive income	
	Favourable change \$M	Unfavourable change \$M	Favourable change \$M	Unfavourable change \$M
Energy derivatives	8.3	(8.3)	-	-
Supply contract commitments	-	-	-	-

Level 3 sensitivity disclosures shown above exclude the impact of any contracts which are offset by a fair value hedge arrangement.

Given that all Ausgrid's electricity derivatives have equal and offsetting positions, there will be no impact on the Profit or Loss Statement if any underlying assumptions are changed.

(f) Sensitivity analysis

In managing interest rate, foreign currency and energy price risks, the consolidated entity aims to reduce the impact of short-term fluctuations on the consolidated entity's earnings. Over the longer-term, however, permanent changes in interest rates would have an impact on consolidated earnings.

The Ausgrid Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate interest rate derivatives as hedging instruments under a fair value hedge accounting model. The Group has minimal variable rate financial liabilities at year end and it is estimated that a change in interest rates by one percentage point at reporting date would have no material impact on the consolidated entity's profit before tax (2010: nil). There would be no effect on equity.

It is estimated that a change at reporting date by ten percentage points in the value of the AUD against other foreign currencies would not have a material impact on the consolidated entity's profit nor value of equity.

From 1 March, 2011, there is no longer any energy price risk except for the sole retained customer for which the Group has entered into a Fair Value Hedge arrangement. The 10% sensitivity test will yield a nil value as there is no open position in the Derivatives book.

(g) Credit risk exposures

The credit risk on trade and other receivables, and accrued sales of energy of the Ausgrid Group that have been recognised in the Statement of Financial Position, is generally the carrying amount, net of any impairment provisions.

Up to 28 February 2011, the Group minimised concentrations of credit risk by undertaking transactions with a large number of customers and was not materially exposed to any individual customer. The Group's policy required customers to pay in accordance with agreed payment terms. The payment terms were generally 14 days, the minority of customers that requested longer terms were required to negotiate the arrangement with management and an extended terms premium was applied.

From 1 March 2011, the Group's policy requires customers to pay in accordance with agreed payment terms. The payment terms are generally 15-30 days.

All credit and recovery risks associated with trade receivables have been provided for in the Statement of Financial Position.

The credit risk of accrued sales of energy (up to 28 February 2011) was less than 6 months offset by a 1-2% impairment provision for revenue recoverability. All credit and recovery risk associated with accrued sales have been provided for in the Statement of Financial Position.

The ageing of trade receivables past due but not impaired at 30 June 2011 is detailed below:

	Consolidated Entity		Ausgrid	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
Less than 3 months overdue	10.5	34.6	10.5	34.6
3 months to 6 months overdue	0.8	1.8	0.8	1.8
Later than 6 months overdue	4.3	5.0	4.3	5.0
	15.6	41.4	15.6	41.4

Interest rate swaps are subject to credit risk in relation to the relevant counter-parties, which are principally large banks. The credit risk on swap contracts is limited to the net amount to be received from counter-parties on contracts that are favourable to the Ausgrid Group. As at 30 June 2011 the Ausgrid Group did not have any swap positions (2010: nil).

Exposure to fluctuations in the wholesale price of energy is managed by entering into derivative transactions with approved counter-parties for the purpose of hedging the purchase cost of energy. By entering into these arrangements the Ausgrid Group is exposed to credit related losses in the event of non-performance by counter-parties to these derivative instruments. These derivative contracts are transacted within the terms of the International Swaps and Derivatives Association documentation framework and include mitigating netting provisions. The Ausgrid Group does not hold collateral from any derivative counter-party (2010: nil) at reporting date.

The Ausgrid Group's credit risk is minimised as it transacts predominantly with other Government owned corporations in the energy industry. Where the counter-party is a non-Government owned corporation its creditworthiness is established in accordance with the Ausgrid Group's risk management policies.

At balance date the maximum credit exposure resulting from energy derivatives, excluding realised gains and losses not yet settled, amounted to \$80.9 million (2010: \$53.2 million). 92.7% of this exposure was attributable to three counterparties (2010: 86.0% was attributable to the top three counterparties). These derivatives comprise the residual element of a larger portfolio of contracts that have been sold to, and are effectively held for TRUenergy pending their formal novation.

Notes to the financial statements

For the year ended 30 June 2011

20 FINANCIAL INSTRUMENTS continued

(h) Liquidity risk

The Ausgrid Group's liquidity risks are managed with the availability of readily accessible standby facilities and other funding arrangements and by investing surplus funds in marketable securities and deposits (see Notes 1(e), 6 and 16).

The contractual maturity of the Group's fixed and floating rate financial liabilities and derivatives are shown in the following table.

	Consolidated Entity and Ausgrid									
	As at 30 June 2011					As at 30 June 2010				
	Weighted average effective interest rate	Total	1 year or less	1-5 years	More than 5 years	Weighted average effective interest rate	Total	1 year or less	1-5 years	More than 5 years
	%	\$M	\$M	\$M	\$M	%	\$M	\$M	\$M	\$M
Derivative financial liabilities										
Energy derivatives	-	(76.1)	(76.1)	-	-	-	(86.9)	(26.1)	(60.8)	-
Supply contract commitment	-	(6.9)	-	-	(6.9)	-	(29.7)	-	-	(29.7)
Forward exchange contracts	-	(1.0)	(1.0)	-	-	-	(0.3)	(0.2)	(0.1)	-
Derivative financial assets										
Energy derivatives	-	83.0	76.1	-	6.9	-	88.4	43.9	14.8	29.7
Non derivative financial liabilities										
AUD fixed rate loans	5.8	(10 190.9)	(455.6)	(2 993.2)	(6 742.1)	5.9	(8 343.1)	(594.0)	(3 017.6)	(4 731.5)
AUD floating rate loans	5.1	(101.4)	(101.4)	-	-	4.7	(152.4)	(152.4)	-	-
Trade and other payables	-	(570.4)	(570.4)	-	-	-	(620.8)	(620.8)	-	-
Non derivative financial assets										
Cash and cash equivalents	4.7	99.4	99.4	-	-	4.4	156.6	156.6	-	-

Note: The amounts disclosed above for loans are the contractual undiscounted cash flows and therefore will not reconcile to the Statement of Financial Position. These disclosed contractually committed cash flows will not differ from the timing and the amounts expected to be incurred for these liabilities.

The following tables include the undiscounted contractual net cash inflows and outflows on derivative liabilities that settle on a net basis and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected prices as illustrated by the forward curves at the end of each reporting period. Energy derivatives, pending their novation, are subject to pass through provisions in the Purchase and Sale Agreement with TRUenergy, and consequently all cashflows are offset either against contra cashflows with either the original counterparty or TRUenergy.

As at 30 June 2011					
Derivative financial liabilities	Carrying amount \$M	Total contractual cashflows \$M	1 year or less \$M	1-5 years \$M	More than 5 years \$M
Net settled:					
energy derivatives	(76.1)	(265.0)	(69.1)	(188.9)	(7.0)
cashflows available under offset arrangements with TRUenergy	76.1	265.0	69.1	188.9	7.0
	-	-	-	-	-
Gross settled:					
foreign exchange contracts	5.4	5.5	5.5	-	-

As at 30 June 2010					
Derivative financial liabilities	Carrying amount \$M	Total contractual cashflows \$M	1 year or less \$M	1-5 years \$M	More than 5 years \$M
Net settled:					
energy derivatives	86.9	93.2	38.0	53.7	1.5
Gross settled:					
foreign exchange contracts	9.6	10.0	4.5	5.5	-

Note: The above amounts disclosed are the contractual undiscounted cash flows and therefore will not reconcile to the Statement of Financial Position.

Ausgrid and controlled entities

Notes to the financial statements

For the year ended 30 June 2011

21 RELATED PARTIES - KEY MANAGEMENT PERSONNEL DISCLOSURES

The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period.

Directors

Mr J Conde AO (Chairman)
 Mr G Maltabarow (Managing Director)
 Ms P Akopiantz (term concluded 31 August 2011)
 Mr P Jeans
 Mr M Lambert (term concluded 31 August 2010)
 Ms R Mifsud
 Dr P Dodd (appointed 6 September 2010)

Executives

Mr C James (Executive General Manager - Finance and Corporate)
 Mr J Eisenhuth (Executive General Manager - Distribution Operations and Reliability)
 Mr G Lilliss (Executive General Manager - Engineering Transmission and Technology) [ceased employment effective 19 November 2010]
 Mr T Armstrong (Executive General Manager - Transmission and System Operations) [appointment effective 20 November 2010] (previously Executive General Manager - System Planning and Regulation 1 July 2010 - 19 November 2010)
 Mr P Birk (Acting Executive General Manager - System Planning and Regulation) [from 8 April 2011 to 30 June 2011; appointed 22 August 2011]
 Mr D Anderson (Executive General Manager - Shared Services) [ceased employment effective 18 March 2011]
 Mr M Bailey (Executive General Manager - Shared Services) [appointment effective 21 March 2011] (previously Executive General Manager - Retail 1 July 2010 - 18 March 2011)
 Ms J Mills (Executive General Manager - Energy Services) [appointment effective 21 March 2011]
 Ms M Slater (Executive General Manager - Human Resources)
 Ms L Maffina (Corporate Secretary)

Transactions with key management personnel

In addition to their salaries, the consolidated entity also provides post employment benefits to Directors and executive officers (see Notes 1(m) and 1(n)).

The key management personnel compensation included in "employee benefits expense" (see Note 3(a)) are as follows:

	Consolidated Entity		Ausgrid	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
Short-term employee benefits	6.4	5.8	6.4	5.8
Long-term benefits	2.1	1.6	2.1	1.6
Post-employment benefits	0.9	0.4	0.9	0.4
Termination benefits	0.6	-	0.6	-

Other transactions

During the financial year, Ausgrid entered into the following transaction with its Director-related entity:

- Ausgrid paid \$483,356 (2010: \$552,025) to the Sydney Symphony Orchestra in accordance with a sponsorship agreement. Mr Conde is Chairman of the Sydney Symphony Orchestra.

In the case of this transaction, the Director concerned took no part in the transaction for either the Corporation or the Director-related entity.

The Directors of Ausgrid are also Directors of other companies which may have had transactions with Ausgrid during the financial year. With respect to any such transaction, no Director has declared that he/she has control or significant influence on the financial and/or operating policies of those companies in their dealings with Ausgrid.

From time to time, Directors of the Corporation or its controlled entities, or their Director-related entities, may purchase goods from the consolidated entity. These purchases are on the same terms and conditions as those entered into by other consolidated entity employees or customers and are trivial or domestic in nature.

All transactions are conducted on an arm's length basis in the normal course of business and on commercial terms and conditions.

22 RELATED PARTIES – NON-KEY MANAGEMENT PERSONNEL DISCLOSURES

Identity of related parties

The consolidated entity has a related party relationship with its subsidiaries (see Note 27) and with its Directors and executive officers (see Note 21).

Other related party transactions

(i) Subsidiaries

During the year ended 30 June 2011, Ausgrid provided funding to the controlled entities to enable them to meet their commitments but did not receive any repayments from them. It is expected that this funding will continue in 2011/12. Loans outstanding between Ausgrid and its controlled entities have no fixed date of repayment and are non-interest bearing. There were no loans (net) to subsidiaries at 30 June 2011 (2010: nil).

(ii) Other transactions

During the financial year, Ausgrid entered into a number of services for nil consideration with all controlled entities within the Group. These services have been categorised as follows:

- accounting services
- supply and rental of premises
- inter-company funding
- information technology services
- administrative and other services

No services were provided to Ausgrid by any of the controlled entities.

Ausgrid has also provided the necessary cash facilities for each of the controlled entities, with respect to external transactions which were not settled by the controlled entity.

23 REMUNERATION OF AUDITOR

	Consolidated Entity		Ausgrid	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
Amounts paid and payable to the Audit Office of NSW for:				
Audit of Financial Report	0.4	0.4	0.4	0.4
Australian Financial Services Licence Audit	- [#]	- [#]	- [#]	- [#]
	0.4	0.4	0.4	0.4

[#]Amount reduced to zero as a result of rounding to nearest \$0.1 million (see Note 1(b)).

Ausgrid and controlled entities

Notes to the financial statements

For the year ended 30 June 2011

24 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

	Consolidated Entity		Ausgrid	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
Contingent liabilities				
Guarantees issued by financial institutions ⁽⁷⁾	-	-	-	-
Bank guarantees provided in the normal course of business, in lieu of retention and security deposits	- [#]	- [#]	- [#]	- [#]
Guarantees provided to regulatory and statutory authorities	58.8	286.2	58.8	286.2
	58.8	286.2	58.8	286.2
Contingent assets				
Potential recoveries from gross workers compensation claim payments	2.2	1.9	2.2	1.9

[#]Amount reduced to zero as a result of rounding to nearest \$0.1 million (see Note 1(b)).⁽⁷⁾The Ausgrid Group has fully indemnified the issuing financial institutions in the unlikely event these guarantees are called on.

25 CAPITAL AND OTHER COMMITMENTS

	Consolidated Entity		Ausgrid	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
(a) Capital commitments				
Commitments for the acquisition of system assets, plant and equipment contracted for at the reporting date but not recognised as liabilities, payable:				
Within twelve months	496.1	393.5	496.1	393.5
Twelve months or longer and not longer than five years	8.3	16.0	8.3	16.0
Total (including GST)	504.4	409.5	504.4	409.5
GST credits	45.9	37.2	45.9	37.2
(b) Other commitments				
Commitments in relation to operating expenditure contracted for at the reporting date but not recognised as liabilities, payable:				
Within twelve months	31.4	29.2	31.4	29.2
Twelve months or longer and not longer than five years	27.5	8.2	27.5	8.2
Longer than five years	-	-	-	-
Total (including GST)	58.9	37.4	58.9	37.4
GST credits	5.4	3.4	5.4	3.4

Ausgrid has contractual commitments to purchase power and GHG certificates based on future volumes to be supplied over a period of time varying from 1 to 13 years. Negotiations to novate these contracts are continuing and pending their novation, Ausgrid has offsetting commitments from TRUenergy.

26 OPERATING LEASES

	Consolidated Entity		Ausgrid	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
Leases as lessee				
Non-cancellable operating leases are payable as follows:				
Within twelve months	29.5	25.4	29.5	25.4
Twelve months or longer and not longer than five years	40.1	32.3	40.1	32.3
Longer than five years	111.2	110.8	111.2	110.8
Total (including GST)	180.8	168.5	180.8	168.5
GST credits	16.4	15.3	16.4	15.3

Ausgrid leases various premises under operating leases including depot and office facilities, and a number of offices at interstate locations. The Corporation also has a long term operating lease arrangement in place for a Zone Substation installation at Strathfield which expires in 2065. Lease payments under these leases are subject to annual, bi-annual or three yearly reviews to reflect market rentals. The majority of these operating leases which are in place for the purpose of securing tenure to Ausgrid's Network Infrastructure Assets, are long term (generally for periods in excess of 25 years and up to 99 years) and are for a nominal or "peppercorn" consideration. None of the Corporation's operating leases include contingent rentals. There have been no properties sublet by the Corporation.

Ausgrid leases its passenger fleet and some light commercial fleet under operating leases. The majority of the fleet leases are fully maintained leases and typically run for a period of 3 or 4 years dependant on business requirements.

Ausgrid leases personal computers under operating leases. All personal computer leases are for a period of 3 years.

During the year ended 30 June 2011, \$28.8 million (2010: \$25.4 million) was recognised as an expense in the Statement of Comprehensive Income in respect of operating leases.

	Consolidated Entity		Ausgrid	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
Leases as lessor				
The consolidated entity leases out its properties, including premises, land and communications towers, under operating lease agreements at market rentals, predominantly on a fixed term basis. The future minimum lease payments under non-cancellable leases are as follows:				
Within twelve months	4.7	6.7	4.7	6.7
Twelve months or longer and not longer than five years	9.6	8.2	9.6	8.2
Longer than five years ⁽⁸⁾	8.7	10.5	8.7	10.5
Total (including GST)	23.0	25.4	23.0	25.4
GST debits	2.1	2.3	2.1	2.3

During the year ended 30 June 2011, \$7.1 million (2010: \$7.4 million) was recognised as rental income in the Statement of Comprehensive Income and \$0.8 million (2010: \$0.8 million) in respect of repairs and maintenance was recognised as an expense in the Statement of Comprehensive Income relating to these properties.

⁽⁸⁾ The leases greater than 5 years are mainly leases with no fixed term contract and are expected to continue for an indefinite period. A period of 10 years has been disclosed in the Note.

Ausgrid and controlled entities

Notes to the financial statements

For the year ended 30 June 2011

27 CONSOLIDATED ENTITIES

	Country of incorporation	Ownership interest	
		2011 %	2010 %
Parent entity			
Ausgrid ⁽⁹⁾			
Subsidiaries			
Ausgrid Pty Ltd ⁽⁹⁾	Australia	100	100
Downtown Utilities Pty Ltd	Australia	70	70

⁽⁹⁾ On 2 March 2011, EnergyAustralia changed its name to Ausgrid (see Note 1).

28 RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	Consolidated Entity		Ausgrid	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
Profit for the year from continuing operations	1 573.8	345.0	1 573.7	345.0
Add / (less) non-cash items:				
Depreciation and amortisation	419.8	342.2	419.8	342.2
Amortisation of unrealised capital (debt)	15.1	13.4	15.1	13.4
Amortisation of deferred government grants	(1.0)	(0.9)	(1.0)	(0.9)
Impairment of assets	(25.1)	(12.9)	(25.1)	(12.9)
Loss on disposal of property, plant and equipment	3.6	6.8	3.6	6.8
Gain on sale of retail business	(1 247.9)	-	(1 247.9)	-
Gain on reversal of asset revaluation	8.7	-	8.7	-
(Profit) on disposal of other non-current assets	(0.2)	(1.4)	(0.2)	(1.4)
(Profit)/loss on close out liability contracts	(3.3)	3.8	(3.3)	3.8
Decrease in fair value of financial instruments	(9.9)	13.7	(9.9)	13.7
Changes in assets and liabilities:				
(Increase) in accrued sales of energy	328.7	(67.1)	328.7	(67.1)
(Increase) in other accrued income	(152.6)	(64.3)	(152.6)	(64.3)
(Increase) in operating related inventories	3.1	(4.0)	3.1	(4.0)
(Increase) in deferred tax assets	23.1	(19.3)	23.1	(19.3)
(Increase) in prepaid operating expenditure	75.0	(7.0)	75.0	(7.0)
Increase/(decrease) in accrued operating expenditure	(295.1)	94.5	(295.1)	94.5
Increase/(decrease) in provision for income taxes payable	124.1	6.2	124.1	6.2
Increase/(decrease) in deferred tax liabilities	(75.0)	19.8	(75.0)	19.8
Increase in other provisions	27.7	52.3	27.7	52.3
Increase in deferred revenue	(28.5)	4.0	(28.5)	4.0
Increase/(decrease) in customer security deposits	(14.4)	0.3	(14.4)	0.3
Net cash from operating activities	749.7	725.1	749.7	725.1

29 EMPLOYEE BENEFITS

	Consolidated Entity		Ausgrid	
	2011 \$M	2010 \$M	2011 \$M	2010 \$M
Aggregate liability for employee benefits, including on-costs:				
Short term benefits	146.6	166.1	146.6	166.1
Long term benefits	299.3	279.6	299.3	279.6
Post employment benefits	176.7	204.2	176.7	204.2
	622.6	649.9	622.6	649.9
Current	426.6	428.4	426.6	428.4
Non-current	196.0	221.5	196.0	221.5
	622.6	649.9	622.6	649.9

The current provision for employee benefits includes \$257.9 million (2010: \$240.2 million) of long service leave entitlements accrued but not expected to be taken within 12 months. Balances are the same for both the Group and Ausgrid.

30 SUPERANNUATION

Superannuation benefits apply to both Ausgrid and the consolidated entity. All references are to the April 2007 version of AASB 119 Employee Benefits.

Accounting policy [AASB 119 – paragraph 120A(a)]

Actuarial gains and losses are recognised immediately in other comprehensive income in the year in which they occur.

General description of the type of plan

The Energy Industries Superannuation Scheme:

Division B

Division C

Division D

These Divisions are all defined benefit schemes – at least a component of the final benefit is derived from a multiple of member salary and years of membership.

All the Divisions are closed to new members.

Notes to the financial statements

For the year ended 30 June 2011

30 SUPERANNUATION continued

	2011	2010
	\$M	\$M
Reconciliation of the present value of the defined benefit obligation		
Present value of partly funded defined benefit obligations at beginning of the year	801.6	701.8
Current service cost	21.9	25.9
Interest cost	45.3	40.6
Contributions by Fund participants	9.1	9.2
Actuarial (gains)/losses	10.3	53.5
Benefits paid	(43.7)	(29.4)
Present value of partly funded defined benefit obligations at end of the year	844.5	801.6
Reconciliation of the fair value of Fund assets		
Fair value of Fund assets at beginning of the year	597.6	524.6
Expected return on Fund assets	48.1	41.7
Actuarial gains/(losses)	18.6	20.1
Employer contributions	38.3	31.4
Contribution by Fund participants	9.1	9.2
Benefits paid	(43.7)	(29.4)
Fair value of Fund assets at end of the year	668.0	597.6
Reconciliation of the assets and liabilities recognised in the statement of financial position		
Present value of partly funded defined benefit obligations at end of the year	844.5	801.6
Fair value of Fund assets at end of the year	(668.0)	(597.6)
Net liability/(asset) recognised in the statement of financial position at end of the year	176.5	204.0
Expense recognised in the statement of comprehensive income		
Components recognised in the statement of comprehensive income:		
Current service cost	21.9	25.9
Interest cost	45.3	40.6
Expected return on Fund assets (net of expenses)	(48.1)	(41.7)
Expense/(income) recognised	19.1	24.8
Amounts recognised in the statement of comprehensive income		
Actuarial (gains)/losses	(8.3)	33.4
Cumulative amount recognised in the statement of comprehensive income		
Actuarial (gains)/losses	193.4	201.7

Fund assets

The percentage invested in each asset class at the statement of financial position date (latest available):

	2011	2010
	\$M	\$M
Listed equities	63.5%	-
Private equity	1.7%	-
Semi-liquids and absolute return (growth)	15.9%	-
Fixed Income	13.4%	-
Property	2.4%	2.5%
Cash	3.1%	5.7%
Australian equities	-	36.4%
Overseas equities	-	32.3%
Australian fixed interest securities	-	14.6%
Australian inflation-linked bonds	-	3.8%
Other	-	4.7%

Fair value of Fund assets

All Scheme assets are invested by the Trustees at arm's length through independent managers.

Expected rate of return on assets

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each class. The returns used for each class are net of investment tax and investment fees.

Actual return on Fund assets

	2011	2010
	\$M	\$M
Actual return on Fund assets	66.6	59.5

Valuation method and principal actuarial assumptions at the statement of financial position date**(a) Valuation method**

The Projected Unit Credit (PUC) valuation method was used to determine the present value of the defined benefit obligations and the related current service costs. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

(b) Economic assumptions

	2011	2010
	\$M	\$M
Salary increase rate (excluding promotional increases)	4.0%pa	4.0%pa
Rate of CPI increase	2.5%pa	2.5%pa
Expected rate of return on assets	8.10%	8.10%
Discount rate	5.28%	5.17%

Notes to the financial statements

For the year ended 30 June 2011

30 SUPERANNUATION continued

(c) Demographic assumptions

The demographic assumptions at 30 June 2011 are those used in the 2009 triennial actuarial valuation. A selection of the most financially significant assumptions is shown below:

- (i) Contributors - the number of contributors expected in any one year (out of 10,000 members), at the ages shown, to leave the fund as a result of death, disability, resignation, retirement and redundancy. Promotional salary increase rates are also shown.

Age nearest birthday	Number of members expected in any one year, out of 10,000 members at the age shown, to leave the fund as a result of:				Additional promotional salary increase rate %
	Death	Total & Permanent Disability	Retirement	Resignation	
Males					
30	4	3	-	120	3.0
40	5	3	-	108	0.1
50	9	8	-	63	-
60	24	10	1,880	-	-
Females					
30	2	3	-	262	2.5
40	3	5	-	157	1.6
50	6	30	-	105	1.1
60	15	-	900	-	-

- (ii) Commutation - the proportion of members assumed to commute their pension to lump sum in any one year.

Age	Proportion of pension commuted	
	Retirement	Breakdown
Later of commencement or age 55	0.10	0.15
	Widow	Widower
55	.2000	.2000
65	.5380	.5800
75	.4825	.5160
85	.3928	.3728

- (iii) Pensioner Mortality – assumed mortality rates for pensioners (separately for normal retirement/spouses and invalidity).

Age	Retirement pensioners and spouses and widows		Invalidity pensions	
	Males	Females	Males	Females
55	0.0014	0.0013	0.0063	0.0065
65	0.0044	0.0040	0.0091	0.0093
75	0.0188	0.0103	0.0446	0.0226
85	0.0761	0.0638	0.1089	0.0867

(iv) Pensioner Mortality Improvements – per annum assume rates of mortality improvement for pensioners.

Age	Improvement rates (for years 2009 – 2014)	
	Males	Females
55	0.03433	0.02590
65	0.03033	0.02511
75	0.02417	0.02294
85	0.01664	0.01719

	2011	2010	2009	2008	2007
	\$M	\$M	\$M	\$M	\$M
Historical information					
Present value of defined benefit obligation	844.5	801.6	701.8	669.1	671.8
Fair value of Fund assets	(668.0)	(597.6)	(524.6)	(640.9)	(702.4)
Deficit/(Surplus) in Fund	176.5	204.0	177.2	28.2	(30.6)
Experience adjustments – Fund liabilities	10.3	53.5	(7.8)	(55.7)	37.3
Experience adjustments – Fund assets	(18.6)	20.1	(160.2)	(111.4)	54.5
Expected contributions					
Expected employer contributions to be paid in the next reporting period	30.6	34.2			
Funding arrangements for employer contributions					
(a) Surplus/deficit					
The following is a summary of the 30 June 2011 financial position of the Fund calculated in accordance with AAS 25 "Financial Reporting by Superannuation Plans".					
Accrued benefits	721.4	669.6			
Net market value of Fund assets	(668.0)	(597.6)			
Net (surplus)/deficit	53.4	72.0			

(b) Contribution recommendations

Recommended contribution rates for the entity are:

Division B = 1.9 x member contributions

Division C = 2.5% x salaries

Division D = 1.64 x member contributions

Plus additional contributions of \$13,857,000 pa

(c) Funding method

The method used to determine the employer contribution recommendations in the 2009 triennial actual review was the *Aggregate Funding method*. The method adopted affects the timing of the cost to the employer.

Under the *Aggregate Funding method*, the employer contribution rate is determined so that sufficient assets will be available to meet benefit payments to existing members, taking into account the current value of assets and future contributions.

Notes to the financial statements

For the year ended 30 June 2011

30 SUPERANNUATION continued

(d) Economic assumptions

The economic assumptions adopted for the 2009 actuarial review of the Fund were:

Weighted-Average Assumptions

Expected rate of return on Scheme assets	7.0%pa
Expected salary increase rate	4.0%pa
Expected rate of CPI increase	2.5%pa

Nature of asset/liability

If a surplus exists in the employer’s interest in the Fund, the employer may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the Fund’s actuary.

Where a deficiency exists, the employer is responsible for any difference between the employer’s share of Fund assets and the defined benefit obligation.

31 DISCONTINUED OPERATION

On 14 December 2010 the NSW Government announced that the Victorian-based electricity retailer TRUenergy was the successful purchaser of the Group's retail business and two Marulan development sites. The disposal was completed on 1 March 2011. The operation was not a discontinued operation or classified as held for sale as at 30 June 2010. The comparative Statement of Comprehensive Income has been re-presented to show the discontinued operation separately from continuing operations.

	2011	2010
	\$M	\$M
Results of discontinued operation		
Revenue		
Sale and delivery of energy	1 409.6	1 952.6
Community service obligations refunds from Government	24.6	30.1
	1 434.2	1 982.6
Expenses	(1 229.7)	(1 548.2)
Profit before income tax and financial instrument fair value movements	204.5	434.4
Income tax expense on profit before financial instrument fair value movements	(61.3)	(130.3)
Profit before financial instrument fair value movements	143.2	304.1
Fair value movements in financial instruments	10.6	(13.7)
Income tax (expense)/credit on financial instrument fair value movements	(3.2)	4.4
Results from operating activities, net of tax	150.6	294.8
Net gain on sale of discontinued operation	1 247.9	-
Income tax on net gain on sale of discontinued operation*	-	-
Profit for the year	1 398.5	294.8

The profit from discontinued operation of \$1 398.5 million (2010: profit of \$294.8 million) is attributable entirely to the owners of the Corporation.

*Tax neutrality has been granted by the Australian Taxation Office.

	2011
	\$M
Effect of disposal on the financial position of the Group	
Property, plant and equipment	4.4
Inventories	1.0
Trade and other receivables	708.0
Other current assets	82.2
Other financial assets	68.5
Trade and other payables	(584.3)
Deposits	(20.1)
Other financial liabilities	(200.1)
Net assets/(liabilities) attributable to discontinued operations	59.6

Cash flow information related to discontinued operations has not been disclosed due to books and records not being kept to distinguish between the Retail and Network business separately in prior years and up to the date of sale. Significant assumptions would have to be made to separate the financial information if these disclosures were to be presented that, in management's view, would not reflect a true and fair position of the discontinued operations cash flow position.

Notes to the financial statements

For the year ended 30 June 2011

31 DISCONTINUED OPERATION continued

	2011
	\$M
Sale on Retail Business	
Net gain on sale of discontinued operation	1 247.9
Less: transaction related costs	(88.6)
Net result on sale	1 159.3

32 EXTERNAL CONSULTANTS

The total amount paid to or accrued for consultants during the year ended 30 June 2011 was \$0.6 million (2010: \$0.9 million).

33 EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

Effective on 1 September 2011, the gas participant ID will be transferred from Ausgrid to TRUenergy. The retained gas customers and contracts will be novated at that date resulting in a decrease of current assets matched against a decrease of current liabilities in Ausgrid's financial statements.

END OF AUDITED FINANCIAL STATEMENTS

Ausgrid and controlled entities

Directors' Declaration

For the year ended 30 June 2011

DIRECTORS' DECLARATION

Pursuant to Section 41C of the *Public Finance and Audit Act 1983*, we state that in the opinion of the Directors of Ausgrid:

- (a) the accompanying consolidated financial statements and notes comprise a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board, the requirements of the *Public Finance and Audit Act 1983* (except as disclosed in note 1(h) regarding the "frequency of revaluation" requirement as defined under NSW Treasury Accounting Policy TPP07-01), the *Public Finance and Audit Regulation 2010*, and the *State Owned Corporations Act 1989*, and give a true and fair view of the Ausgrid Group's financial position as at 30 June 2011 and its financial performance for the year ended on that date;
- (b) at the date of this statement, there are reasonable grounds to believe that the Ausgrid Group will be able to pay its debts as and when they become due and payable; and
- (c) we are not aware of any circumstances at the date of this declaration that would render any particulars included in the financial report to be misleading or inaccurate.

This declaration is made in accordance with a resolution of the Directors.



John Conde AO
Chairman



George Maltabarow
Managing Director

Sydney
14 September 2011



GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

Ausgrid

To Members of the New South Wales Parliament

I have audited the accompanying financial statements of Ausgrid (the Corporation), which comprise the statements of financial position as at 30 June 2011, the statements of comprehensive income, the statements of changes in equity and statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information of the Corporation and the consolidated entity. The consolidated entity comprises the Corporation and the entities it controlled at the year's end or from time to time during the financial year.

Opinion

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation and the consolidated entity, as at 30 June 2011, and of their financial performance for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2010
- comply with International Financial Reporting Standards as disclosed in Note 1(a).

My opinion should be read in conjunction with the rest of this report.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the *State Owned Corporations Act 1989* and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In Note 1(a), the Directors also state, in accordance with Accounting Standard AASB 101 'Presentation of Financial Statements', that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with Australian Auditing Standards. Those standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

My opinion does *not* provide assurance:

- about the future viability of the Corporation or consolidated entity
- that they have carried out their activities effectively, efficiently and economically
- about the effectiveness of internal control
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

Independence

In conducting my audit, I have complied with the independence requirements of the Australian Auditing Standards and other relevant ethical pronouncements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their role by the possibility of losing clients or income.



Peter Achterstraat
Auditor General

19 September 2011
SYDNEY



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Access to information – Government Information (Public Access) Act

The *Government Information (Public Access) Act 2009* (NSW) replaced the *Freedom of Information Act 1989* from 1 July 2010. The aim of the legislation is to promote openness, accountability and transparency. Ausgrid is committed to proactively providing information to the public and the Ausgrid website has undergone significant investment to provide a continuous and easy-to-use source of up-to-date key statistics and information of interest to the public in compliance with Clause 7 (3) of the GIPA Act.

Members of the public can access the following 'open access' information (as per section 18 and clause 5 of the GIPA Act): current publication guide, parliamentary documents, policy documents, disclosure log of access applications, contract register, record of open – access information not made publicly available because of an overriding public interest against disclosure, code of conduct, information about major assets sales and purchases (www.ausgrid.com.au/Common/About-us).

Requests for access to information can be formally or informally submitted (the GIPA Act does not require reporting of informal requests). Formal access applications must be made in writing supplying all details required and should be accompanied with the \$30 application fee. Application forms are available on Ausgrid's website and may be lodged in person or posted to the GIPA Coordinator.

The GIPA Coordinator is available during business hours of 8am to 5pm or a meeting can be arranged by prior appointment. Contact details for the GIPA Coordinator are:

GIPA Coordinator

Ausgrid Building
570 George Street, Sydney
Telephone: (02) 9269 2941
Facsimile: (02) 9264 2982

OR post to:

GIPA Coordinator
Ausgrid
GPO Box 4009
Sydney NSW 2001

Statutory Information

The statistical data relating to access applications during the financial year 2010/2011 is provided in the tables below with 3 FOI applications being carried over from the previous financial year. The change from the FOI Act to the GIPA Act has not significantly impacted the number of access applications received. In 2010/11, 28 new applications were received with two carried forward to 2011/12. There were no internal or external review applications during the financial year 2010/11.

The following table shows how applications received under *Government Information (Public Access) Act 2009 (NSW)* for 2010/11 have been dealt with.

Table A: Number of applications by type of applicant and outcome*

	Access granted in full	Access granted in part	Access refused in full	Information not held	Information already available	Refuse to deal with application	Refuse to confirm/ deny whether information is held	Application withdrawn
Media	2	1						
Members of Parliament	3							1
Private sector business	1	1						
Not for profit organisations or community groups								
Members of the public (application by legal representative)	6	3		1				
Members of the public (other)	6	4						

* More than one decision can be made in respect of a particular access application. If so, a recording must be made in relation to each such decision. This also applies to Table B.

Table B: Number of applications by type of application and outcome

	Access granted in full	Access granted in part	Access refused in full	Information not held	Information already available	Refuse to deal with application	Refuse to confirm/ deny whether information is held	Application withdrawn
Personal information applications*	0	0	0	0	0	0	0	0
Access applications (other than personal information applications)	18	9	0	1	0	0	0	1
Access applications that are partly personal information applications and partly other	0	0	0	0	0	0	0	0

* A personal information application is an access application for personal information (as defined in clause 4 of Schedule 4 to the Act) about the applicant (the applicant being an individual).

Table C: Invalid applications

Reason for invalidity	No of applications
Application does not comply with formal requirements (section 41 of the Act)	0
Application is for excluded information of the agency (section 43 of the Act)	0
Application contravenes restraint order (section 110 of the Act)	0
Total number of invalid applications received	0
Invalid applications that subsequently became valid applications	0

* A personal information application is an access application for personal information (as defined in clause 4 of Schedule 4 to the Act) about the applicant (the applicant being an individual).

Table D: Conclusive presumption of overriding public interest against disclosure: matters listed in Schedule 1 to Act

	Number of times consideration used*
Overriding secrecy laws	0
Cabinet information	0
Executive Council information	0
Contempt	0
Legal professional privilege	0
Excluded information	0
Documents affecting law enforcement and public safety	0
Transport safety	0
Adoption	0
Care and protection of children	0
Ministerial code of conduct	0
Aboriginal and environmental heritage	0

* More than one public interest consideration may apply in relation to a particular access application and, if so, each such consideration is to be recorded (but only once per application). This also applies in relation to Table E.

Table E: Other public interest considerations against disclosure: matters listed in table to section 14 of Act

	Number of occasions when application not successful
Responsible and effective government	0
Law enforcement and security	0
Individual rights, judicial processes and natural justice	6
Business interests of agencies and other persons	7
Environment, culture, economy and general matters	0
Secrecy provisions	0
Exempt documents under interstate Freedom of Information legislation	0

Table F: Timeliness

	Number of applications
Decided within the statutory timeframe (20 days plus any extensions)	28
Decided after 35 days (by agreement with applicant)	1
Not decided within time (deemed refusal)	0
Total	29

Table G: Number of applications reviewed under Part 5 of the Act (by type of review and outcome)

	Decision varied	Decision upheld	Total
Internal review	0	0	0
Review by Information Commissioner*	0	0	0
Internal review following recommendation under section 93 of Act	0	0	0
Review by ADT	0	0	0
Total	0	0	0

*The Information Commissioner does not have the authority to vary decisions, but can make recommendations to the original decision-maker. The data in this case indicates that a recommendation to vary or uphold the original decision has been made by the Information Commissioner.

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Table H: Applications for review under Part 5 of the Act (by type of applicant)

	Number of applications for review
Applications by access applicants	0
Applications by persons to whom information the subject of access application relates (see section 54 of the Act)	0

Annual report costs

The total external cost for the productions of this Annual Report was approximately \$22,300 excluding GST. Printed copies of the 2010/11 report are not available as Ausgrid works to minimise its impact on the environment. However, it is available at Ausgrid's website www.ausgrid.com.au. Ausgrid's sustainability component of the Annual Report includes the growing body of issues covered to be in accordance with the Global Reporting Initiative and esaa Sustainability Practice Framework guidelines. This increases the cost of production.

Consultancies

Type of Consultancy	Cost
Finance & Accounting	\$ 296,660
Management Services	\$ 260,029
Engineering	\$ 25,000
Total	\$ 581,689

Consumer response

EnergyAssist

From 1 July 2010 to 28 February 2011, a total of 2,925 customers joined EnergyAustralia's EnergyAssist program. Of the EnergyAssist customer base: 62 per cent have established a Centrepay payment arrangement, 695 successfully completed the program during the year and 2,374 were exited from EnergyAssist for various reasons including due to not maintaining contact with EnergyAustralia or due to non-payment.

Customer Relations

The customer relations complaints team is the referral point for escalated retail disputes raised within EnergyAustralia or via the Energy and Water Ombudsman NSW (EWON). In March 2011, EnergyAustralia's customers and wholesale contracts were sold to TRUenergy, including the EnergyAustralia brand. For the July 2010 to February 2011 period, EWON received about 1,900 complaints related to the combined retail and distribution EnergyAustralia business. Since 1 March 2011, only EWON distribution-related complaints apply to the remaining Ausgrid business and these totalled about 180 from Ausgrid's 1.6 million network customers.

Contact Centre

The Contact Centre handled more than 3.14 million calls during 2010/11. This represents an increase of more than 310,000 calls from 2009/10 (2.83 million). Customer Service Representatives handled more than 2.17 million calls, with the remainder completed via various automatic options. The majority of calls related to customer account enquiries, customers moving premises and solar electricity as a result of changes to the scheme to the end of February. Following a challenging high bill season, mainly due to price rises, planning and resourcing became the primary focus of the Contact Centre in the second half of 2010/11 to restore performance. Now the primary focus is to ensure that Transition Services Agreement's key performance indicators are delivered and that the high standard of performance in the Contact Centre is maintained.

Customer Council

The Customer Council is a two-way communication forum involving diverse stakeholder and community groups, including the Council of Social Service NSW, Ethnic Community Council, Country Women's Association, Council on the Ageing (COTA) Over 50's, and the Nature Conservation Council. The EnergyAustralia retail and network combined Customer Council met three times up to 28 February 2011. After the sale of its retail assets, Ausgrid conducted an additional Network Customer Council meeting in May 2011. The council convenes to discuss, review and improve a range of matters including products, services and dispute resolution.

Electronic services delivery

Ausgrid website

The aim of Ausgrid's website (www.ausgrid.com.au) is to provide customers with a relevant, convenient and personalised on-line service by

- providing relevant information on energy-related areas, including products, education, safety and efficiency
- ensuring products and price changes are readily available and easy to find
- ensuring key network, safety, community and corporate documents are readily accessible.

During the year a project was undertaken to separate and remove all retail related information from the Ausgrid website following the sale of the retail assets.

Employment equity

Ausgrid is committed to the provision of equal employment opportunity (EEO) and promoting the principles of equity and respect in the workplace. These principles are outlined in Ausgrid's Code of Conduct under the value of Respect for our People, Community and Environment. These principles contribute to a workplace of co-operation, trust and support for Ausgrid's people who are free from prejudice, harassment, victimisation and bullying; and respecting diversity by treating others equally, irrespective of their gender, marital status, race, religion, age or sexual preference. The principles are promoted through:

- the Code of Conduct and provision of Equity and Respect training as a component of Ausgrid's orientation program for all new employees,
- refresher Equity and Respect training sessions conducted, as required, and
- reviewing Ausgrid's values, behaviours and ethics as part of Ausgrid's Frontline and Senior Leadership programs.

An e-learning package has been developed to provide online Working with Equity and Respect training, to make it available to employees at all times.

There were five cases of equal employment opportunity grievances in 2010/11 which were dealt with in line with the Equal Employment Opportunity policy's grievance procedure. Ausgrid had no incidents of complaints involving indigenous people during 2010/11, consistent with 2009/10.

In 2010/11 Ausgrid maintained a sound base of equity and diversity policies including merit appointment, part-time work and parental leave. Ausgrid also continued its Working with Equity and Respect training to communicate the EEO and Discrimination and Harassment Prevention Policy. Ausgrid's Equity and Diversity Strategy resulted in proactive merit-based programs such as the Aboriginal and Torres Strait Island Pre-Apprenticeship Program. Refer to the Workplace section (see page 31).

Ausgrid Indigenous Steering Committee

Ausgrid's Indigenous Steering Committee meets approximately every quarter and is made up of Indigenous Ausgrid employees who work together with Ausgrid's Indigenous Program Co-ordinators and Department of Education, Employment and Workplace Relations (DEEWR) representatives.

The Committee aims to:

- support participants joining Ausgrid after the Pre-Apprenticeship Program;
- consider indigenous policy and programs at Ausgrid;
- communicate and share information in a safe and culturally appropriate environment and;
- identify opportunities for group development.

In 2010/11, the Indigenous Steering Committee had 55 members and held six meetings.

Women @ Work

Ausgrid's Women @ Work Network aims to empower and support women in the workplace to reach their full potential. There are 382 members in the Women @ Work network. In FY10/11, the Women @ Work program ran the following events:

- 15 Emazon "Stand Your Ground" and "Mind Mechanics" talks and workshops in Sydney and Newcastle.
- 6 International Women's day Breakfasts in Newcastle, Muswellbrook, Sydney, Homebush, Zetland and Tuggerah.
- International Conference for Women Engineers and Scientists - eight delegates were selected in June 2011 and will attend the conference in July 2011.

WELL - Workplace English Language and Literacy

In 2010 applications were submitted to the Department of Education, Employment & Workplace Relations (DEEWR) for funds for two Workplace English Language and Literacy (WELL) programs to support apprentices with the foundation skills associated with their first year of training. It was envisaged that a major focus of training would be on the underpinning numeracy and maths related to their TAFE units.

Key features include:

- Simultaneous delivery to targeted participants of both programs that support cross-cultural relationships and prevent the stigmatising of the indigenous apprentices.
- Provision of a large TAFE teaching team at each session ensures all individual needs are met and groups can be subdivided according to specific requirements.

Statutory Information

- The use of maths teachers from the Indigenous Pre-Apprenticeship Program means there is valuable background knowledge of participants and their learning issues.
- All maths teachers on the program (from Ultimo and Petersham Foundation Studies sections) have extensive experience supporting electrical trade delivery at TAFE.
- An electrical trade teacher is included in the support team when required to provide the relevant contexts for training.
- Ausgrid trainers support each group session and the TAFE team liaises with them at all times about individual apprentices.
- Ausgrid trainers have participated in some of the learning sessions and gained benefit from access to refresher maths knowledge e.g. scientific calculator, transpositions etc
- Regular meetings are held with Ausgrid trainers, Ausgrid HR officers and the TAFE teaching team to review delivery and address any issues.
- Support of Electrical Trade teachers at Ultimo means that the TAFE teaching team has ready access to apprentice progress and issues in their TAFE learning environment.

Outcomes

- 41 apprentices in total accessed the support sessions on at least one occasion. There was a core group of 20-25 who accessed the training each week.

EEO Group				
	Government Benchmark / Target	Trends in the Representation of EEO Groups Percentage of Total Staff		
		2009	2010	2011
Women	50.0%	14.2%	14.4%	14.0%
Aboriginal people and Torres Strait Islanders	2.6%	1.5%	2.0%	1.4%
People whose first language was not English	19.0%	15.1%	15.9%	16.1%
People with a disability	N/A	4.4%	4.1%	3.3%
People with a disability requiring work-related adjustment	1.5%	0.8%	0.7%	0.6%

EEO Group				
	Government Benchmark / Target	Trends in the Distribution of EEO Groups		
		2009	2010	2011
Women	100	101	100	101
Aboriginal people and Torres Strait Islanders	100	64	55	68
People whose first language was not English	100	106	102	105
People with a disability	100	101	101	104
People with a disability requiring work-related adjustment	100	106	108	105

Source: NSW DPC 2010/11 Workforce Profile (v2011.09.01)

Note 1. A Distribution Index of 100 indicates that the centre of the distribution of the EEO group across salary levels is equivalent to that of other staff. Values less than 100 mean that the EEO group tends to be more concentrated at lower salary levels than is the case for other staff. The more pronounced this tendency is, the lower the index will be. In some cases the index may be more than 100, indicating that the EEO group is less concentrated at lower salary levels.

Note 2. The Distribution Index is not calculated where EEO group or non-EEO group numbers are less than 20.

Events affecting the 2009/10 report

The lost time injury frequency rate for 2009/10 was reported as 3.5. However, further days were lost after the 2009/10 Annual Report was printed as a result of injuries incurred in the 2009/10 reporting period. This has meant the lost time injury frequency rate has been revised to be 4.2 for the 2009/10 reporting period.

At the close of 2009/10, the lost time injury severity rate (LTISR) result was reported as 50.4 and was based on 575 days being lost to injuries occurring between July 2009 to June 2010. During 2010/11, a further 155 days were lost by employees injured in 2009/10, resulting in 730 days being lost for that period. As a result, the 2009/10 LTISR increased from 50.4 to 63.9 to reflect this.

Executive remuneration

Executive Remuneration				
Name	Position	Remuneration	At Risk Performance Payment	Statement of performance
G Maltabarow	Managing Director	\$725,000	\$157,688	Was in the role for the full reporting year. Majority of scorecard targets met or exceeded; achieved operating cost savings; improved reliability and achieved capital works program savings. Led the successful Smart Grid, Smart City consortium.
J Eisenhuth	Executive General Manager - Distribution Operations and Reliability	\$416,120	\$91,546	Was in the role for the full reporting year. Delivered improved distribution system reliability, major maintenance and capital works programs.
C James	Executive General Manager - Finance and Corporate	\$407,200	\$94,674	Was in the role for the full reporting year. Achieved strong financial results, delivered retail asset sale project and development of the Learning Centre.
M Bailey	Executive General Manager - Shared Services	\$390,000	\$90,675	Appointed to this position in March 2011 (previously held the position of EGM Retail). Delivered strong retail profitability and leadership of retail service transition to the private sector.
T Armstrong	Executive General Manager - Transmission & System Operations	\$380,000	\$82,659	Appointed to this position in November 2010 (previously EGM System Planning & Regulation). Delivered regulatory outcomes, transmission system capital programs, improved reliability and changes to electrical safety rules.
M Slater	Executive General Manager - Human Resources	\$356,900	\$80,303	Was in the role for the full reporting year. Delivered improvements to safety governance, organisational development programs, improved engagement and curriculum for Learning Centre.
L Maffina	Corporate Secretary	\$265,000	\$60,950	Was in the role for the full reporting year. Delivered improved governance framework, ongoing compliance reporting and retail asset sale activities.

Notes - Executive Remuneration

1. The position of Executive General Manager System Planning & Regulation was held by Trevor Armstrong until 19 November 2010. Peter Birk was appointed Executive General Manager System Planning & Regulation, effective 22 August 2011.
2. Mike Bailey was appointed to the position of Executive General Manager Shared Services, effective 21 March 2011. The position was previously held by Don Anderson who ceased employment, effective 18 March 2011. Mike Bailey was previously in the role of Executive General Manager Retail.
3. Geoff Lilliss held the position of Executive General Manager Engineering Transmission & Technology until 19 November 2010. Trevor Armstrong was appointed to this position, effective 20 November 2010 and the division was renamed Transmission & System Operations.
4. A new position of Executive General Manager Energy Services was created in March 2011 and Jane Mills was appointed to that position, effective 21 March 2011. Operational functions commenced transition from Shared Services to the new Energy Services business from April until July 2011.

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Exemptions from the reporting provisions

A list of financial and annual reporting exemptions for agencies in competition.

Statutory requirements	Act / regulation references [#]	Comments
Annual reporting exemptions		
Budgets		
detailed budget for the year reported on	s.7(1)(a)(iii) ARSBA	
outline budget for next year	s.7(1)(a)(iii) ARSBA	
particulars of material adjustments to detailed budget for the year reported on	c7 ARSBR	
Report of Operations	s.7(1)(a)(iv) ARSBA	
Summary Review of Operations	Schedule 1 ARSBR	Exemption subject to a condition. The condition is that comments and information relating to the "summary review of operations" are to be disclosed in a summarised form.
- narrative summary of significant operations - selected financial and other quantitative information associated with the administration of programs or operations		
Management & Activities	Schedule 1 ARSBR	Exemption subject to a condition. The condition is that comments and information relating to "management & activities" are to be disclosed in a summarised form.
- nature & range of activities - measures & indicators of performance - internal & external performance reviews - benefits from management & strategy reviews - management improvement plans & achievements - major problems & issues - major works in progress, cost to date, estimated dates of completion & cost overruns - reasons for significant delays etc. to major works or programs		
Research & Development	Schedule 1 ARSBR	
- completed research including resources allocated - continuing research and development activities, including resources allocated		
unless that information could adversely affect operations		
Human Resources	Schedule 1 ARSBR	
- number of employees by category & comparison to prior three years - exceptional movements in employee wages, salaries or allowances - personnel policies & practices - industrial relations policies & practices		
Consultants	Schedule 1 ARSBR	Exemption subject to a condition. The condition is that the total amount spent on consultants is to be disclosed along with a summary of the main purposes of the engagements.
- for each engagement costing greater than \$50,000 - name of consultant - title of project - actual cost - for each engagement costing less than \$50,000 - total number of engagements - total cost - if applicable, a statement that no consultants were engaged		

[#]ARSBA - Annual Reports (Statutory Bodies) Act 1984
 ARSBR - Annual Reports (Statutory Bodies) Regulation 2010

Statutory requirements	Act / regulation references [#]	Comments
Annual reporting exemptions		
Land Disposal	Schedule 1 ARSBR	
- list of properties disposed of during the year other than by public auction or tender that had a value of more than \$5 million, including the name of person acquiring the property and the proceeds from the disposal of the property. - details of family or business connections between the purchaser & the person responsible for approving the disposal - statement giving reasons for the disposal - purpose/s for which proceeds were used - statement indicating that access to the documents relating to the disposal can be obtained under <i>Government Information (Public Access) Act</i>		
Consumer Response	Schedule 1 ARSBR	Exemption subject to a condition. The condition is that comments and information relating to "consumer response" are to be disclosed in a summarised form.
- extent & main features of complaints - services improved / changed in response to complaints / suggestions		
Payment of accounts	Schedule 1 ARSBR	Statutory SOC's are not subject to the payment of accounts provisions in c13 of the <i>Public Finance and Audit Regulation 2010</i> .
performance in paying accounts, including action to improve payment performance		
Time for Payment of Accounts	Schedule 1 ARSBR	As above
- reasons for late payments - interest paid due to late payments		
Report on Risk Management & Insurance Activities	Schedule 1 ARSBR	Exemption subject to a condition. The condition is that the comments and information are to be disclosed in a summarised form.
Disclosure of Controlled Entities	Schedule 1 ARSBR	Exemption subject to a condition. The condition is that the names of the controlled entities are to be disclosed along with a summarised disclosure of the controlled entities' objectives, operations and activities and measures of performance.
details of names, objectives, operations, activities of controlled entities and measures of performance		
Investment Performance	cl. 12 ARSBR	
Liability Management Performance	cl. 13 ARSBR	

[#]ARSBA - *Annual Reports (Statutory Bodies) Act 1984*ARSBR - *Annual Reports (Statutory Bodies) Regulation 2010*

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List of annual reporting exemptions

For agencies not in competition.

Statutory requirements	Regulation references [#]	Comments
Annual reporting requirements		
Payment of accounts		Statutory SOCs are not subject to the payment of accounts provisions in c13 of the <i>Public Finance and Audit Regulation 2010n</i> .
performance in paying accounts, including action to improve payment performance	Schedule 1 ARSBR	
Time for Payment of Accounts		
- reasons for late payments - interest paid due to late payments	Schedule 1 ARSBR	As above

[#] ARSBA - *Annual Reports (Statutory Bodies) Act 1984*

ARSBR - *Annual Reports (Statutory Bodies) Regulation 2010*

Funds granted under Ausgrid's Community Investment and Partnerships Program

Ausgrid has a responsibility to support the communities in which it operates and to assist in their development and growth. Ausgrid supported a range of organisations through its \$4.3 million Community Investment and Partnerships program that includes Sponsorships, Employee Payroll Giving, University Chair Partnerships and the extensive Community Care program in 2010/11. Refer to the Community section (see page 24-25).

Community group recipients			
Name of recipient organisation	Program area as per budget e.g. Partnerships, Community Care Program, Payroll Giving	Purpose Remuneration	Target group
Community Care Program Beneficiaries			
Annual reporting requirements			
NSW Rural Fire Service	Community Program Partnership	Emergency Services	Community
Movember Foundation	Community Program	Health	Community
Environmental Organisations (eg WIRES)	Community Program	Environment	Community
Social Welfare Organisations (eg Meals on Wheels)	Community Program	Social Welfare	Community
Emergency Services Organisations (eg Surf Life Saving Clubs)	Community Program	Emergency Services	Community
Education Organisations (eg School Parents & Friends Groups)	Community Program	Education & Youth	Community
Health Organisations (eg MS Australia)	Community Program	Health	Community
Payroll Giving Program Beneficiaries*			
EA Employees' Children's Appeal (EA Dollar Matches \$50,000)	Payroll Giving Program	Health	Community
Alzheimer's Australia	Payroll Giving Program	Health	Community
DebRA Australia	Payroll Giving Program	Health	Community
Fred Hollows Foundation	Payroll Giving Program	Health	Community
NSW Cancer Council	Payroll Giving Program	Health	Community
House with no Steps	Payroll Giving Program	Social Welfare	Community
Hunter Westpac Rescue Helicopter Service	Payroll Giving Program	Emergency Services	Community
National Heart Foundation	Payroll Giving Program	Health	Community

* EnergyAustralia dollar matched \$50,000 to the EA Employees' Children's Appeal. All other Payroll Giving Charities receive contributions from employees.

[#] ARSBA - *Annual Reports (Statutory Bodies) Act 1984*

ARSBR - *Annual Reports (Statutory Bodies) Regulation 2010*

Community group recipients

Name of recipient organisation	Program area as per budget e.g. Partnerships, Community Care Program, Payroll Giving	Purpose Remuneration	Target group
Community Care Program Beneficiaries			
Payroll Giving Program Beneficiaries* continued			
Life Saver Rescue Helicopter – Southern Region SLS	Payroll Giving Program	Emergency Services	Community
National Breast Cancer Foundation	Payroll Giving Program	Health	Community
Ovarian Cancer Australia	Payroll Giving Program	Health	Community
Odyssey House	Payroll Giving Program	Social Welfare	Community
Police Citizens Youth Clubs of NSW	Payroll Giving Program	Youth	Community
RSCPA NSW – Operation Wags	Payroll Giving Program	Animal Welfare	Community
The Smith Family	Payroll Giving Program	Social Welfare	Community
Sids & Kids Hunter Region	Payroll Giving Program	Health	Community
Taronga Foundation	Payroll Giving Program	Conservation	Community
Youth off the Streets	Payroll Giving Program	Youth	Community
Partnership Beneficiaries			
Ausgrid Bright Future Awards (Hunter & Central Coast schools)	Sponsorship	Education & Innovation	Students
Electrical Energy Society Australia	Sponsorship	Education & Innovation	Industry
Engineers Australia Sydney and Newcastle Divisions	Sponsorship	Education & Innovation	Industry
Hunter Business Chamber	Sponsorship	Education & Innovation	Industry
Hunter, Sydney and South Western Sydney Institutes (TAFE)	Sponsorship	Education & Innovation	Students
National Breast Cancer Foundation	Sponsorship	Education & Innovation	Community
NSW Premier's Teachers Scholarship	Sponsorship	Education & Innovation	Students
Science and Engineering Challenge	Sponsorship	Education & Innovation	Students
The University of Sydney Chair in Power Engineering	Sponsorship	Education & Innovation	Industry
The University of New South Wales Chair in Electrical Power Economics	Sponsorship	Education & Innovation	Industry
The University of Newcastle Chair of Intelligent Electricity Networks	Sponsorship	Education & Innovation	Industry
Sydney Olympic Park Authority	Sponsorship	Education & Innovation	Students
Central Coast Mariners Football Club	Sponsorship	Community & Safety	Community
City of Sydney's "Our Christmas" celebrations	Sponsorship	Community & Safety	Community
Newcastle Knights Rugby League Football Club	Sponsorship	Community & Safety	Community
Starstruck	Sponsorship	Community & Safety	Community
Sydney Symphony Orchestra	Sponsorship	Community & Safety	Community
Westpac Rescue Helicopter Service (Hunter)	Sponsorship	Community & Safety	Community
Vision Australia Christmas	Sponsorship	Community & Safety	Community
Green Globe Awards	Sponsorship	Energy Efficiency & Sustainability	Industry
Surf Life Saving (Northern Beaches, Central & Hunter Branches)	Sponsorship	Energy Efficiency & Sustainability	Community
Sydney Theatre Company	Sponsorship	Energy Efficiency & Sustainability	Community
Taronga Zoo	Sponsorship	Energy Efficiency & Sustainability	Community
City of Sydney Sustainability Awards	Sponsorship	Energy Efficiency & Sustainability	Industry
Hunter Valley Research Foundation	Sponsorship	Research	Industry

* EnergyAustralia dollar matched \$50,000 to the EA Employees' Children's Appeal. All other Payroll Giving Charities receive contributions from employees.

* ARSBA – Annual Reports (Statutory Bodies) Act 1984

ARSBR – Annual Reports (Statutory Bodies) Regulation 2010

Statutory Information

Heritage Act requirements

Ausgrid's Heritage and Conservation Register includes 12 properties of State significance and 193 properties of local significance. Refer to the Environment section (p27).

Judicial decisions

Rosebanner Pty Ltd v EnergyAustralia [2011] NSWCA 28 and Rosebanner Pty Ltd v EnergyAustralia (No. 2) [2011] NSWCA 150.

In February 2011, the NSW Court of Appeal upheld a decision in EnergyAustralia's (as it then was) favour by the Supreme Court of NSW in 2009. It had been alleged that the presence of infrastructure on the claimants' property was a trespass and that a contract had been formed to remove this within a stated period and then breached. The Court of Appeal found there was no trespass and that no contract as alleged was established. EnergyAustralia was also awarded indemnity costs.

Legislative changes in 2010/11

As a NSW Statutory State Owned Corporation and NSW Energy Services Corporation, Ausgrid is generally subject to most of the statutory and other legal requirements as other businesses. Ausgrid operates in the National Electricity Market (NEM) as both a distribution and transmission network service provider (DNSP and TNSP). Up until 1 March 2011 Ausgrid also operated as an electricity retailer and gas retailer in the national electricity and gas markets under the name of EnergyAustralia. From 1 March 2011, EnergyAustralia's name changed to Ausgrid when its retail assets were sold to TRUenergy Pty Ltd. The following lists the main legislative and other regulatory changes which have been made during the last financial year which particularly impact upon Ausgrid as an energy services corporation.

Australian Consumer Law

The Australian Consumer Law commenced in two phases during the year:

1. The *Trade Practices Amendment (Australian Consumer Law) Act (No.1) 2010* introduced provisions relating to unfair contract terms (in consumer contracts) with effect from 1 July 2010. Those reforms void unfair terms in standard form consumer contracts that are entered into on or after 1 July 2010, and the unfair terms of existing standard form consumer contracts that are renewed or varied on or after 1 July 2010.
2. The *Trade Practices Amendment (Australian Consumer Law) Act (No.2) 2010* renamed the *Trade Practices Act 1974* (Cth) the *Competition and Consumer Act 2010* (Cth) and consolidated and reformed the consumer protection provisions of the *Trade Practices Act* and the *State and Territory Fair Trading Acts* with effect from 1 January 2011.
The *Australian Consumer Law (ACL)* forms Schedule 2 of the *Competition and Consumer Act 2010* effective from 1 January 2011 and introduces a number of new provisions including:
 - (a) a new system of statutory consumer guarantees;
 - (b) the new regime prohibiting unfair contract terms in standard form consumer contracts; and
 - (c) additional investigative and enforcement powers for the Australian Competition and Consumer Commission.

National Work Health & Safety

All Australian States and Territories will introduce uniform legislation to commence in January 2012. New South Wales has already passed its *Work Health and Safety Act 2011*, which will commence on 1 January 2012. New South Wales has also enacted amendments to the current *Occupational Health and Safety Act 2000*. Those amendments, which commenced on 7 June 2011, change the nature of the primary duty under the Act, which used to be unqualified but is now the duty to ensure, so far as is reasonably practicable, the health and safety of people at work and people affected by workplace activities. This provision is also the central feature of the new *Work Health and Safety Act*. A model National Work Health and Safety Regulation has been released for public comment but has not been finalised and no Australian jurisdiction has formulated its own regulations.

National Energy Markets

Ausgrid is subject to the National Electricity Law (NEL) and National Electricity Rules (NERs) which regulate the National Electricity Market. There were a number of changes to the NEL and NERs during the year. The following are those which particularly impact upon Ausgrid's operations.

1. **National Electricity Amendment (Payments under Feed-in Schemes and Climate Change Funds) Rule 2010.** This Rule commenced on 1 July 2010 and implemented a cost recovery mechanism to enable DNSPs to recover payments they make under jurisdictional schemes such as feed-in tariff schemes and climate change funds as part of their annual pricing proposal.
2. **National Electricity Amendment (DNSP recovery of transmission-related charges) Rule 2011.** This Rule commenced on 24 March 2011 and clarified and confirmed the ability of DNSPs to recover charges related to the transmission of energy to and between its network and the networks of other TNSPs and DNSPs.
3. **National Electricity Amendment (Provision of Metering Data Services and Clarification of Existing Metrology Requirements) Rule 2010.** This Rule commenced on 16 December 2010 and 20 January 2011 and provides for the responsibility for meter data provider services in the NEM to be transferred from the Australian Energy Market Operator to the Responsible Person under the Rules so that the responsible person will have end to end responsibility for metering arrangements. The exception to this arrangement will be where a TNSP is the Responsible Person in which case AEMO will be responsible for the provision of metering data services. New arrangements for complex connection points will require AEMO to identify connection points with 'special site or technology related conditions' and the relevant responsible party is to ensure that they accommodate these conditions. The rule also made a number of general clarifications and changes to metering in the NEM.

4. **The National Electricity Amendment (Ministerial Smart Meter Roll Out Determinations) Transitional Rule 2010** was made by the South Australian Minister for Energy on 19 December 2010. This rule commenced on 1 January 2011 (as Part ZF of Chapter 11 of the National Electricity Rules) to support the *National Electricity (South Australia) (Smart Meters) Amendment Act 2009*. This rule makes certain technical provisions relating to the Ministerial Smart Meter Roll Out Determination including that DNSPs are to be exclusively responsible for meter provision and meter data services for the period of a mandated roll-out in a jurisdiction.
5. **The National Energy Retail Law (South Australia) Act 2011** was passed by the South Australian Parliament as the lead legislator in March 2011. This legislation will establish the National Energy Customer Framework (NECF) as a national framework:
 - (a) for the supply of electricity and transfer of gas to customers including the connection arrangements applying to such customers; and
 - (b) for the relationship between the distributors and retailers of such customers.
 NSW and each participating jurisdiction must now implement legislation to apply the NECF in its jurisdiction. 1 July 2012 is the target date for implementation in all jurisdictions. The NECF will not entirely displace NSW energy legislation or general consumer protection and NSW energy laws will continue to supplement key aspects of the NECF.

New South Wales

The following lists the legislative changes in New South Wales which have been made during the last financial year and particularly impact upon Ausgrid.

1. **The Government Information (Public Access) Act 2009 (NSW) (the GIPA Act)** commenced on 1 July 2010 and replaced the *Freedom of Information Act 1989 (NSW)*. The GIPA Act introduced reforms to make more information available as well as to make the process for obtaining government information more transparent and prescriptive. The GIPA Act imposes new obligations upon Ausgrid to proactively publish certain information held by Ausgrid. In particular, Ausgrid is required to publish on its website information about contracts entered into with the private sector with a value of \$150,000 or more.
2. **The Energy Legislation Amendment (Infrastructure Protection) Act 2009 (NSW)** commenced on 1 July 2010. The Act amends the *Electricity Supply Act 1995 (NSW)* and introduces new licence conditions for distribution network service providers. The key amendments include:
 - (a) network operators (including Ausgrid) are required to belong to the Dial Before You Dig Scheme;
 - (b) network operators are required to respond to Dial Before You Dig inquiries by providing information on the location and type of underground electricity powerlines in the vicinity of proposed excavation work;
 - (c) statutory indemnity for Dial Before You Dig when it provides information in accordance with the new requirements;
 - (d) making it mandatory for individuals undertaking excavation works to notify network operators if any damage is caused to the electricity network;
 - (e) granting the court the power to order payment of costs incurred by the network operator in preventing or mitigating damage to electricity networks. The court may also award compensation to a network operator for loss or damage resulting from certain offences committed under the *Electricity Supply Act 1995 (NSW)*; and
 - (f) granting network operators the ability to serve notice on any person the network operator believes is about to carry out work that will damage the network operator's assets, such notices may include a provision requiring that the proposed works be modified or stopped.
 The Act also strengthens the maximum penalties that apply under s65 of the *Electricity Supply Act 1995 (NSW)* increasing the maximum fine for individuals from \$11,000 to \$22,000 and the maximum fine for corporations from \$220,000 to \$440,000.
3. **The Electricity Supply (General) Amendment (Infrastructure Protection) Regulation 2010** amends the *Electricity Supply (General) Regulation 2001* to prescribe elements of the 'Dial before You Dig Scheme' (which commenced on 1 July 2010). The Regulation specifies that Dial Before You Dig (as the designated information provider under the 'Dial Before You Dig Scheme') must be contacted for, and its members must provide information about, the location and type of underground electricity powerlines for certain proposed excavation work. Relevant individuals who receive such information must have regard to that information in carrying out the work. The Regulation also sets out the method by which Ausgrid must be notified of any damage caused by excavation work to underground power lines.
4. **The Environmental Planning and Assessment Amendment (Part 3A Repeal) Act 2011 (Repeal Act)** was assented to on 27 June 2011, but has yet to be proclaimed. Part 3A was introduced to the *Environmental Planning and Assessment Act 1979* as a new regime for assessing major projects (being projects of State or regional significance where it was considered the Minister for Planning ought to be the consent authority). When the Repeal Act is proclaimed, Part 3A of the *Environmental Planning and Assessment Act 1979* will be amended by removing Part 3A entirely and replaced with a new regime where:
 - (a) State Significant Infrastructure (being development for such things as electricity transmission and distribution networks, railways, roads, pipelines, water supply, ports, sewerage, public parks and reserves and the like that are declared to be State Significant Development) will be assessed by requirements prescribed by the Department of Planning and Infrastructure and local planning instruments will not apply. The Minister for Planning will usually be the consent authority for this type of development. The planning and assessment regime for State Significant Infrastructure is substantially the same as it was in Part 3A; and

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(b) State Significant Development (being development of State or regional significance that is declared to be State Significant Development). While the Minister for Planning may be the consent authority for this type of development, it is understood that the Minister is likely to delegate the consent role to independent planning commissions. Local planning instruments will apply to the assessment of State Significant Development.

Transitional provisions apply under the Repeal Act. Where an application for development was lodged under Part 3A and the Department of Planning and Infrastructure has issued the planning and assessment requirements for that development before the proclamation of the Repeal Act, that development will continue to be assessed under Part 3A.

5. The NSW Solar Bonus Schemes was amended in October 2010 and subsequently closed to new applicants from 29 April 2011. The *Electricity Supply Amendment (Solar Bonus Scheme) Act 2010 (NSW)* commenced on 28 October 2010 and varied the rate of the solar bonus from \$0.60 per kilowatt hour to \$0.20 per kilowatt hour. The Act and supporting regulations also set criteria for certain customers to be eligible to continue to receive the higher bonus rate. The Solar Bonus Scheme was closed to new applicants (from 29 April 2011) by the Minister for Energy on 29 June 2011 by notification published on 1 July 2011. The *Electricity Supply (General Amendment (Solar Bonus Savings) Regulation 2011* amends the *Electricity Supply (General) Regulation 2001* as a consequence of the closure of the solar bonus scheme to new customers and saves the rights of certain customers to receive credits under the scheme for electricity generated by complying generators.

Memberships

As the distribution network provider to Australia's largest city, Ausgrid understands the important role knowledge sharing plays in an essential service industry. As a result Ausgrid maintained a number of key memberships at an organisation level in 2010/11 including:

- Energy Supply Association of Australia
- Energy Networks Association
- Energy Retailers Association of Australia (to 28 February 2011)
- Asset Management Council
- Australian Power Institute
- Dial Before You Dig NSW/ACT
- Committee for Economic Development of Australia
- Business Council of Australia
- Engineers Australia
- Green Building Council Of Australia
- CIGRE (Australia); and
- Geospatial Information & Technology Association (GITA).

Ausgrid also participated in:

- Working group participation associated with 'AEMO National SMART Metering Program'
- 'Device Language Message Specification (DLMS) User Association'
- ENA Demand Management and Embedded Generation Committee
- Office of Environment & Heritage (previously DECCW) Climate Change and Infrastructure Adaptation Panel; and
- Electricity Industry Safety Steering Committee.

Ministry reporting requirements - Demand Management

Efficient and effective consideration of Demand Management (DM) is an important part of delivering cost-effective network services to customers and satisfying licence and legislative requirements. Ausgrid's DM process has been developed and implemented as an integral part of the Investment Governance Process to improve the effectiveness and efficiency of DM investigations.

Ausgrid's DM process also enables it to meet its obligations regarding the investigation of demand management alternatives under the NSW Electricity Supply Act, 1995 and the conditions of its Distribution Network Service Provider Licence. In developing this process Ausgrid has considered the requirements embodied in the revised "*Demand Management for Electricity Distributors: NSW Code of Practice (September 2004)*" as published by the then Department of Energy, Utilities and Sustainability, which provides guidance on the interpretation of the legislative requirements. The DM process is also designed to meet the requirements relating to DM in the National Electricity Rules.

Emerging constraints on the supply system are identified through the planning process, and published in the Annual Electricity System Development Review (AESDR) on the Ausgrid website. Ausgrid maintains a DM Register of Interested Parties, who are notified of the publication of the AESDR as well as the release of DM public consultation papers and any other related reports.

Each constraint is assessed to determine whether it is reasonable to expect that DM might prove to be cost effective. Emerging constraints that are expected to have a network augmentation solution with a capital cost of less than \$1 million are not normally considered material and DM investigations are not normally pursued for these constraints.

All material constraints identified are subjected to a DM Screening Test, which is the first step in the demand management process. It consists of an analysis of the drivers behind the emerging constraint, determination of the extent to which demand is driving investment and the demand management requirement. This requirement is described as the approximate size, cost per kVA and nature (time of day, seasonality, etc) of the demand management options that would be required to defer the proposed investment for at least one year. The test report provides the basis for a decision regarding whether it would be reasonable to expect that it would be cost effective to avoid or postpone the expansion of the network by implementing DM strategies. Once determined that DM is likely to be cost effective, a formal DM Investigation follows.

Based on the DM requirements identified in the screening test, the DM Investigation identifies possible DM options that might exist in the study area. It determines the approximate amount of DM available and the likely cost (to Ausgrid) of each of the identified options. Options are identified based on existing knowledge, field visits, public consultation seeking proposals from interested parties, and through discussions with specific customers. The public consultation is focussed on identifying potential options and uncovering information that is already known (by others) but otherwise unavailable to Ausgrid. The information is analysed using a standard approach that compares the net present value of costs for the DM alternative to the net present value of the deferral of the network expansion option. The DM Investigation report identifies and describes any feasible DM options to be considered for development alongside network augmentation options.

If a feasible DM option is determined to be the most economical solution, it is developed into a DM Project Proposal. This consists of a business case and implementation plan that outlines clear deliverables in terms of demand reduction, timing and cost. Once authorised, a DM project is implemented.

The DM Implementation strategy may include a range of implementation options including RFPs (requests for proposal), standard offers, marketing programs and direct customer negotiations depending on the DM options being implemented. The process and methodologies used are described in detail in Ausgrid's "Demand Management Guidelines". A summary of this process is provided in various public documents and on Ausgrid's website.

Over the past 12 months Ausgrid has undertaken the following DM activities:

Addressing network capacity constraints

- 18 DM Screening Tests have been completed, of which four led to opportunities for further investigation.
- Three detailed DM investigations were completed, all of which indicated cost effective DM options for development and implementation.
- Two new DM projects were authorised for implementation.
- EnergyAustralia/Ausgrid completed implementation of power factor correction programs in the Willoughby and Greenacre Park areas. These targeted programs raise customer awareness about the potential savings on their energy bills, in addition to offering them cost effective solutions to improve their power factor. This achieves the dual benefit of peak demand reductions on our network while also reducing energy costs for our customers.
- We entered into a network support agreement with a gas cogeneration site in North Sydney.
- We continued to operate an embedded generator project at Wollombi (1MW), and initiated a new generator project at North West Pennant Hills.
- Network capacitors have been approved at one substation location to provide reactive power support which will reduce demand on upstream network elements.

Demand Management Innovation Allowance (DMIA)

- Two Demand Management Innovation Allowance (DMIA) projects are currently underway – a trial of Reliability Improvements of Large Embedded Generators, and an investigation into Dynamic Load Control of Small Hot Water Cylinders. A third project was approved for the Development & Design of a CBD Embedded Generator Connection Trial.

Metering and tariffs

- Controlled load tariffs continue to be used to manage hot water load into off-peak periods.
- Price signalling of energy costs is reflected through what is known as inclining block tariffs to domestic and business customers with induction disc meters. The block differential for 2011/12 is set at 54 percent for the network component of domestic customers' tariffs. In concert with this, the retail differential creates an overall differential of 41 percent between the first and second block of domestic tariffs (GST included). This provides a strong signal to reduce energy consumption.
- More than 380,000 Ausgrid customers now have a Time of Use (ToU) capable interval meter in their home or business. These meters measure how much electricity is used over half-hour intervals, compared to the standard meters that measure electricity use over a three-month period.
- Around 3,300 AMI meters, which are interval meters with additional 'smart' features, are now in use in residences across Ausgrid. The learnings from this process are assisting development of the Smart Metering Infrastructure (SMI) business case.

EnergySave 2010/11 – program summary

The EnergySave program helps customers better understand and manage their energy usage, environmental impact and bills. The 2010/11 EnergySave program focused on providing assistance to low-income residential customers, small businesses and school students.

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Efficient downlights for small businesses

Launched at the end of 2009, the Hairdressers Downlight Replacement program offered more than 2,000 hairdressing salons across Ausgrid's network area the chance to get a better understanding of their energy use and replace energy guzzling downlights for free. Some 300 customers registered for the program, with more than 250 upgrades completed by the end of December 2010 and over 6,500 downlights replaced. This equates to more than \$91,000 in customer bill savings and 498 tonnes of greenhouse gas emissions each year.

Educational materials and products

Our Energy Usage Guide and range of energy-saving booklets are updated annually to reflect price rises, new technologies and changes to government assistance programs. Booklets include Winter Heating, Summer Cooling, Swimming Pool Efficiency, and Hot Water. The Energy Usage Guide is also available in 10 languages to assist customers from different ethnic backgrounds.

For the second year in a row the EnergySave team produced A Guide to Affordable Energy Efficient Appliances in partnership with Choice Magazine. The booklet is used by consumer advocacy groups in helping low income customers make energy-wise appliance choices and for the first year, has been made available to all customers via the Ausgrid website.

Amy's Energy Saving website

Originally developed as a hard-copy education kit for students in Kindergarten through to Year 2, Amy's Energy Saving kit went live on the internet in December 2010. The site includes an online story book, games and activities that children can do at home. Work commenced with the Department of Education and Training in February 2011 to promote the use of this tool to over 500 primary schools in Ausgrid's network area. 197 schools are using the hard copy kits and 4,283 people have visited the website.

Energy Efficiency Centre events

A range of topical energy efficiency seminars and events were held at the previous Energy Efficiency Centre in Homebush; attracting key stakeholders, businesses, advisors and members of the public.

Three major public events were held this financial year prior to the closing of the original Centre in September 2010. These events included "The Sixth Wave – how to survive in a resource limited world" with Dr James Bradfield Moody. The final public event at the Centre was on "Green Marketing" and featured Ben Peacock from the Republic of Everyone, Murray Hogarth, Senior Adviser to the Total Environment Centre's Green Capital Program and Fiona Grant from the Australian Competition and Consumer Commission. The Energy Efficiency Centre was also open to members of the public as part of Sustainable House Day 2010.

Appliance Assist

To continue EnergySave's support for customers experiencing hardship, a new program titled 'Appliance Assist' was created. Appliance Assist is an online ordering service for No-Interest Loan schemes. It provides new, energy efficient refrigerators and washing machines at up to 50% off the Recommended Retail Price. The discount includes an Ausgrid rebate of \$100 per appliance.

Ausgrid partnered with Appliances Online to build the password-protected ordering system and has commenced marketing the program to No Interest Loan Schemes.

Smart Home Family and blog

The successful family chosen to live in the Smart Home and test the latest energy and water solutions was announced in July 2010. The Smart Home Family blog was launched at this time, with the family moving into the home shortly after. Since the blog was launched more than 22,000 people have visited the site. There are opportunities for visitors to participate by posting comments and connecting to the Smart Home Family via Twitter, Facebook and Youtube. More than 25 tours of the home have been conducted for key stakeholder groups.

Newington Public School Case Study

Following a visit by the Managing Director, Newington Public School was offered an energy audit with a view to uncovering the reason for its poor solar Photovoltaic export. Ausgrid has since replaced the school's existing five solar inverters with eight new units and installed a new SMA Sunny web portal which allows the school to view its electricity generation online. A case study has been produced to encourage other schools to investigate.

High School Power Mate Lite Kit

EnergySave has created a program targeting high schools within the Ausgrid network area. The program encourages high school students to check the energy use of appliances at home or school using Ausgrid's 'Find your Energy Guzzler' kits available from school libraries. The kits consist of an Ausgrid-branded Power Mate Lite and an A5 booklet that provides students with information on energy efficiency activities. These encourage them to learn about where their household and school energy goes. Following advice from the Department of Education, the kit will be introduced into 142 high school libraries within the Ausgrid network area during school term three in 2011.

Demand Management Projects Implemented During 2010/2011

Project	Description of Demand Management Project Implemented	Peak Demand Reduction (kVA)	CO ₂ Reduction (Tonnes Per Year and Expected Duration)	PV of Costs of Demand Management Project	PV of Total of Capital Expenditure Deferral plus Operating Expenditure Savings
Individual large projects					
Greenacre Park Area Stage 2 - Power Factor Correction	A power factor correction program facilitating the installation of equipment at up to 38 large customers' premises where power factor is low. Customers are offered discounted prices through bulk buying and project facilitation. The target capacity of installations is 3.5MVar resulting in peak demand reduction of 1.3 MVA. Demand reduction capability will persist for duration of deferral (1 year).	3,500 kVA	223 tonnes/yr for 10 years	\$114,536	\$2,565,000
North West Pennant Hills generators	0.4 MVA to 1MVA of diesel generation has been installed in North West Pennant Hills for summer 2010/11 through to summer 2014/15. It is capable of operating in parallel with the network and can be called at any time from the network control room. Demand reduction capability will persist for duration of deferral (5 years).	1,000 kVA	Not applicable	\$1,252,525	\$1,600,000
Network capacitors at Peakhurst STS	Installation of reactive support within the network	80,000 kVar	5,088 tonnes/yr for 10 years	\$3,389,924	Not applicable ⁽¹⁾
Sub-totals		1,000kVA + 83,500kVar	5,311 tonnes/yr for 10 years	\$4,756,985	\$4,165,000
Individual large projects					
Totals		1,000kVA + 83,500kVar	5,311 tonnes/yr for 10 years	\$4,756,985	\$4,165,000

⁽¹⁾ To reduce load at risk and ensure power factor complies with National Electricity Rules requirements.

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Demand Management Investigations concluded in 2010/2011

	Description of Potential Demand Management Project Investigated	Cost of Investigations
Maitland 33/11kV Zone Substation	A constraint was identified for investigation. The screening test concluded that DM was likely to be cost effective in this case. However the subsequent investigation concluded that DM was not a viable option in this case.	\$48,705
St Ives Zone Substation Upgrade	A constraint was identified for investigation. The screening test was completed and concluded that DM would not be cost effective option to enable deferral of the supply side project in this instance.	\$52,390
Epping 11kV Zone Development	A constraint was identified for investigation. The screening test & subsequent investigation concluded that DM was likely to be cost effective in this case. Development of a DM project was initiated, however this was cancelled due to lack of interest from the relevant customer(s).	\$67,824
Morisset Zone 11kV Development	A constraint was identified for investigation. The screening test was completed and concluded that DM would not be a cost effective option to enable deferral of the supply side project in this instance.	\$495
Breakfast Point Development	A constraint was identified for investigation. The screening test was completed and concluded that DM would not be a cost effective option to enable deferral of the supply side project in this instance.	\$1,225
Zetland South Zone Development	A constraint was identified for investigation. The screening test was completed and concluded that DM would not be a cost effective option to enable deferral of the supply side project in this instance.	\$1,537
Balgowlah North Zone Development	A constraint was identified for investigation. The screening test was completed and concluded that DM would not be a cost effective option to enable deferral of the supply side project in this instance.	\$2,793
Lidcombe to Flemington 11kV Load Transfer	A constraint was identified for investigation. The screening test was completed and concluded that DM would not be a cost effective option to enable deferral of the supply side project in this instance.	\$1,611
Sydney Olympic Park Authority New Zone Substation	A constraint was identified for investigation. The screening test was completed and concluded that DM would not be a cost effective option to enable deferral of the supply side project in this instance.	\$35,711
Medowie Zone Substation	A constraint was identified for investigation. The screening test was completed and concluded that DM would not be a cost effective option to enable deferral of the supply side project in this instance.	\$14,997
Campsie & Enfield Zones Load Area	A constraint was identified for investigation. The screening test was completed and concluded that DM would not be a cost effective option to enable deferral of the supply side project in this instance.	\$2,939
Oxford St Low Voltage Development	A constraint was identified for investigation. The screening test was completed and concluded that DM would not be a cost effective option to enable deferral of the supply side project in this instance.	\$2,991
Inner Metropolitan Reactive Support	A constraint was identified for investigation. The screening test was completed and concluded that DM would not be a cost effective option to enable deferral of the supply side project in this instance.	\$3,423
East Maitland Zone Substation	A constraint was identified for investigation. The screening test was completed and concluded that DM would not be a cost effective option to enable deferral of the supply side project in this instance.	\$66,835
Avoca Zone 11kV Development	A constraint was identified for investigation. The screening test was completed and concluded that DM would not be a cost effective option to enable deferral of the supply side project in this instance.	\$2,626
Turramurra North Zone Development	A constraint was identified for investigation. The screening test was completed and concluded that DM would not be a cost effective option to enable deferral of the supply side project in this instance.	\$861
Peats Ridge Pa 3 & 4	A constraint was identified for investigation. The screening test was completed and concluded that DM would not be a cost effective option to enable deferral of the supply side project in this instance.	\$29,058
Charmhaven Zone development - Stage 1	A constraint was identified for investigation. The screening test was completed and concluded that DM would not be a cost effective option to enable deferral of the supply side project in this instance.	\$9,486

Demand Management Investigations in progress 2010/2011

	Description of Potential Demand Management Project Under Investigation	PV of Costs of Investigations
Maitland 33kV Feeder 30028	A constraint was identified for investigation. This investigation is in progress.	\$1,550
Milperra Zone Substation Upgrading	A constraint was identified for investigation. This investigation is in progress.	\$3,361
Nelson Bay (Anna Bay) STS	A constraint was identified for investigation. This investigation is in progress.	\$3,415

Ministry reporting requirements-standard for provision of services

Ausgrid has produced a Standard Customer Supply Contract and Standard Customer Connection Contract that outlines the standard of customer service and electricity supply that customers can expect from Ausgrid. Under its licence, Ausgrid reports to the Independent Pricing and Regulatory Tribunal (IPART) on network standards of service or statistics, including:

- telephone services for faults and difficulties
- timely provision of services
- timely notice of planned interruptions to supply
- repair of faulty street lights
- complaints.

Provision of Services

Telephone services for faults and difficulties

The Licence Holder's telephone number for reporting network faults and difficulties	Tel 131 388
Calls made to this service during 2010/11	397,334
Calls dropped out or were abandoned	44,950
Calls to this service answered by an operator within 30 seconds	205,987

Timely provision of services

Number of connections provided by the Licence Holder for existing and new premises where the Licence Holder undertook work	2317
Of the connections provided, the number not provided on or before the agreed date	7
The compensation paid in relation to these	\$1,260

Timely notice of planned interruptions

Number of planned interruptions to supply in 2010/11	3226
Number of occasions the Licence Holder did not provide at least two business days' notice to the affected customers about the interruption to their supply	108
Number of occasions the Licence Holder interrupted the customer's supply of electricity for longer than the time indicated in the relevant supply interruptions notice	15
Value of compensation paid in relation to these	\$2,500

Repair of faulty street lights

Number of reported street light faults during 2010/11, excluding multiple reports for the same fault	15,251
Occasions the Licence Holder failed to complete the repairs of faulty street lighting on or before the date agreed between the Licence Holder and any eligible customer	10
Average number of days to repair faulty street lights	2.2 days
Value of compensation paid to customers	\$165

Complaints

Complaints the Licence Holder received during 2010/11 from small retail customers in relation to distribution network service matters	1,529
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¹ Ausgrid has an automated power outage management system (POMS) that provides recorded messages about known outages based on the location of the outage. If a customer calls from a location that has a known outage, they will be advised by automated message of the incident and the restoration time. The customer then terminates the call, consistent with the intent of the system. These calls are not classified as abandoned. Customers requiring additional information, wishing to report safety concerns or about an incident unknown to Ausgrid are encouraged to remain on the line, and the call is routed to an experienced customer service representative.

² The figures for total reported street light faults does not include multiple reports of the same fault. However, it is indicative of the volume of notifications received and the number of visits to a public lighting asset to ensure public safety.

³ This figure also includes faults that did not result in loss of illumination. Compensation is paid due to loss of illumination as per Ausgrid's Standard Form Customer Connection Contract.

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Multicultural policies and services program

Ausgrid is committed to meeting the needs of its diverse customer base and ensuring that all products and services are accessible by all members of the community. During 2010/11, Ausgrid offered the following services to its customers:

- Financial hardship advice to assist people to manage their energy consumption and develop their capacity to better manage energy use and payments;
- Centrepay payment channel for customers receiving Centrelink income support – this provides a payment channel for lower income customers to manage their payments regularly through a no fee payment channel; and
- by waiving security deposits for customers who have refugee status or are asylum seekers, Ausgrid ensures access to the essential service of electricity as quickly and conveniently as possible. Ausgrid also recognises the ethnically diverse backgrounds of its customers and all support programs for staff are culturally sensitive.

Initiatives in 2010/11 included:

- In partnership with the Ethnic Communities Council of NSW: provision of 50 community language workshops on energy efficiency with almost 1,300 community workers and volunteers. Workshops were delivered in Arabic, Chinese, Greek, Italian, Macedonian, Korean, Vietnamese and Spanish.
- Additionally, 59 multicultural staff and case workers attended “train the trainer” workshops to enable them to provide information for new migrants and refugees as part of their existing settlement and casework roles. This initiative aims to improve energy use and payment management for newly arrived migrants and refugees to prevent energy-related hardship.
- Ausgrid drafted its Equity and Diversity Strategy 2011-2015. This included strategies to attract applicants from diverse religious and cultural backgrounds and retain these employees.

Planned initiatives for 2011/12 are:

Although people of multi-faith and different cultures are already covered by Ausgrid’s Merit Appointment policy, the new draft Diversity Strategy recommends other initiatives to stimulate improved access to support and maintain a culture of inclusiveness across all areas of Ausgrid.

These plans include:

- ensuring visual image diversity on the Ausgrid website and in advertising
- ensuring multi-faith and cultural awareness is incorporated into equity and diversity training and programs for all employees
- ensuring all staff with a recruitment responsibility have undertaken equity and diversity training as a pre-requisite to participation on any recruitment panel
- ensuring written diversity/EEO policy recognises religious holiday leave, and
- developing internal procedures for processing religious accommodation requests such as prayer breaks.

Ausgrid is reviewing these draft strategies and establishing the religious demographics of its workforce.

Occupational health and safety

Ausgrid had no prosecutions under the Occupational Health and Safety Act (2000) in 2010/11.

Overseas visit statistics

Overseas visit statistics			
Name	Position	Country	Dates
Attend conference			
Phil McKee	Manager Street Lighting	USA	26 September – 29 September 2010
Darko Grcev	Manager – Distribution Automation & Substation Engineering	USA	31 January – 5 February 2011
Nick Richardson	Senior Engineer	USA	31 January – 7 February 2011
Attend conference and visit suppliers			
Geoff Lilliss	Executive General Manager – Engineering Transmission & Technology	USA & UK & Sweden	21 September – 30 September 2010
Stephen Zok	Business Analyst	USA	13 October – 30 October 2010
Attend conference, visit suppliers and undertake training			
Craig James	Executive General Manager – Finance & Corporate	USA, UK & Singapore	15 September – 7 October 2010
Sharron Kennedy	Chief Information Officer	USA, UK & Singapore	17 September – 5 October 2010
Attend conference and visit industry			
Mike Tshaikiwsky	Executive Manager, Plant Engineering and Procurement	Hong Kong	12 July – 15 July 2010

Overseas visit statistics

Name	Position	Country	Dates
Attend industry meeting			
Maree Slater	Executive General Manager – Human Resources	USA UK & USA	5 November – 19 November 2010 4 April – 14 April 2011
Raelee Hobson	Executive Manager Organisation Development	USA	5 November – 19 November 2010
Edwin Shaw	Executive Manager Business & Technology Services	Germany	23 March – 30 March 2011
Sam Sofi	Executive Manager Transmission Substations & Services	USA	8 April – 17 April 2011
Trevor Armstrong	Executive General Manager – Engineering Transmission & Technology	USA	8 April – 17 April 2011
George Maltabarow	Managing Director	USA	9 April – 17 April 2011
Attend industry meetings and visit suppliers			
Peter Birk	Executive General Manager – System Planning & Regulation	USA	8 April – 17 April 2011
Attend technical meetings			
John Eisenhuth	Executive General Manager – Distribution Operations & Reliability	France	19 August – 29 August 2010
Colin Peacock	Manager Transmission	France New Zealand	19 August – 29 August 2010 10 November – 15 November 2010
Peter Cole	Manager Plant Engineering	New Zealand	10 November – 15 November 2010
Patrick McMullan	Senior Engineer Design & Engineering	New Zealand	11 November – 13 November 2010
Attend technical and industry meetings and supplier inspections			
Peter Cole	Executive Manager, Plant Engineering and Procurement	France	17 August – 8 September 2010
Attend technical conference			
Michael Scott	Senior Engineer – Design & Engineering	New Zealand	4 May – 6 May 2011
Meetings with Insurance Underwriters			
John Hardwick	Executive Manager, Maintenance & Replacement Planning	London, Switzerland, USA & Bermuda	3 September – 17 September 2010
Employee exchange program			
Jeff Barnsley	Manager – Field Services South	USA	27 July – 16 December 2010
Pamela Henderson	Executive Manager – Distribution Services	Hong Kong	17 July 2010 – 24 January 2011
James Hart	Manager Environmental Services	Hong Kong	17 July 2010 – 24 January 2011
Witness equipment testing			
Yilin Xu	Senior Engineer Network Test	Germany	2 November – 8 November 2010
Attend development program			
Trevor Armstrong	Executive General Manager – System Planning & Regulation	France	2 July – 31 July 2010

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Property disposal

Ausgrid disposed of five properties in 2010/11 that were surplus to its needs. A former substation property at Balgowlah was sold, together with the disposal of a small vacant portion of Revesby Zone Substation site to the Transport Infrastructure Development Corporation. Three properties at Marulan were sold as part of the retail sale. The total value of \$6,539,182 from the sales has been taken up in this year's financial statements and placed in general revenue.

Ausgrid is not aware of any family connection or business association between any party who acquired the properties and any member of Ausgrid who approved the sale or were involved in the sale process. Application for access to documents concerning details of properties disposed of may be made in accordance with the *Government Information (Public Access) Act 2009 (NSW)*.

Publications

Ausgrid publishes an extensive range of publications to assist in keeping its customers, the community and potential employees informed. These publications are typically free of charge and are generally available at Ausgrid Customer Service Centres or by calling 13 15 35. Information on Ausgrid and its services is also available at www.ausgrid.com.au. Examples include:

Fact sheets and brochures

- Switch on to safety (WireAlert)
- Information on electro-magnetic fields (EMF)
- EnergySave related documents
- Apprenticeship program brochure
- Electrical engineering cadetship, graduate and traineeship program brochures
- Aboriginal & Torres Strait Islander Pre-Apprenticeship Program brochure
- Dial Before You Dig – How to Read Plans and Working Near Cables
- Unplugged newsletter - Testing Certification Australia.

Policies and guidelines

- Ausgrid's Business Ethics Statement
- Code of Conduct
- Environmental Code of Conduct
- Equal employment opportunity and discrimination and harassment prevention policy
- "Our Scorecard" 2010/11
- PeopleSafe policy.

Reports

- Statement of Corporate Intent
- Investing in Future Generations
- Network Performance Report

Research and development

Ausgrid continues to support innovation and research for emerging energy technologies. It works closely with major equipment suppliers to introduce new solutions for its electricity network and maintains close links with universities and other research institutions. Ausgrid is a member of the Australian Strategic Technology Program which fosters collaborative research into energy technologies across a number of projects and institutions. Ausgrid is a participant in the Centre for Transformer Performance Management at Monash University, CIGRE (International Council on Large Electric Systems), CEATI International, and the Australian Power Institute. Ausgrid supports research at the University of Technology Queensland, and sponsors a Chair of Power Engineering at Sydney University among other research involvements.

The challenge of moving electricity grids towards a low-carbon environment requires a smarter grid and acquiring new technology requires significant research. Centres of Excellence in Intelligent Electricity Networks (CIEN) with nodes at the Universities of Newcastle and Sydney have been established through an Ausgrid investment of up to \$10 million over five years.

This year, CIEN welcomed Professor David J Hill, as the new Ausgrid Chair at the University of Sydney and also Professor Joe Dong, who completed his commitments in Hong Kong to commence as the Ausgrid Chair at the University of Newcastle. The vision is to curb peak demand. CIEN is committed to connecting researchers with creative power engineers and our major global technology partners to share the vision and capability to build a premier Ausgrid centre of innovation for smart grids.

The approach is to use the Smart Grid, Smart City project as a building block to create a global research chain in which major global technology partners would have the capability to contribute to Ausgrid in applied research and development, through research programs that focus on reliability and the impact of large scale renewable energy schemes, activities to improve the network and to benefit Australia's national wealth.

Waste Reduction and Purchasing Policy

EnergyAustralia took part in the NSW Government Waste Reduction and Purchasing Policy (WRAPP) initiative since 2001 as part of its commitment to reduce the amount of waste going to landfill. This commitment is designed to promote ecologically sustainable development by reducing the consumption of natural resources, recycling materials where possible, purchasing products with a recycled content, and reusing materials wherever practicable.

Now as Ausgrid, it continues to use its resources wisely and wherever possible establishes work practices that encourage minimising, reusing and recycling of waste generated at its offices, depots and worksites. Examples of the initiatives undertaken throughout 2010/11 include:

Reducing the generation of waste (waste avoidance and minimisation)

- To the end of February 2011, EnergyAustralia had around 24,886 customers signed up to the BPAY View service, which allowed customers to receive and view invoices online through internet banking. This means a saving of at least 99,544 A4 sheets or 199 reams of paper a year.

Resource recovery (waste reuse and recycling)

- Recycling facilities were maintained in depots and offices for materials, for paper, cardboard, cans, bottles and plastics. Additional recycling streams were set up for timber, vegetation, streetlight fittings and hard plastics at the Homebush Depot to improve Ausgrid's recycling systems
- The Homebush worm farm reduced food scraps going into general waste. Approximately 49 litres of worm tea has been collected from the worm farm and used as a fertiliser
- The mobile phone recycling program sent 132 phones for recycling
- 1,717 printer and toner cartridges were recycled through Cartridge Rescue on 2010/11
- 96 per cent (535 of 557 tonnes) of paper and cardboard recycled
- 47,965 tonnes of vegetation clippings were produced with – 99.95 percent reused as mulch
- *1,418 tonnes of copper-based and aluminium-based cables returned to warehouse
- *228 tonnes of kilowatt house meters returned to warehouse
- *21 tonnes of miscellaneous street light fittings returned to warehouse
- *101 tonnes of switches and insulators returned to warehouse
- *411 tonnes of steel returned to the warehouse.
- * Sold to scrap metal companies who recover and recycle where applicable.

Use of recycled material (purchase of recycled-content materials)

- 91.3% (40,850 of 44,752 reams) of A4 paper was purchased with recycled content.
- Other office items purchased with recycled content include binders, inserts, correction tape, notebooks, envelopes, pencils, pens, highlighters, markers, staplers, cartridges, sticky notes, in-trays, storage boxes, waste bins, biodegradable plates and cutlery, filing cabinets, toilet paper and kitchen towels.
- 24% of total spend on stationery was on products with recycled content.

INDEPENDENT ASSURANCE STATEMENT

To the Executive and Management Ausgrid:

Ausgrid commissioned Net Balance Management Group Pty Ltd (Net Balance) to provide independent assurance of the sustainability content of the 2010-2011 Annual Report (the 'Report'). The Report presents Ausgrid's sustainability performance over the period 1 July 2010 to 30 June 2011. Ausgrid was responsible for the preparation of the Report and this statement represents the assurance provider's independent opinion. Net Balance's responsibility in performing its assurance activities is to the management of Ausgrid alone and in accordance with the terms of reference agreed with them. Other stakeholders should perform their own due diligence before taking any action as a result of this statement.

Assurance Standard and Objectives

The assurance process was undertaken in accordance with the AA1000 Assurance Standard (AA1000AS (2008)). The standard provides a comprehensive way of ensuring an organisation is responsible for the management, performance and reporting of its sustainability issues. This is achieved through evaluation of the organisation's adherence to the AA1000 AccountAbility Principles (2008), and by reviewing the accuracy and quality of disclosed sustainability performance information.

The AA1000 Accountability Principles (2008) used to assess Ausgrid's processes include the following.

Inclusivity: An assessment is made as to whether the organisation has included its stakeholders in developing and achieving an accountable and strategic response to sustainability.

Materiality: An assessment is made as to whether the organisation has included in its report the material information and data required by its stakeholders to make informed judgements, decisions and actions.

Responsiveness: An assessment is made as to whether the organisation has responded to stakeholder concerns, policies and relevant standards and adequately communicated these in its report.

Assurance Type and Scope

Net Balance provided Type 2 assurance in accordance with the AA1000AS (2008). This involved assessing the organisation's adherence to the AA1000 AccountAbility Principles (2008) and assessing the accuracy and quality of the sustainability performance information contained within the Report.

The review of adherence to the principles was undertaken using the criteria outlined in the AA1000 Assurance Principles Standard (2008). Assessment of the accuracy and quality of sustainability performance information was undertaken using the Global Reporting Initiative's (GRI) G3 Reporting Principles for Defining Quality.

Assurance Level and Limitations

A moderate level of assurance was provided over the Report and material disclosures in the 2010-2011 Sustainability Indicators Supplement (<http://www.ausgrid.com.au/Common/About-us/Corporate-reports/Annual-reports.aspx>). This level of assurance is defined by the scope and methodology described in this assurance statement. The assurance scope covered the whole of the Report and focussed on systems and activities of Ausgrid during the reporting period, with the following exceptions:

- The scope of work did not involve verification of financial data, other than that relating to environmental, social or broader economic performance.
- The assurance provider's involvement with stakeholder engagement was limited to reviewing external and internal stakeholder engagement processes and outcomes.
- Only the head office was visited as part of this assurance engagement with site data being reviewed remotely.
- Ausgrid's National Greenhouse and Energy Reporting as per the NGER Act is exempt from this engagement.

Assurance Methodology

The assurance engagement was undertaken from June to September 2011, and involved:

- Preparation of a materiality register (list of key sustainability issues) using the five-part materiality test. This included a comparison of Ausgrid's disclosure against its peers, a review of key risks, a sector review, a review of selected Australian media reports and a policy review.
- Interviews with key functional managers to better understand how Ausgrid is addressing key sustainability challenges and how sustainability is integrated within the business.
- A review of stakeholder engagement activities undertaken by Ausgrid during the reporting period and how results of the engagement inform the organisation's sustainability strategy and continuous performance improvement.
- A review of Ausgrid's key sustainability strategies, policies, objectives, management systems, measurement and reporting procedures.
- Interviews with key personnel responsible for collating and writing various parts of the Report to substantiate the reliability of selected claims.
- A review of the Report for any significant anomalies, particularly in relation to claims as well as trends in data.
- Verification of 82 selected data points and statements and examination of the systems and processes that support the claims.
- A Global Reporting Initiative (GRI) G3 Application Level Assessment.

Our Independence

Net Balance was not responsible for preparing any part of the Report. Net Balance confirms that we are not aware of any other issue that could impair our objectivity in relation to this assurance engagement.

Our Competency

The Ausgrid assurance engagement was carried out by an experienced team of professionals headed by a Lead Sustainability Assurance Practitioner (Lead CSAP). The project included personnel with expertise in environmental, social and economic performance measurement across a range of industry sectors. Net Balance is a global leader in the use of Accountability's AA1000AS, having undertaken more than 100 assurance engagements in Australia over the past five years.

Findings and Conclusions

Adherence to AA1000 Principles

Inclusivity:

Ausgrid has a number of well-established systems which assist the business to collect and analyse stakeholder feedback. During the year, Ausgrid continued the implementation of their companywide Stakeholder Engagement Plan. Net Balance tested how Ausgrid engages with stakeholder groups through case study analysis. In particular the 'Smart Grid Smart City' Project was reviewed during the assurance engagement. It was found that this project provided a good example of how Ausgrid collaboratively engages with a variety of its community, government, industry and internal stakeholders.

Materiality:

The assurance process reviewed the identification of material sustainability risks and opportunities across the business. Ausgrid's companywide scorecard tracks performance against material risks and opportunities. During the year this scorecard was updated and streamlined to further align with the organisation's goals and objectives. The companywide intranet was also updated to provide real-time reporting of performance on each aspect of scorecard performance. This approach will help to ensure that material issues are proactively managed and clearly linked to performance metrics across the organisation.

Responsiveness:

Through a number of management interviews with the Ausgrid senior executive and management team, Net Balance tested the responsiveness of Ausgrid to the management of priority sustainability issues. These interviews focused on safety and workforce planning activities during the reporting period. It was found that

Ausgrid had engaged with a number of key internal and external stakeholders to develop management strategies focused on these issues. This approach has helped the organisation to ensure that it develops an integrated and engaging approach to the management of priority issues.

Reliability of Performance Information

Based on the scope of the assurance process, the following was observed with regard to performance information:

- The findings of the assurance engagement provide confidence in the systems and processes used for managing and reporting sustainability performance information.
- The level of accuracy of sustainability performance information was found to be acceptable.
- Data trails selected were identifiable and traceable, and the personnel responsible were able to reliably demonstrate the origin(s) and interpretation of data. Of particular note was the development of a SharePoint system to track and manage reporting content. This approach ensured that audit trails were maintained and that information was readily available.
- The GRI application level check found that the Report was classified as A+.

Overall, it is Net Balance's opinion that the information presented within the Report is fair and accurate. The Report was found to present a reliable account of Ausgrid's sustainability performance during the reporting period.

The Way Forward

It is noteworthy that in its first year of operation as Ausgrid (re-structured from its predecessor, EnergyAustralia), the company has successfully transitioned its policies, systems and management programs and effectively continues to manage sustainability issues. The assurance process found that Ausgrid has a sound approach to management of its sustainability performance and that the Report appropriately addresses Ausgrid's environmental, social and economic material issues.

To ensure that Ausgrid continues to improve, Net Balance has provided additional suggestions for improvements. These recommendations relate to improving links between the materiality process for reporting and the newly established scorecard, and engaging with stakeholders on the structure and content of reporting. These recommendations have been outlined in a detailed report presented to Ausgrid's management.

On behalf of the assurance team

22 September 2011

Melbourne, Australia



Terence Jeyaretnam, FIEAust
Director, Net Balance & Lead CSAP



Glossary

Electricity

V volt	A volt is the unit of potential or electrical pressure
W watt	A measurement of the power present when a current of one ampere flows under a potential of one volt
kW kilowatt	One kW = 1000 watts
KWh kilowatt hour	The standard unit of energy which represents the consumption of electrical energy at the rate of one kilowatt for one hour
kV kilovolt	One kV = 1000 volts
kVA kilovolt ampere	A unit of apparent power in an alternating current circuit equal to 1000 volt amperes
kVAr kilovolt ampere reactive	A measure of the reactive component of power demand. Reactive power is consumed by inductive loads. Capacitors are commonly installed at customer sites to reduce reactive power demand on the electricity network
Kt kilotonne	1 Kt=1,000 tonnes
MVA megavolt ampere	A unit of apparent power in an alternating current circuit equal to one million volt amperes (A unit commonly used when expressing the rating of a large power transformer)
MW megawatt	One MW = 1000 kW or one million watts
MWh megawatt hour	One MWh = 1000 kilowatt hours
GWh gigawatt hour	One GWh = 1000 megawatt hours or one million kilowatt hours
Gg gigagram	One Gg = 1 kilotonne
GJ gigajoule	One gigajoule = 1000 megajoules. A joule is the basic unit of energy used in the gas industry equal to the work done when a current of one ampere is passed through a resistance of one ohm for one second
TJ terajoule	10 to the power of 12 joules
STS	Subtransmission system Consists of 33 kV, 66 kV and 132 kV assets
HV high voltage	Consists of 5 kV, 11 kV and 22 kV distribution assets
LV low voltage	Consists of 240V and 415V distribution assets
TWh Terrawatt hour	1TWh= 1,000,000,000 kW/h

Other

ACT	Australian Capital Territory
AEIFRS	Australian Equivalents to the International Financial Reporting Standards
AER	Australian Energy Regulator
ARSBA	Annual Reports (Statutory Bodies) Act 1984
ARSBR	Annual Reports (Statutory Bodies) Regulation 2005
CALD	Culturally and linguistically diverse
CBD	Central Business District
CentrePay	A free direct bill-paying service for Centrelink entitlement recipients whereby the customer has an amount deducted each week toward their bill
CO₂e	Carbon dioxide equivalent
CRI	Corporate Responsibility Index
DIY	Do it yourself
DM	Demand Management
EBIT	Earnings Before Interest and Tax

Other (continued)

EEO	Equal employment opportunity
EMF	Electric and magnetic fields
Energy consortium	The Energy Consortium brings together leading industry peers to collaborate on unique sector specific human capital management best practices and insights. Each participating organisation provides metric data on workforce and business issues. This data is used to create benchmarks and conduct analyses to identify industry trends and relationships as well as critical areas of opportunity and challenge in the workforce.
esaa	Energy Supply Association of Australia
EWON	Electricity and Water Ombudsman NSW
FTE	Full-time equivalent
GIS	Gas insulated switchgear
GIS	Geographical Information System
GGAS	Greenhouse Gas Abatement Scheme
GREENPOWER	GreenPower is a national accreditation program that sets stringent environmental and reporting standards for renewable energy products offered by electricity suppliers to households and businesses across Australia
GRI	Global Reporting Initiative
GST	Goods and services tax
IPART	Independent Pricing and Regulatory Tribunal
LBG	London Benchmarking Group
LED	Light emitting diode – an energy efficient method of lighting
LTIFR	Lost Time Injury Frequency Rate
LTISR	Lost Time Injury Severity Rate, calculated as total days of lost time injury per million hours worked
MTIFR	Medical Treatment Injury Frequency Rate
Network	The network is the system of assets which enables electricity to be transported to customers. EnergyAustralia's network includes both transmission (high voltage) and distribution (lower voltage) assets
NGACs	NSW Greenhouse Gas Abatement Certificates
NSW	New South Wales, the Australian state
OH&S	Occupational Health and Safety
PINC	Platform for Intelligent Network Communications
Retail	Refers to the process of selling electricity to the consumer. The Retail business purchases electricity in the National Electricity Market and sells it to consumers.
Return on assets	Net income divided by total company assets, provides an indication of how profitable the organisation is
PCB	Polychlorinated biphenyls
RPO	Regular payment option
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SCI	Statement of corporate intent
TAFE	Technical and Further Education Commission, NSW based vocational education and training provider
Time-of-use	Time-of-use Electricity pricing based on the time at which the electricity is used. This type of pricing requires a special meter

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