New South Wales Auditor-General's Report
Financial Audit

Volume Thirteen 2015
Electricity

audit office
OF NEW SOUTH WALES

The role of the Auditor-General

The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the *Public Finance and Audit Act 1983*.

Our major responsibility is to conduct financial or 'attest' audits of State public sector agencies' financial statements. We also audit the Total State Sector Accounts, a consolidation of all agencies' accounts.

Financial audits are designed to add credibility to financial statements, enhancing their value to end-users. Also, the existence of such audits provides a constant stimulus to agencies to ensure sound financial management.

Following a financial audit the Audit Office issues a variety of reports to agencies and reports periodically to parliament. In combination these reports give opinions on the truth and fairness of financial statements, and comment on agency compliance with certain laws, regulations and government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits. These examine whether an agency is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or parts of an agency's operations, or consider particular issues across a number of agencies.

Performance audits are reported separately, with all other audits included in one of the regular volumes of the Auditor-General's Reports to Parliament – Financial Audits.

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Pursuant to the *Public Finance and Audit Act 1983*, I present Volume Thirteen of my 2015 report.

A T Whitfield PSM
Acting Auditor-General
15 December 2015

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Section One

Electricity

Executive Summary

This report sets out the results of the financial statement audits of the NSW Government electricity businesses and their controlled entities for the year ended 30 June 2015.

Financial and performance reporting

Financial reporting	Unqualified audit opinions were issued on all NSW Government electricity businesses' financial statements for the year ended 30 June 2015. The quality of financial reporting continues to improve since the introduction of early close procedures.
Industry events	The recent Australian Energy Regulator (AER) determination for electricity distribution businesses resulted in lower revenue, operating expenditure and capital expenditure allowances over the next five years. The main impact of the AER's determination for TransGrid is a lower capital expenditure allowance.
Sale/lease of electricity businesses and assets	The NSW Government continues to divest its interest in NSW electricity businesses. It recently announced the successful consortium which will lease TransGrid for 99 years. Financial completion of this transaction is expected to occur mid December 2015.

Financial controls

Internal controls	No high risk internal control weaknesses were identified in NSW Government electricity businesses.
Human resources	The Distributors and TransGrid have continued to improve the management of overtime.
Borrowings	External debt held by the Distributors and TransGrid increased.

Governance

Legislative changes	The NSW Government enacted legislation to lease 49 per cent of the State's electricity networks.

Service delivery

Demand for electricity	Demand for electricity is falling, but the percentage decrease in energy consumption was less in 2014-15 compared to the previous year.
Network reliability	Network reliability improved for TransGrid and Ausgrid, but deteriorated for Essential Energy and Endeavour Energy.

Financial and performance reporting

The quality of financial reporting continues to improve

Unmodified audit opinions were issued for all electricity entities' 30 June 2015 financial reports. Misstatements have fallen by 90 per cent, from 30 in 2011-12 to three in 2014-15. All material misstatements were corrected in the financial reports.

Early close procedures contributed to improving financial reporting

All electricity businesses performed all early close procedures except for the revaluation of system assets. This was not finalised because the impact of the Australian Energy Regulator's (AER) determination could not be assessed until it was released on 30 April 2015. Treasury was advised of the delay in completing the asset revaluations.

Actual revenues for the Distributors and TransGrid were stable, but combined net profits fell

For the year ended 30 June 2015, the Distributors and TransGrid earned $7.7 billion ($7.7 billion in 2013-14) in revenue and achieved a combined net profit after tax of $1.1 billion ($1.4 billion). The combined net profit was $460 million higher than the Statements of Corporate Intent target.

The NSW Government's investment in electricity businesses decreased in 2014-15

The value of the NSW Government's investment in electricity businesses totalled $10.8 billion at 30 June 2015 ($11.4 billion at 30 June 2014). This comprised total assets of $38.5 billion ($41.0 billion) less total liabilities of $27.7 billion ($29.6 billion).

Dividends payable by Distributors to the NSW Government decreased by 25 per cent

Total dividends payable by Distributors to the NSW Government decreased to $520 million in 2014-15 ($694 million in 2013-14). This was primarily due to lower profits and reduced dividend payout ratios for the electricity Distributors.

Over 1,100 employees left the Distributors and TransGrid during 2014-15

The Distributors and TransGrid continued to reform the businesses to achieve operational efficiencies and reduce unfunded costs arising from lower approved AER allowances. Redundancy costs for the year ended 30 June totalled $180 million.

The recent AER determination is less favourable for the Distributors than the previous determination

The AER determination for the regulatory period 2014-2019 for the electricity Distributors allows for lower revenue, operating expenditure and capital expenditure. The allowance for network revenue is $2.6 billion lower, operating expenditure $1.6 billion lower, and capital expenditure $8.0 billion lower.

TransGrid's determination resulted mainly in a lower capital expenditure allowance.

TransGrid's AER determined revenue allowance for the four year regulatory period 2014-2018 is $3.0 billion ($4.0 billion for the previous five year period 2009-2014).

NSW Distributors are appealing the recent AER determination

The NSW Distributors have lodged an appeal to the Australian Competition Tribunal against the significant cuts to operating programs in the AER's final determination. The Distributors estimate they had 2,750 unfunded employee positions at 1 July 2015 as a result of the AER's reduced allowance for operating and capital expenditure in the 2014-2019 determination period.

The NSW Government continues to divest its interest in electricity businesses.

Macquarie Generation and Delta Electricity's Colongra power stations were sold in 2014-15 for $1.5 billion and $234 million respectively. On 19 November 2015, the NSW Government announced the sale of Delta Electricity's Vales Point power station for $1.0 million. On 25 November 2015, the NSW Government also announced the successful consortium to lease TransGrid for 99 years for $10.3 billion. Completion of this transaction is expected mid December 2015. While the State retains its ownership of the electricity distribution businesses, it has announced plans to lease 50.4 per cent of Ausgrid and Endeavour Energy to the private sector.

Distributors will have spent almost $7.0 billion less than planned under the five year network reform program

The Distributors estimated the network reform program will result in $7.0 billion less in capital and operating expenditure over the five years to 30 June 2016 when compared against the 2010-11 Statement of Corporate Intent forecast. This reduced spend is mainly attributed to reduced capital expenditure programs.

Financial controls

No high risk control weaknesses identified by the 2014-15 audits

The audits did not identify any high risk internal control weaknesses. Areas were identified where internal controls could be improved and these were reported to the relevant agencies' management together with a recommendation to address the weakness.

Overtime and associated allowances were lower in 2014-15

Total overtime and associated allowances paid by Distributors and TransGrid decreased to $114 million in 2014-15 ($120 million in 2013-14).

External debt held by Distributors and TransGrid increased by 3.5 per cent in 2014-15

The Distributors' and TransGrid's total external debt increased to $20.6 billion at 30 June 2015 ($19.9 billion). Almost half, $10.1 billion, must be repaid or refinanced over the next five years.

Governance

Legislation enacted to lease 49 per cent of the State's electricity networks.

Recent legislation allows the NSW Government to deliver its policy to lease 49 per cent of the State's electricity networks and to use the net proceeds from those transactions to build new infrastructure.

Service delivery

Demand for electricity continues to fall

The downward trend in energy consumption has slowed mainly due to the repeal of the carbon price, lower electricity price movements and a cooler winter season.

Network reliability improved for TransGrid and Ausgrid

Network reliability for all Distributors was impacted by severe unfavourable weather events throughout 2014-15.TransGrid's network reliability improved by over 50 per cent compared to 2013-14. Ausgrid's network reliability was better than target and 2013-14.

Lost Time Injury Rates decreased for most Distributors, but increased for TransGrid

All Distributors' lost time injury rates were better than the previous year. TransGrid's lost time increased due to a small increase in minor injuries.

Introduction

This report sets out the results of the financial statement audits of NSW electricity businesses' for the year ended 30 June 2015. It provides Parliament and other users of the financial statements an analysis of the results and key observations in the following areas:

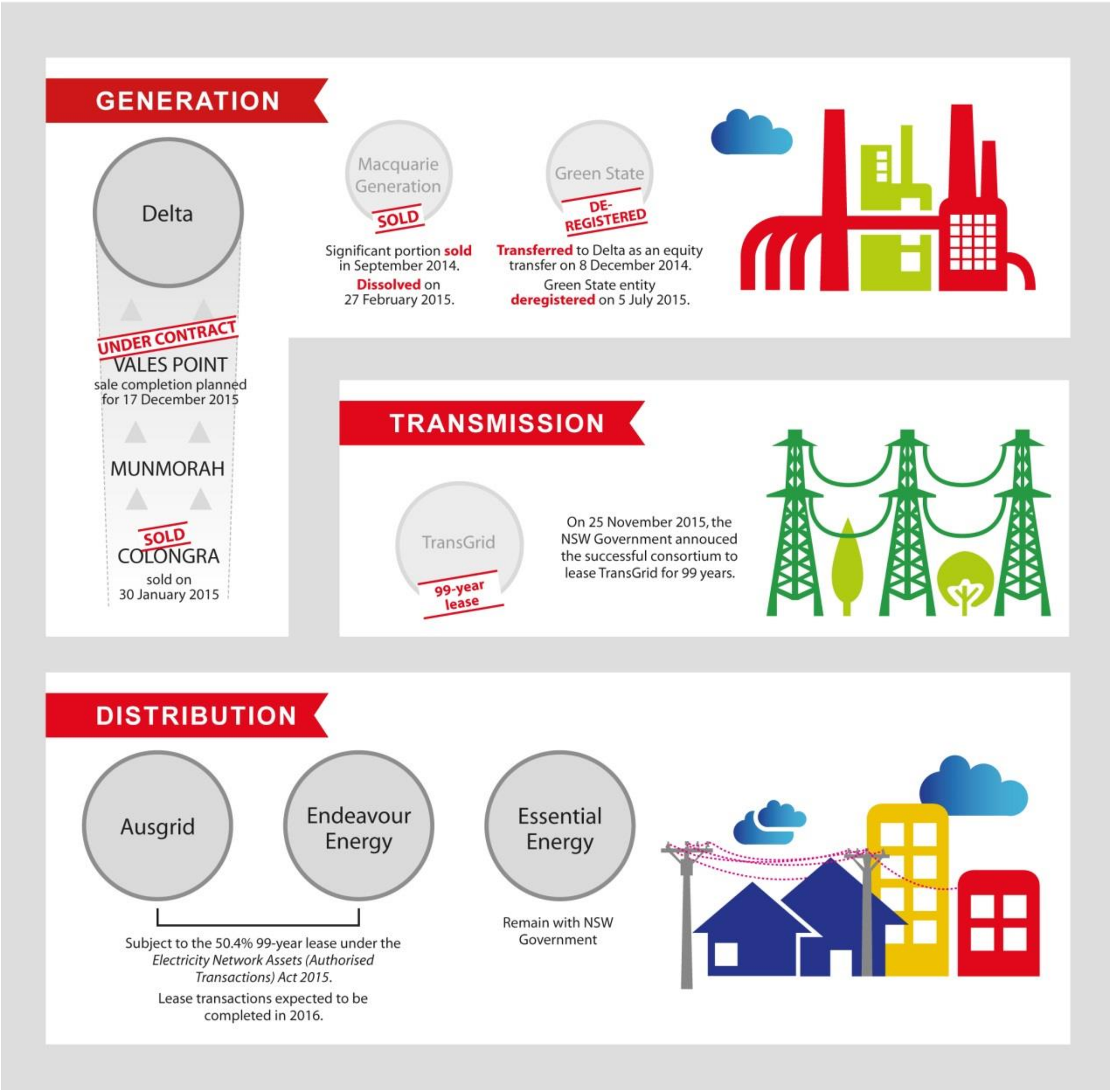
- Financial Performance and Reporting
- Financial Controls
- Governance
- Service Delivery.

The commentary covers the electricity businesses controlled by the State, as shown below:

Snapshot of ownership

The NSW Government continues to divest its interest in electricity businesses through sales and complex, long term leasing arrangements.

At the time of writing this report, the NSW Government retained ownership of the electricity businesses shown below.



Changes to ownership from 1 July 2014

Delta Electricity's Munmorah power station and the remaining renewable assets of Green State Power are still under State ownership (Munmorah power station was closed in July 2012). Macquarie Generation and Delta Electricity's Colongra power station was sold in 2014-15. On 19 November 2015, the NSW Government executed the sale of Delta Electricity's Vales Point power station. Completion of this sale is expected to occur mid December 2015. Green State Power was deregistered on 5 July 2015 following the transfer of its remaining assets to Delta Electricity.

On 25 November 2015, the NSW Government announced the successful consortium to lease TransGrid for 99 years. At the time of writing this report, the State still retains ownership of the distribution of electricity through Ausgrid, Endeavour Energy, and Essential Energy. However, the NSW Government has announced plans to enter into long term leases of 50.4 per cent of the distribution assets of Ausgrid and Endeavour Energy to the private sector. Essential Energy will remain under Government ownership.

The Government also holds a 58 per cent stake in Snowy Hydro Limited, with the balance owned by the Victorian and Australian Governments. Snowy Hydro Limited is the parent company of Red Energy, an electricity and gas retail business operating in Victoria, New South Wales and South Australia.

For further analysis on generation assets sold in 2014-15 and proposed network transactions in 2015-16, refer to the 'Financial and Performance Reporting' section of this report.

Industry Snapshot

A financial snapshot of the NSW Government electricity businesses for the year ended 30 June 2015 is shown below. The snapshot below includes results of the distribution, transmission and generation businesses.

Revenue

Distributors
$6.8 billion

TransGrid
$887 million

Generators
$464 million

Profit/(loss) after tax

Distributors
$930 million

TransGrid
$203 million

Generators
$(743) million

Return on assets

Distributors
8 per cent

TransGrid
7 per cent

Assets

Distributors
$31.5 billion

TransGrid
$6.6 billion

Generators
$325 million

Debt

Distributors
$17.8 billion

TransGrid
$2.9 billion

Equity (Net Assets)

Distributors
$8.7 billion

TransGrid
$2.1 billion

Generators
$14 million

Financial Performance and Reporting

Financial performance and reporting are important elements of good governance. Confidence in public sector decision making and transparency is enhanced when financial reporting is accurate and timely. Effective financial management and reporting by agencies helps key stakeholders, such as the NSW Government, make effective decisions and achieve desired outcomes efficiently.

This chapter outlines audit observations, conclusions and recommendations related to the financial performance and reporting of the NSW electricity entities for 2014-15.

Financial and performance reporting

Observation	Conclusion
Unqualified audit opinions were issued for all the NSW electricity entities.	Ongoing improvements in financial statement preparation processes helped to identify and resolve material misstatements.
The number of reported misstatements has fallen from 30 in 2011-12 to three in 2014-15.	The number of misstatements has fallen since Treasury introduced its 'early close procedures' initiative in 2011-12.
All electricity entities performed all early close procedures except for the revaluation of system assets. This was not finalised because the impact of the Australian Energy Regulator's (AER) determination could not be assessed until it was released on 30 April 2015. Treasury was advised of the delayed completion of revaluation procedures.	Despite the delays in finalising asset revaluations, early close procedures facilitated the effective resolution of issues and risk areas early in the audit process.
The combined profit after tax for Distributors decreased to $930 million in 2014-15. Revenue remained stable at $6.8 billion, but total expenses increased by $279 million.	Lower Distributor profits contributed to a decrease in distributions to the NSW Government.
The recent AER determination will reduce network revenue, operating expenditure and capital allowances over the next five years. As a result, at 1 July 2015, the Distributors and TransGrid estimated that 2,752 jobs were unfunded.	The NSW Distributors have appealed to the Australian Competition Tribunal against cuts to operating programs and to review the cost of capital allowed by the AER.
In recent years, the NSW Government has reduced its ownership of electricity generation businesses and is in the process of leasing 100 per cent of TransGrid and 50.4 per cent of Ausgrid and Endeavour Energy.	The NSW Government continues to divest its interest in electricity businesses. It recently announced the successful consortium which will lease TransGrid for 99 years. The sale of Delta Electricity's Vales Point power station was also announced. The details, including dates, for leasing Ausgrid and Endeavour Energy have not been announced.
Over 1,100 employees left the Distributors and TransGrid during 2014-15.	The continuing reform of electricity businesses has resulted in further employee redundancies.

Quality of Financial Reporting

Unqualified audit opinions issued for all agencies' 30 June 2015 financial statements

Unqualified audit opinions were issued on the 2014-15 financial statements of electricity entities. Sufficient audit evidence was obtained to conclude the financial statements were free of material misstatements.

No significant matters were reported to those charged with governance of the entities, the portfolio Minister, Treasurer or the agency head.

The quality of financial reporting continues to improve

Misstatements for all electricity entities have fallen by 90 per cent, from 30 in 2011-12 to three in 2014-15. This reflects the improved quality of financial reporting since Treasury introduced its 'early close procedures' initiative in 2011-12 and the efforts of Networks NSW to harmonise accounting policies and process across the electricity Distributors.

Three misstatements individually greater than $5.0 million were identified and corrected in the 2014-15 financial statements.

A material misstatement relates to an incorrect amount, classification, presentation or disclosure in the financial statements that could reasonably be expected to influence the economic decisions of users.

Timeliness of Financial Reporting

Financial statements were submitted on time by all businesses

The Audit Office completed the audits and issued the audit opinions for all seven NSW Government electricity businesses within statutory deadlines.

Early close procedures contributed to improved financial reporting

Overall, all NSW electricity businesses complied with early close procedures.

Treasury required early close procedures be completed at 31 March, but the three Distributors received approval from Treasury to complete these procedures by 30 April 2015. The deadline was extended to give them time to consider the financial impact of the final AER determination, which was made on 30 April 2015.

TransGrid performed its early close procedures at 31 March, but the valuation of its system assets was not finalised until the impact of the final AER determination was understood on 30 April 2015.

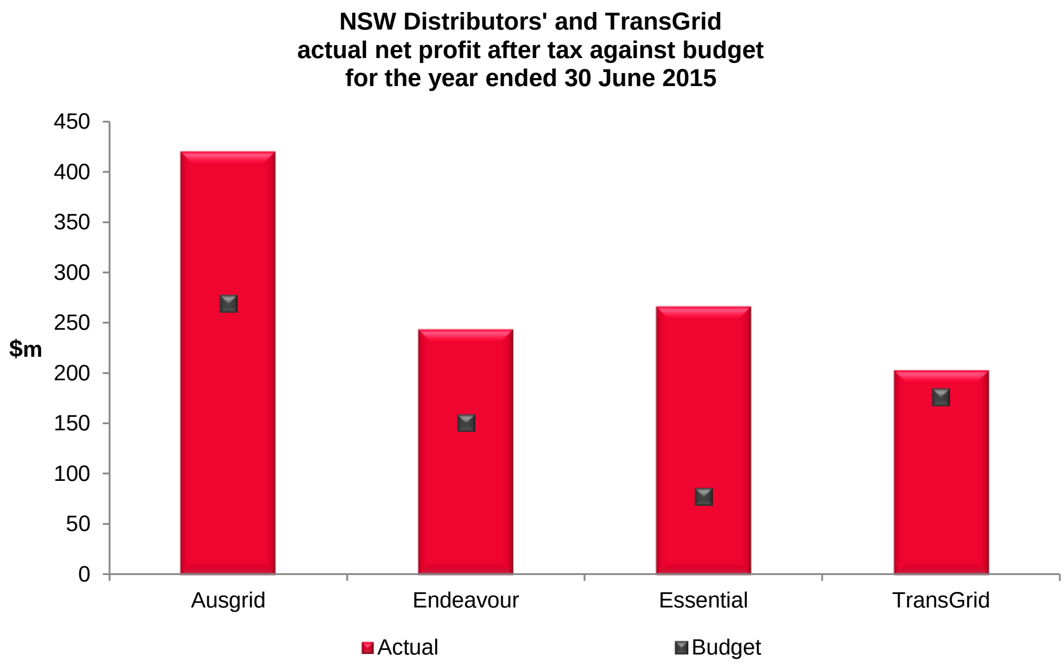
Early close procedures are designed to bring forward year-end activities, such as valuing assets and resolving financial reporting issues, to reduce reporting timeframes and improve quality.

Financial performance against Budget (Target)

The Distributors and TransGrid's revenues and profits were higher than budget

In 2014-15, the Distributors and TransGrid generated revenues of $7.7 billion, $523 million higher than Statement of Corporate Intent (SCI) approved targets. They also exceeded a combined net profit after tax target of $673 million by $460 million.

Appendix Two compares the actual results of all the Distributors and TransGrid against the SCI-approved targets.



Source: Financial statements (audited) and Statements of Corporate Intent presented to Parliament (unaudited).

Ausgrid achieved a net profit after tax of $420 million ($151 million higher than the SCI target). This was mainly due to higher than budgeted energy consumption, lower than budgeted amortisation and depreciation of assets, and lower interest costs.

Endeavour Energy achieved a net profit after tax of $244 million ($93.0 million higher than the SCI target). This was mainly attributable to higher than budgeted energy consumption and other income, including capital contributions.

Essential Energy achieved a net profit after tax of $266 million ($189 million higher than the SCI target). This was mainly due to higher than budgeted energy consumption, higher capital contributions, and lower than budgeted labour costs.

In April 2015, the AER published its final determination, which retrospectively reduced the Distributor's allowable network revenue for 2014-15 by $815 million. This will be built into the pricing of distribution network charges from 1 July 2015. The AER's final determination is discussed in detail later in this report.

TransGrid achieved a net profit after tax of $203 million, ($27.0 million higher than the SCI target). This was mainly due to lower interest costs, lower regulated and other expenditure, and an increase in fair value gains for investment property.

Key Financial Information

Actual revenues for the Distributors and TransGrid were stable, but combined net profits fell

For the year ended 30 June 2015, the Distributors and TransGrid earned $7.7 billion ($7.7 billion in 2013-14) in revenue and achieved a combined net profit after tax of $1.1 billion ($1.4 billion).

The Distributors' revenue totalled $6.8 billion in 2014-15 ($6.8 billion) while expenses totalled $5.9 billion ($5.6 billion). The total net profit after tax was $274 million lower than in 2013-14.

The lower combined net profit was mainly due to a $188 million reduction in Ausgrid's net profit for the year. This was mainly due to Ausgrid's prior year result including $151 million in one-off proceeds from the sale of its office premises.

Endeavour Energy and Essential Energy contributed $86.5 million to the lower combined net profit after tax. This was mainly due to increases in income tax, asset write-offs and finance costs.

Total expenses for the Distributors increased by $279 million in 2014-15 mainly due to costs associated with distributing electricity, employees, financing and asset write offs. The increase in expenditure was partially offset by lower depreciation and amortisation costs at Ausgrid.

TransGrid's net profit after tax for 2014-15 was $12.0 million higher than in 2013-14, mainly driven by a $29.4 million increase in revenue. Changes in the fair value of an investment property resulted in a $15.0 million gain and non-regulated services revenue increased by $10.3 million.

The NSW Government's investment in electricity businesses decreased in 2014-15

The value of the NSW Government's investment in the electricity businesses totalled $10.8 billion at 30 June 2015 ($11.4 billion at 30 June 2014). This comprised total assets of $38.5 billion ($41.0 billion) less total liabilities of $27.7 billion ($29.6 billion).

	Generators^		Electricity Distributors		TransGrid		Total	
Year ended 30 June	**2015 $m**	**2014 $m**	**2015 $m**	**2014 $m**	**2015 $m**	**2014 $m**	**2015 $m**	**2014 $m**
Total assets	325	3,319	31,510	31,196	6,647	6,550	**38,482**	**41,065**
Total liabilities	311	2,375	22,785	22,923	4,554	4,342	**27,650**	**29,640**
Net assets	**14**	**944**	**8,725**	**8,273**	**2,093**	**2,208**	**10,832**	**11,425**
Total revenue*	464	1,888	6,803	6,798	887	858	**8,154**	**9,544**
Total expense**	1,207	1,717	5,873	5,594	684	667	**7,764**	**7,978**
Net profit/(loss) after tax	**(743)**	**171**	**930**	**1,204**	**203**	**191**	**390**	**1,566**
Dividend provided from net profit	--	9	520	694	295	179	**815**	**882**

* Includes revenue, gain on disposals, financial instrument fair value gains, and income tax benefits.

** Includes loss on disposals, financial instrument fair value losses, and income tax expenses.

^ 2014 includes the full year results of Macquarie Generation and Delta Electricity. Macquarie Generation's power stations were sold in September 2014 and the entity dissolved in February 2015

Source: Financial statements (audited).

Appendix One summarises the key financial results for the NSW Government electricity businesses.

Distributors and TransGrid

At 30 June 2015, the Distributors' assets totalled $31.5 billion, an increase of $314 million from the previous year. The increase was primarily due to new capital expenditure, partially offset by increased depreciation costs. None of the Distributors recognised significant movements in asset valuations in 2014-15.

The Distributors' total liabilities remained fairly stable, decreasing by $138 million to $22.8 billion at 30 June 2015. All Distributors experienced a decrease in employee benefit liabilities, mainly due to the number of employee redundancies during the year. Essential Energy's dividend provision reduced by $75.2 million as it was not required to pay an ordinary dividend to the NSW Government in 2014-15. These decreases were partially offset by a $611 million increase in borrowings for all NSW Distributors.

The Distributors' net assets increased by 5.5 per cent to $8.7 billion at 30 June 2015.

TransGrid's net assets reduced by 5.2 per cent to $2.1 billion at 30 June 2015, mainly due to an increase in borrowings.

Generators

The Generators recorded $464 million in revenue in 2014-15, a decrease of $1.4 billion from the previous year. This was mainly due to the sale of Macquarie Generation's operations in September 2014. It generated revenue of $1.3 billion in 2013-14.

The Generators' total expenses decreased by $510 million to $1.2 billion in 2014-15. The decrease was mainly due to the sale of Macquarie Generation's operations, which was partially offset by a $228 million increase in Delta Electricity's expenses. This was mainly attributable to higher finance costs and revaluation decrements on property, plant and equipment.

The Generators' total net loss was $743 million in 2014-15 (net profit after tax of $171 million in 2013-14).

At 30 June 2015, the Generators' total assets decreased by $3.0 billion and liabilities decreased by $2.1 billion compared to the previous year. This was mainly due to the sale of Macquarie Generation and the sale of Delta Electricity's Colongra power station in 2014-15.

The Generators' total net assets decreased by 98.5 per cent in 2014-15 to $14.0 million.

Distributions to Government

Dividends payable by Distributors to the NSW Government decreased by 25 per cent

Total dividends payable by Distributors to the NSW Government decreased to $520 million in 2014-15 ($694 million in 2013-14). This was primarily due to lower Distributor profits and a reduction in the dividend payout ratio.

Under Treasury's Financial Distributions Policy for government businesses, dividend targets are negotiated annually between the shareholders and the board of each Distributor. These targets are agreed in the Statement of Corporate Intent.

In 2014-15, the agreed dividend payout ratio was 50 per cent of after tax profits (adjusted for non-cash items) for Ausgrid and Endeavour Energy, and nil for Essential Energy. The dividend payout ratio in previous years was 70 per cent for all three Distributors.

The lower dividend payout ratio for Ausgrid and Endeavour Energy was due to the immediate impact of the AER's final determination and its potential impact on the agencies' future financial positions. The payout ratio for Essential Energy was nil due to the impact of AER's determination and a capital program planned for 2015-16.

Total distributions made by the Distributors and TransGrid to the NSW Government decreased in 2014-15

In 2014-15, Distributors and TransGrid accrued and paid $1.4 billion ($1.7 billion in 2013-14) in distributions to the NSW Government. No dividends were provided for by the Generators for the year ended 2014-15. No income taxes were paid by the Generators during 2014-15.

Total distributions include:

- $551 million ($829 million) in income tax equivalent payments
- $815 million ($881 million) in dividends accrued.

The lower income tax payments in 2014-15 were mainly due to the lower net profits after tax for all three Distributors.

Dividends provided during the year and income taxes paid for the year ended 30 June	2015 $m	2014 $m	2013 $m	2012 $m	2011 $m
Generators	--	33	177	304	310
TransGrid	423	260	247	189	156
Distributors	943**	1,417	1,335	945	698*
Total	**1,366**	**1,710**	**1,759**	**1,438**	**1,164**

* Excludes special dividends by Ausgrid of $1.4 billion, Essential Energy of $1.2 billion and Endeavour Energy of $900 million, for the sale of the retail operations of their businesses in 2011.

** Excludes a special dividend of $118 million relating to the sale of Ausgrid's head office building in 2013-14. Includes special dividend relating to the energy rebate and changes to the tax treatment for unread meters.

Source: NSW Distributors, NSW generators and TransGrid Financial Statements (audited).

Redundancy

More than 1,100 employees left the Distributors and TransGrid during 2014-15

During 2014-15, the Distributors and TransGrid continued to reform their businesses to achieve operational efficiencies and reduce costs. Total redundancy costs for the year ended 30 June 2015 are shown below.

Year ended 30 June 2015	TransGrid	Ausgrid	Endeavour Energy	Essential Energy	Total
Redundancy expense ($m)	8.2	128.5	25.5	17.5	**179.7**
Total employees provided for	**--**	**402**	**124**	**310**	**836**
Total employees who exited through redundancy	**51**	**783**	**119**	**162**	**1,115**

Source: NSW Distribution and Transmission Business (unaudited).

Essential Energy's provision for 310 employees relates mainly to employees who became surplus to business needs after the Transitional Service Arrangement period ended and restructuring from the network reform program. The provision mainly comprises the costs associated with having to continue paying surplus retail staff. The other network providers did not have these costs as affected staff exited the business or were redeployed.

Redundancies in response to the final AER determination on 30 April 2015 are discussed later in this report. The redundancies are not related to the proposed leasing transactions.

Impact of recent events on electricity businesses

The financial results and operations of the electricity businesses have been significantly impacted by industry wide reforms and decisions of the NSW Government.

The financial impact of these events is outlined in this section.

Australian Energy Regulator (AER) Determination 2014-2019

The AER is responsible for economic regulation of electricity transmission and distribution systems in all states and territories except for Western Australia and the Northern Territory. The revenue caps determined by the AER affect the distribution and transmission components of an electricity bill.

Regulated electricity network businesses must periodically apply to the AER to assess their revenue requirements. In November 2012, changes were introduced to the regulation of distribution and transmission businesses under the National Electricity Rules. The NSW Distributors and TransGrid determination was due to commence on 1 July 2014 and apply for a period of five years. The AER established two regulatory control periods: a transitional period from 1 July 2014 to 30 June 2015; and a subsequent regulatory control period commencing 1 July 2015. The AER made a placeholder determination for 2014-15, which was adjusted or trued up in the final decision.

The AER agreed to a four year determination for TransGrid covering the period 2014-2018 to align it with the regulatory control periods of other transmission businesses and allow a more efficient and integrated approach to future transmission revenue determinations by 2022.

In making its determination the AER must be satisfied the level of capital and operating expenditure proposed by distribution and transmission businesses reflects costs that a prudent benchmark operator with efficient costs would need to operate its network safely and comply with its obligations and safety standards.

For comparative purposes, all AER figures reported in this section are expressed in nominal terms. This report refers to the revised proposals made by Distributors and TransGrid in response to the draft decision made by the AER.

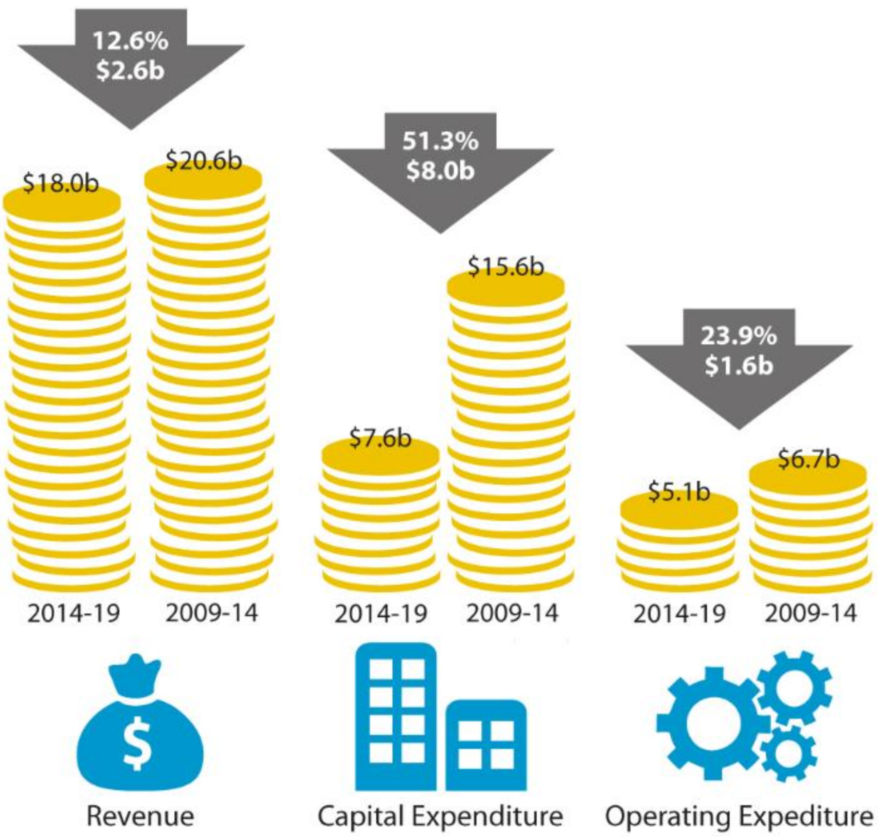
Distributors

The recent AER determination for Distributors is less favourable than the previous determination

The AER's recent determination for the Distributors' 2014-2019 regulatory period resulted in the following changes to allowable revenues and expenditures compared to the 2009-2014 determination:

- $2.6 billion lower network revenue allowance
- $8.0 billion lower capital expenditure allowance
- $1.6 billion lower operating expenditure allowance.

The diagram below summaries the differences in the revenue and expenditure allowance impacts on the distribution businesses for the 2014-2019 regulatory period.



Source: Determination obtained from Ausgrid, Endeavour Energy and Essential Energy (unaudited). Figures are presented in nominal values. These are rounded for presentation purposes.

The impacts of key decisions from the determination are discussed later in this report.

The AER estimates lower distribution charges, if passed through to customers, will result in the following reductions to average annual electricity bills for 2015-16:

- $106 - $313 for residential customers
- $152 - $528 for small business customers.

The AER expects electricity bills to remain stable after 2015-16 for the rest of the regulatory period.

Impact on Distributors' revenue

Revenue allowances for 2014-2019 are 12.6 per cent lower than the previous regulatory period

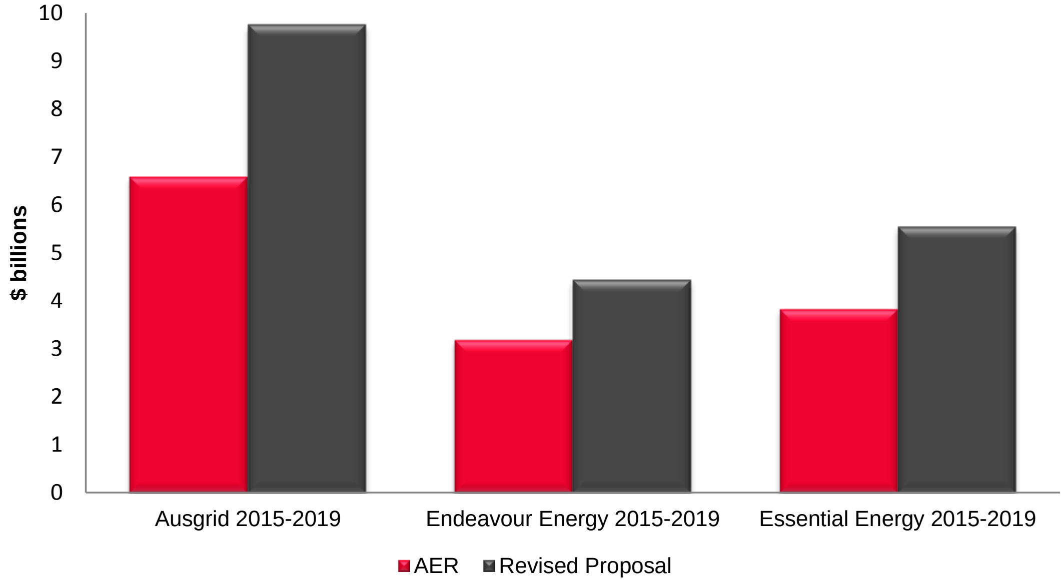
Total network revenue the distribution businesses can recover in the 2014-2019 period is $18.0 billion ($20.6 billion in 2009-2014). Essential Energy's network revenue allowance is $1.0 billion lower than the previous determination, Endeavour Energy's revenue is $695 million lower and Ausgrid's network revenue is $826 million lower than the previous determination.

With effect from 1 July 2014, the determination moved the Distributors from a weighted average price cap to a revenue cap model. Under the weighted average price cap model, actual revenue was based on units sold, exposing distribution businesses to volume risk. Under the revenue cap pricing model, revenue should not exceed the Maximum Allowable Revenue cap (MAR) over the five year period. Prices are adjusted for excess revenue earned or shortfalls in revenue year to year to achieve this outcome.

Distributors will receive $6.2 billion less revenue than that proposed to the AER

The graph below shows the difference between revenue approved by the AER in its recent determination compared to the revenue proposed by the Distributors in their submission to the AER. This excludes the transitional year 2014-15.

Comparison between final AER determination and revenue proposed by Distributors



Note:

The 2015-19 determination and proposal figures exclude revenues for type 5-6 metering (household/small business meters) because these were reclassified as 'Alternative Control Services' in the 2014-19 determination. The 2009-14 figures include revenues for metering type 5-6 related services

Source: Data obtained from Ausgrid, Endeavour Energy and Essential Energy (unaudited). Figures are presented in nominal values. These are rounded for presentation purposes.

The final AER determination allows the Distributors 31.5 per cent less than their combined revised proposal for standard control services of $19.7 billion. Ausgrid experienced the largest variance, with the AER determining a total revenue allowance 32.6 per cent lower than its proposal of $9.8 billion.

The difference between the AER approved revenue allowance and the Distributors' proposed revenue is mainly due to differences in the rate of return used. The rate of return used by the AER is the annual income it believes represents a fair return on the value of the entities' regulated assets. The AER determined a rate of return of 6.68 per cent, 2.17 per cent lower than that proposed by the Distributors. A small difference in the rate of return significantly impacts revenue allowance.

The AER used a different methodology to the Distributors to determine the rate of return. It believes lower rates are justified because of the improved investment environment since the last regulatory period, which has resulted in lower financing costs.

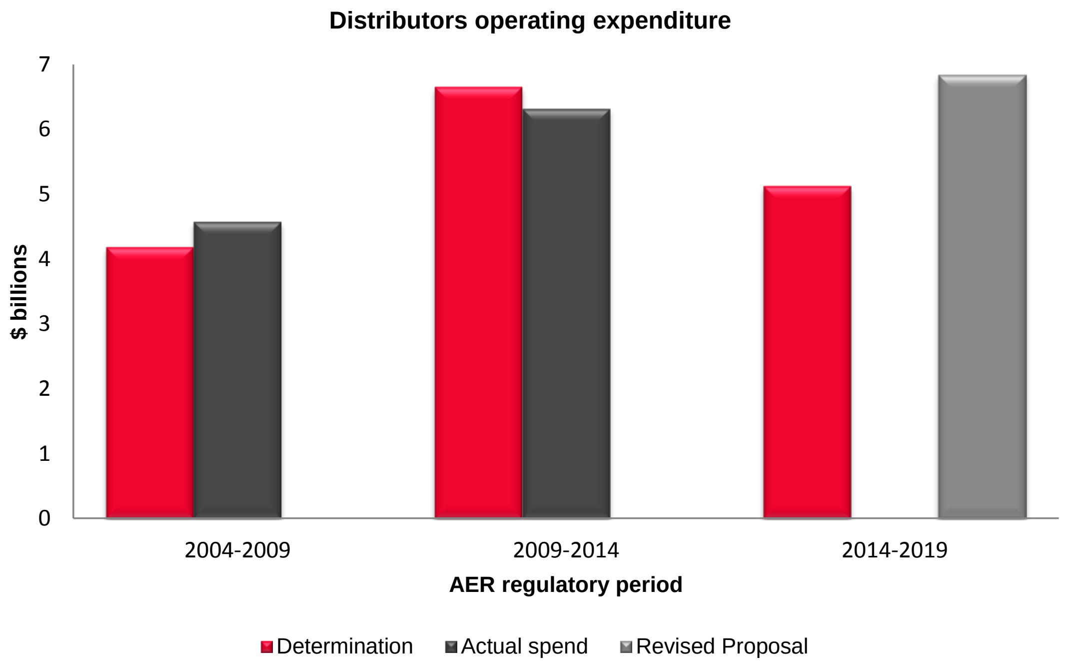
Impact on Distributors' Operating Expenditure

Operating expenditure allowances determined by the AER are lower for 2014-2019

The AER determined operating expenditure allowances of $5.1 billion for the distribution businesses for the current regulatory period ($6.7 billion in 2009-2014).

The graph below shows actual operating expenditure reported by the Distributors in the previous two regulatory periods was higher than that approved by the AER. The Distributors collectively spent $394 million more than what was determined by the AER for the 2004-2009 period and $340 million less for the 2009-2014 period.

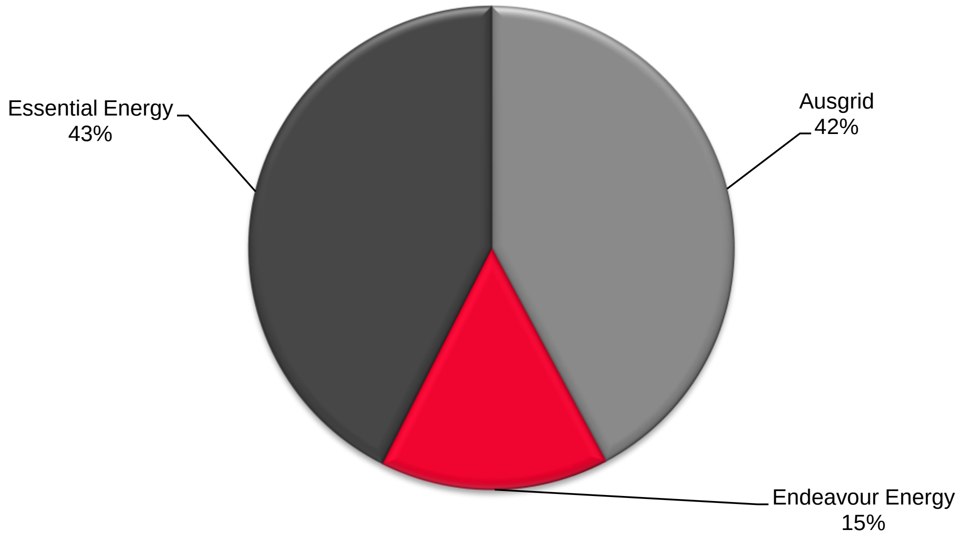
The graph shows that in their revised regulatory proposals the NSW Distributors forecast operating expenditure of $6.8 billion would be required over the 2014-2019 regulatory, 33.3 per cent more than the determined allowance.



Source: Data obtained from Ausgrid, Endeavour Energy and Essential Energy (unaudited). Figures are presented in nominal values. These are rounded for presentation purposes.

The chart below shows the share of percentage difference between the AER determined operating expenditure allowance and that proposed by each Distributor. Essential Energy has the largest difference when comparing total operating expenditure determined by the AER against their proposal, closely followed by Ausgrid.

Share of difference between AER determined operating expenditure and proposal made by Distributors



Source: Determination and Revised Proposal obtained from Ausgrid, Endeavour Energy and Essential Energy (unaudited).

The Distributors have lodged an appeal with the Australian Competition Tribunal over the cuts to operating expenditure allowances. Details on this appeal are discussed later in this report.

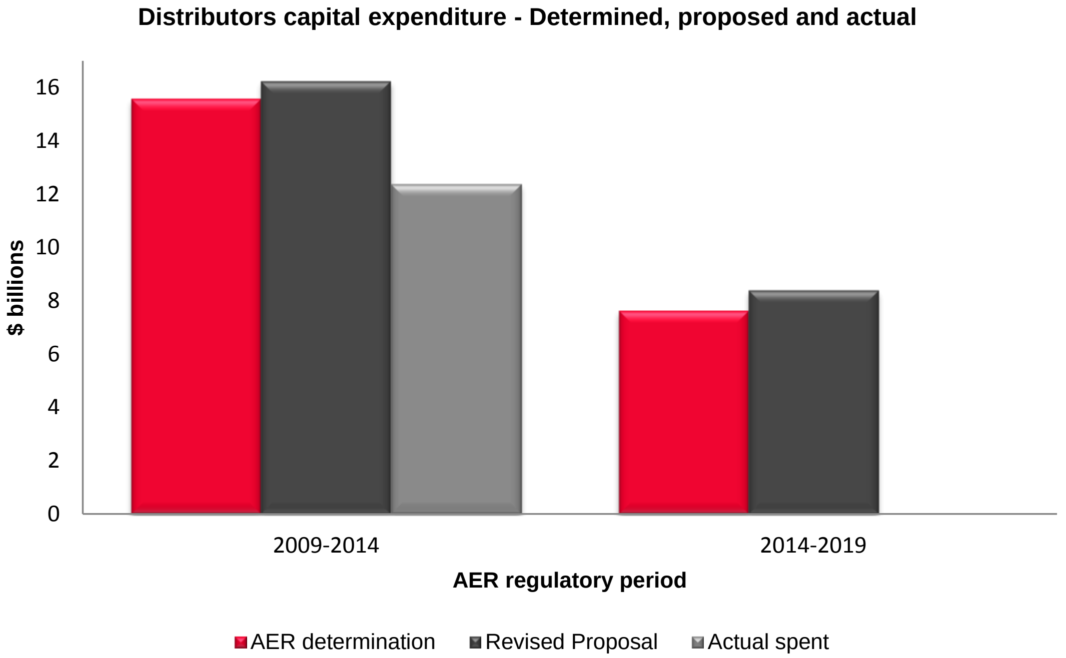
Impact on Distributors' Capital Expenditure

AER capital expenditure allowances are 9.2 per cent lower than those proposed by Distributors

The AER approved lower total capital expenditure allowances of $7.6 billion for 2014-2019 ($15.6 billion for 2009-2014) for the distribution businesses.

Capital expenditure by the Distributors for the 2009-2014 regulatory period was $3.2 billion (20.5 per cent) lower than the AER allowance of $15.6 billion. The lower capital spend is attributed to reduced peak demand, and strategies and initiatives implemented in the latter part of the regulatory period, which allowed the Distributors to deliver capital programs at a lower cost proportionate with network risk.

In both the 2009-2014 and the 2014-2019 regulatory periods, revised proposals submitted by the Distributors have exceeded the amount approved by the AER. The AER approved capital expenditure allowances of $7.6 billion for the 2014-2019 regulatory period is $773 million less than that proposed by the Distributors. This is reflected in the graph below.



Source: Data obtained from Ausgrid, Endeavour Energy and Essential Energy (unaudited). Figures are presented in nominal values. These are rounded for presentation purposes.

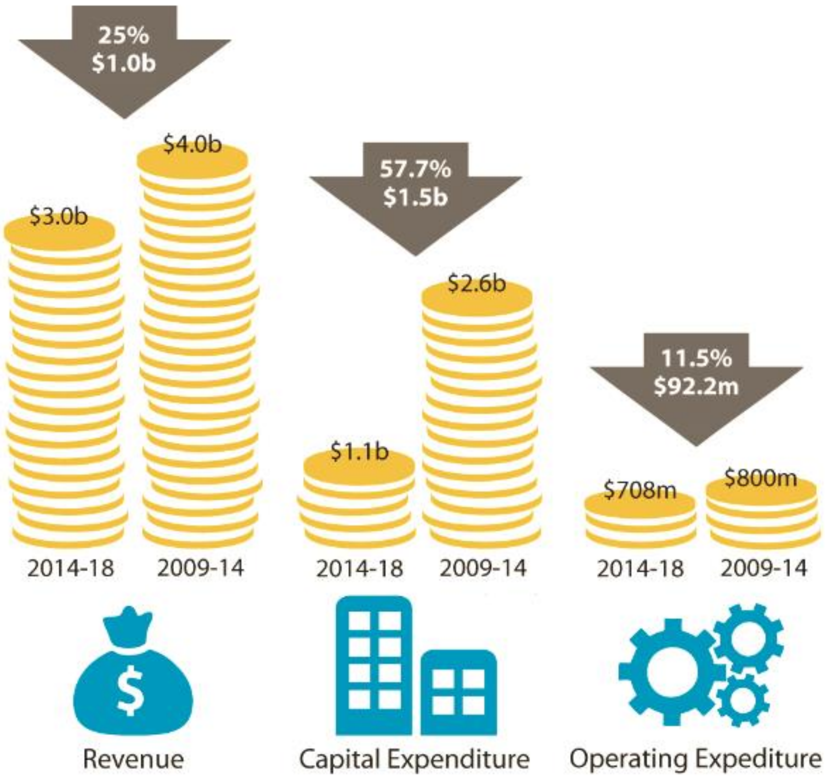
The AER determines the capital expenditure allowance it believes a prudent and efficient operator requires to operate its network safely, meet realistic demand expectations and comply with its obligations and service standards.

In 2014-15, the number of capital asset management plans completed by Ausgrid and Essential Energy were below target by nine per cent and eight per cent respectively. They attribute this to more efficient cost delivery models, and cancelling or deferring projects due to low energy demand. Asset conditions were also reassessed in response to the decline in electricity consumption. Endeavour Energy achieved its target by three per cent.

TransGrid

The AER made a four year determination for TransGrid to align regulatory review periods across all transmission businesses in Australia. The previous determination period was for five years.

The diagram below summaries the combined revenue and expenditure impacts of the AER's determination on TransGrid for the 2014-2018 regulatory period.



Source: Data obtained from TransGrid (unaudited). Figures are presented in nominal values. These are rounded for presentation purposes.

If the current and previous regulatory periods are annualised for comparative purposes, there was no significant change to TransGrid's revenue or operating expenditure allowances for the 2014-2018 period. The main impact of the AER's determination for TransGrid is a lower capital expenditure allowance. The previous regulatory period allowed for higher network investment to meet projected growth in maximum demand.

The AER estimates the lower transmission charges, if passed through to customers, will result in the following reductions to average annual electricity bills for 2015-16:

- $22 - $25 for residential customers
- $34 - $41 for small business customers.

Impact on TransGrid's revenue

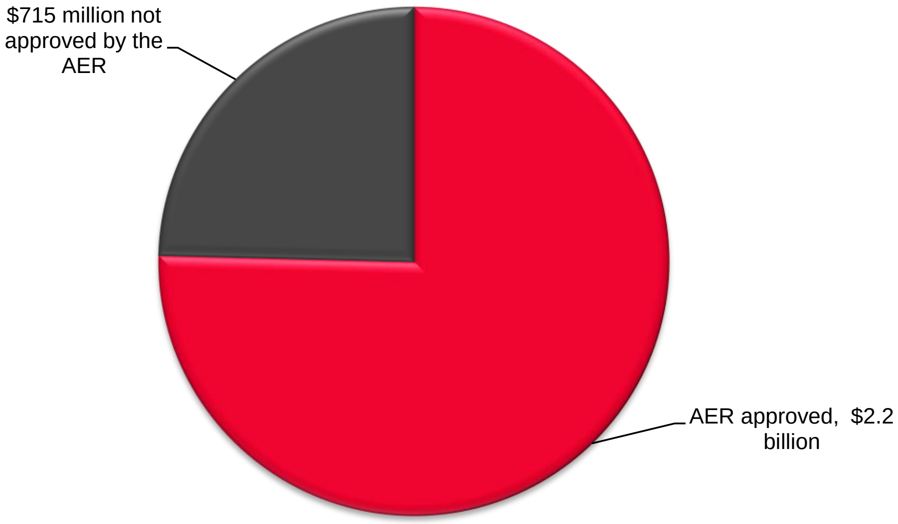
The AER's annualised revenue allowance for TransGrid decreased by five per cent

TransGrid's AER determined revenue allowance for 2014-2018 is $3.0 billion ($4.0 billion for 2009-2014). The four year allowance is 25 per cent lower than the previous five year determination. For comparative purposes, if the 2014-2018 determination is annualised, TransGrid is allowed to earn $40.4 million less revenue each year than in the 2009-2014 period, a five per cent decrease.

TransGrid's revenue allowance is $715 million less than that proposed to the AER

The chart below shows TransGrid's total revenue of $2.2 billion approved by the AER for 2015-2018 is 24.7 per cent less than their revised proposal of $2.9 billion. The difference is mainly due to the rate of return the AER believes represents a fair return on the value of TransGrid's assets. The AER determined a fair rate of return at 6.75 per cent, 1.9 per cent lower than TransGrid's proposed rate of return.

Portion of TransGrid's revenue proposal approved by AER



Source: Data obtained from TransGrid (unaudited). Figures are presented in nominal values. These are rounded for presentation purposes.

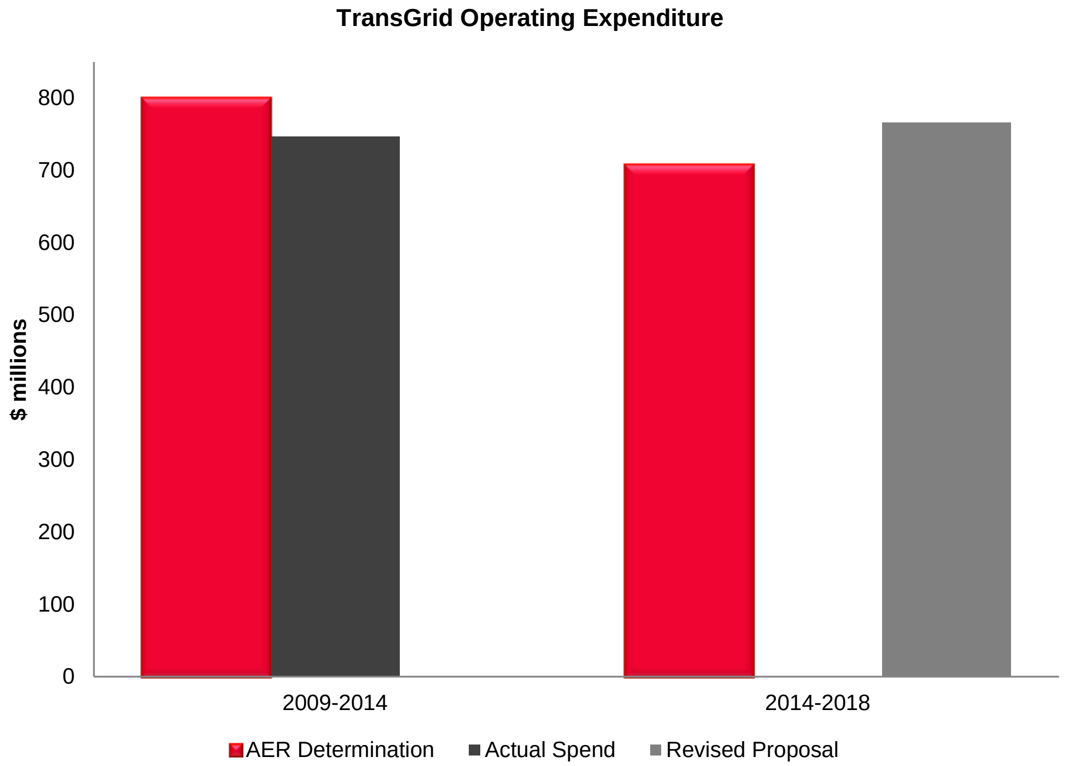
The AER believes lower rate of return for TransGrid is justified due to the improved investment environment since the last regulatory period, which has resulted in lower financing costs.

Impact on TransGrid's Operating Expenditure

The AER operating expenditure allowance is lower for the current regulatory period

The AER has approved an operating expenditure allowance of $708 million for TransGrid in the current regulatory period ($800 million in 2009-2014).

The graph below shows actual operating expenditure reported by TransGrid for the previous period was $52.9 million lower than that approved by the AER for the 2009-2014 period. TransGrid's revised operating expenditure proposal of $766 million for the 2014-2018 period exceeds the AER approved allowance by $58.5 million. This is mainly due to a different forecasting method used by TransGrid and the AER. TransGrid is not appealing the AER's recent determination.



Source: Data obtained from TransGrid (unaudited). Figures are presented in nominal values. These are rounded for presentation purposes.

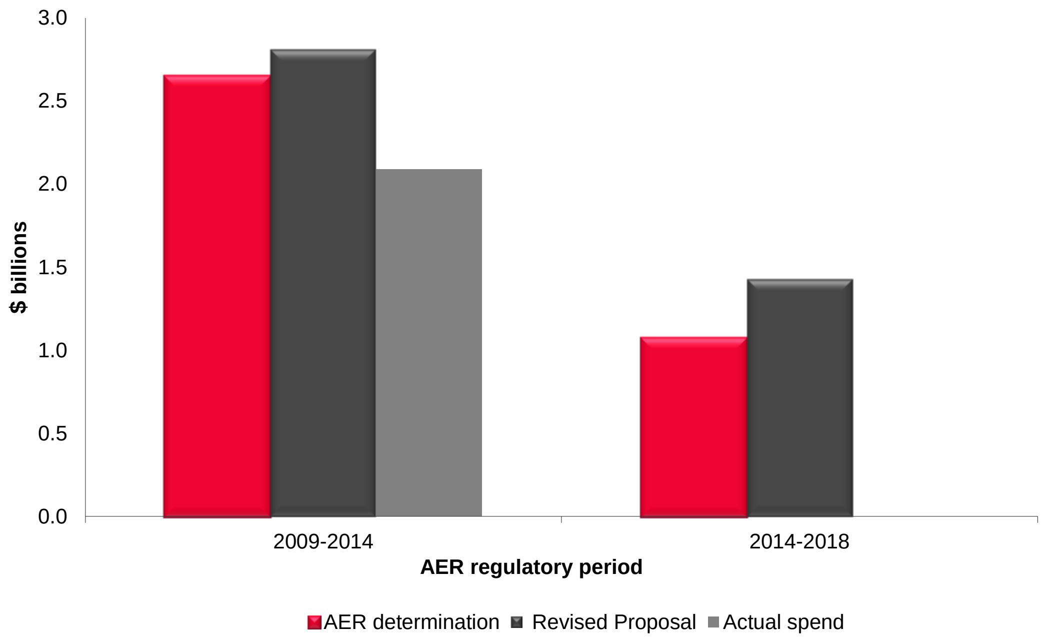
Impact on TransGrid's Capital Expenditure

The AER capital expenditure allowance of $1.1 billion is 25.4 per cent lower than that proposed by TransGrid

The AER has approved a total capital expenditure allowance for TransGrid of $1.1 billion ($2.6 billion for 2009-2014). TransGrid mainly attribute the decrease to a reduction in forecast network load growth.

The graph below shows TransGrid's actual capital expenditure was $559 million less than the AER approved expenditure of $2.6 billion for the 2009-2014 regulatory period. This expenditure is attributed to reduced energy demand, and strategies and initiatives implemented in the latter part of the regulatory period, which allowed TransGrid to deliver its capital programs at a lower cost.

TransGrid Capital Expenditure - Determined, Revised Proposal and Actual



Source: Data obtained from TransGrid (unaudited). Figures are presented in nominal values. These are rounded for presentation purposes.

The AER approved capital expenditure allowance of $1.1 billion for the 2014-2018 regulatory period is $356 million less than that proposed by TransGrid.

Response to AER Determination

NSW Distributors are appealing the recent AER determination

Merit Appeal

In May 2015, the NSW Distributors lodged appeals with the Australian Competition Tribunal (ACT) and the Federal Government against the cuts to operating programs in the AER's final determination. The application lodged with the ACT appeals the determination because:

- of the impact on vegetation and bushfire risk mitigation programs
- it does not provide a workable transition plan to implement continued efficiency improvements.

The Distributors are also seeking a review of the cost of capital allowed by the AER because it reduces the allowed interest rate on debt below the efficient benchmark cost of debt for an entity with an efficient debt portfolio.

The Distributors did not appeal the capital expenditure reductions because they have developed strategies to align revised capital expenditure with the AER's approved capital allowance.

The outcome of the appeal will be known during the 2015-16 financial year. TransGrid did not lodge an appeal.

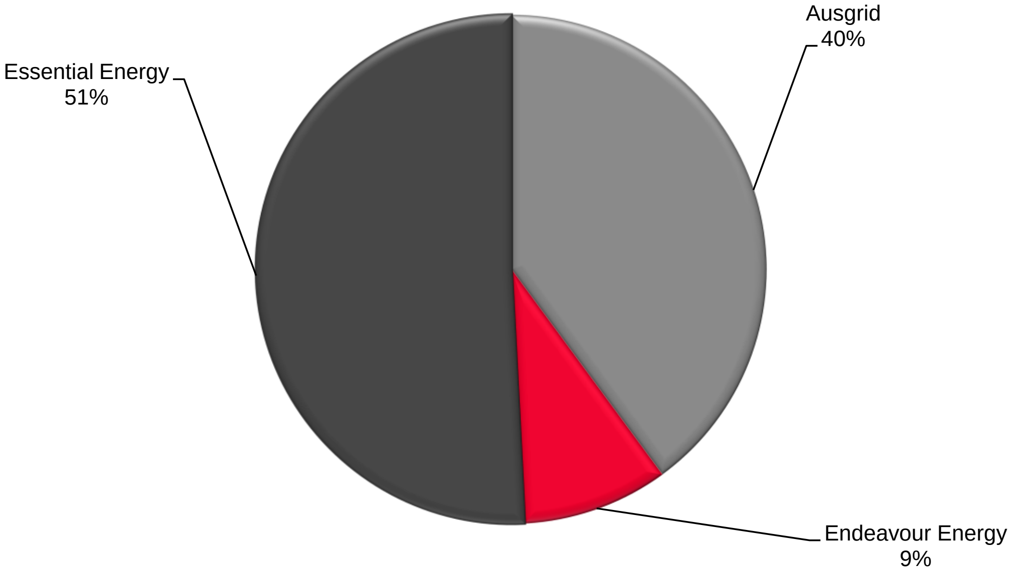
Unfunded Employee Positions

At 1 July 2015, 2,752 employee positions were unfunded

Distributors estimate they had 2,750 unfunded employee positions at 1 July 2015 as a result of the AER's allowance for capital and operating expenditure during the 2014-2019 determination period.

The chart below shows Essential Energy has the most unfunded positions amongst the Distributors, accounting for 51 per cent of the total. Endeavour Energy has the least, accounting for nine per cent of the total. TransGrid estimates it only had two unfunded positions.

Total Distributors' Unfunded Employee Positions at 1 July 2015



Source: Network NSW Recognition of Restructure and Redundancy Provisions 30 June 2015 – Position Paper (unaudited).

To meet the AER reduced capital and operating expenditure allowance the electricity businesses are implementing the following initiatives to improve efficiency and reduce operating expenditure. These include:

- voluntary employee redundancies
- continuous review of asset management programs, including the timing of critical projects and maintenance works
- implementing strategic procurement processes, including obtaining the most competitive prices for products and services purchased
- improved asset utilisation, including fleet reduction programs and termination of leases for office accommodation and storage facilities
- improving capital investment
- benchmarking internal delivery of services with external providers.

Sale and Lease of Electricity Businesses and Assets

The NSW Government continues to divest its interest in NSW electricity businesses

Lease of TransGrid

On 25 November 2015, the NSW Government announced the successful consortium to lease TransGrid for 99 years for $10.3 billion. TransGrid will be leased to a private consortium comprising a Canadian pension fund, the Abu Dhabi Investment Authority, Kuwait Investment Authority and local infrastructure funds. Net proceeds from this transaction will be used to build new infrastructure. Financial completion of this transaction is expected to occur mid December 2015.

Sale of Delta Electricity assets

On 30 January 2015, Colongra power station was sold to Snowy Hydro Limited. The NSW Government announced the sale of Delta Electricity's Vales Point coal-fired power station to Sunset Power International Pty Ltd and a joint venture between Vales Point Investments Pty Limited and Waratah Energy Pty Limited in November 2015 for $1.0 million, but retains Munmorah power station and the remaining renewable assets of Green State Power.

Cobbora

On 19 November 2015, the NSW Government announced its decision to stop the sale process for the Cobbora Coal mine. Instead, it plans to sell the land for agricultural use. The valuation of the land for this purpose exceeds all offers made by parties interested in developing a mine on the site. Plans to sell the Cobbora landholdings will commence shortly.

Sale of Macquarie Generation

On 2 September 2014, the NSW Government completed the sale of Liddell and Bayswater power stations to AGL Energy for $1.5 billion. Macquarie Generation was dissolved on 27 February 2015 after vesting its remaining assets and liabilities to other government agencies.

Transfer of Green State Power

On 18 July 2014, the NSW Government sold a significant portion of Green State Power's renewable assets for $72.2 million. On 8 December 2014, it transferred the remaining assets to Delta Electricity and deregistered Green State Power on 5 July 2015.

Long-term Lease of the Distribution Businesses

On 4 June 2015, the *Electricity Network Assets (Authorised Transactions) Act 2015* and the *Electricity Retained Interest Corporations Act 2015* were enacted to allow New South Wales to proceed with the long term lease of 49 per cent of the State's electricity network (the Transaction), including 100 per cent of TransGrid and 50.4 per cent of Ausgrid and Endeavour Energy. The net proceeds from the lease transactions will directly fund Rebuilding NSW, a $20.0 billion program to improve infrastructure to meet the State's needs.

On 14 July 2014, the NSW Government appointed UBS and Deutsche Bank to oversee a scoping study for the long-term leasing of the State's electricity network. The advisors found the network businesses were likely to attract a broad range of domestic and international investors due to their long-term strategic value as regulated assets.

Electricity Distribution Business Reform

Distributors will spend almost $7.0 billion less than planned under the five year network reform program

The Distributors estimated the reform program would result in $7.0 billion less in capital and operating expenditure over the five years to 30 June 2016. The table below shows the difference between actual expenditure over the past five years and the forecast spend determined in the 2010-11 Statement of Corporate Intent. The reforms were intended to improve efficiency and reduce costs to keep average network electricity price increases at or below the Consumer Price Index over the five-year period.

	Difference between forecast and actual expenditure*					
Year ended 30 June NSW Distributor	**2016** $m**	**2015 $m**	**2014 $m**	**2013 $m**	**2012 $m**	**Total $m**
Ausgrid	1,136	1,071	1,139	791	166	**4,303**
Endeavour Energy	320	276	141	141	14	**892**
Essential Energy	565	568	395	207	33	**1,768**
Total decrease in expenditure	**2,021**	**1,915**	**1,675**	**1,139**	**213**	**6,963**

* Forecast relates to the 2010-11 Statement of Corporate Intent.

** 2016 is forecast expenditure.

Source: NSW Distributors (unaudited).

The Distributors advise the reduced spend is being achieved through reduced capital expenditure programs due to declining consumer demand, common management structures across the Distributors, fewer employees, improved management of overtime and targeted sales of non-system assets. The fall in employee numbers was achieved through natural attrition, reduced hiring and voluntary redundancies.

Transitional Service Arrangements

For each of the Distributors, Transitional Service Arrangements (TSAs) were entered into as part of the Sale and Purchase Agreements for the electricity retail businesses in March 2011. All award staff affected by the sale were given a five year job guarantee from the sale date.

Ausgrid continued providing services to EnergyAustralia during 2014-15. This service arrangement expired on 19 December 2014, but Ausgrid continued supplying the transitional services until 24 February 2015.

In 2014-15, $25.5 million ($7.2 million in 2013-14) was paid or payable to permanent retail employees who accepted voluntary redundancies.

Financial and Sustainability Analysis

The liquidity (current ratio) and gearing ratios of TransGrid and the Distributors indicate they may have short term sustainability concerns. However, these entities are able to support ongoing operations with ratios at these levels, because they have:

- access to regulated revenue streams and rates of return
- assets with long useful lives to generate revenue
- debt funding limits approved by the NSW Treasurer under the *Public Authorities (Financial Arrangements) Act 1987*
- access to debt markets through the New South Wales Treasury Corporation
- safeguards within Treasury's Commercial Policy Framework, including constraints on the payment of dividends.

The table below summarises the performance of the Distributors and TransGrid against some key financial indicators at, and for, the year ended 30 June 2015. Refer to Appendix Three of this report for further description of ratios and risk assessment.

Financial Sustainability Indicators as at 30 June 2015						
Cluster agencies	Liquidity	Gearing %	Underlying result %	Capital replacement*	Self-financing %	Indicator
Electricity transmitters						
TransGrid	0.1	58.0	22.9	1.4	43.0	●
Electricity distributors						
Ausgrid	0.4	66.6	13.2	1.1	26.2	●
Endeavour Energy	0.3	68.5	15.4	2.0	22.5	●
Essential Energy	0.4	66.8	13.0	1.4	25.2	●

* Capitalised depreciation has been excluded.

Note: Indicators are calculated based on continuing and discontinued operations.

Source: Financial statements (audited).

Liquidity

The Distributors' and TransGrid's liquidity ratios were less than one at 30 June 2015. TransGrid had the lowest ratio of 0.1. A liquidity ratio of one is generally considered an appropriate level of liquidity to support business operations. However, in circumstances where businesses have access to regulated revenue streams, regulated rates of return and strong cash inflows, businesses can operate at lower levels of liquidity.

Gearing

The NSW Distributors are operating with gearing ratios greater than 60 per cent (60 per cent debt: 40 per cent equity) at 30 June 2015. The AER uses this benchmark as an efficient gearing ratio for the NSW Government electricity businesses to ensure customers do not bear the costs of inefficient financing structures.TransGrid is operating below the AER's benchmark. Endeavour Energy has the highest gearing ratio of 68.5 per cent.

Underlying Result

An entity's underlying result reflects the profit or loss from its ongoing activities. TransGrid and the Distributor businesses achieved favourable underlying results in 2014-15. Further analysis of revenue and net results is included earlier in this report.

Capital Replacement Ratio

All entities recorded capital replacement ratios greater than one at 30 June 2015. A ratio greater than one indicates capital expenditure is greater than the rate of depreciation. Endeavour Energy had the highest capital replacement ratio, while Ausgrid had the lowest. As outlined earlier in this report, Endeavour Energy was the only Distributor to achieve its capital asset management plan target in 2014-15.

Long Term Sustainability Trends

The following ratios are derived from the consolidated operations of TransGrid and the Distributors.

Long Term Sustainability Trends					
Year ended 30 June	**2015**	**2014**	**2013**	**2012**	**2011**
Return on equity (%)	10.6	13.7	18.4	13.0	8.1*
Return on assets (%)	7.8	8.2	10.3	8.7	7.0*
Interest coverage ratio (times)	2.1	2.2	2.7	1.9	1.8*
Gearing ratio (%)	65.6	65.5	65.3	70.1	67.3
Liquidity ratio (times)	0.3	0.4	0.4	0.4	0.4

Note: Indicators are calculated based on continuing and discontinued operations.

* excludes the impact for the sale of the retail operations of the electricity Distributor businesses.

Source: Financial statements (audited).

Combined revenue generated by the Distributors and TransGrid increased by $34.0 million to $7.7 billion in 2014-15. Profit after tax decreased to $1.1 billion for the year ($1.4 billion in 2013-14).

Return on equity fell in 2014-15 mainly due to an overall decrease in the combined net profit after tax for the Distribution businesses.

The liquidity ratio fell in 2014-15 mainly due to increased borrowings during the year.

Long Term Sustainability for Transmission and Distribution businesses

The following table shows key financial ratios for TransGrid and the Distributors.

Long Term Sustainability - TransGrid and Distributors						
	TransGrid			**Distributors**		
Year ended 30 June	**2015**	**2014**	**2013**	**2015**	**2014**	**2013**
Return on equity (%)	9.4	8.7	10.4	10.9	15.1	21.2
Return on assets (%)	7.0	6.7	7.5	8.0	8.5	10.9
Interest coverage ratio (times)	2.7	2.4	2.9	2.0	2.2	2.6
Gearing ratio (%)	57.9	55.4	52.7	67.1	67.5	67.7
Liquidity ratio times	0.1	0.2	0.2	0.4	0.4	0.5

Note: Indicators are calculated based on continuing and discontinued operations.

Source: Financial statements (audited).

Distributors

Return on Equity

Return on equity ratios decreased for the Distributors in 2014-15 as all entities generated less profit after tax. The lower combined profit for the Distributors was mainly attributed to Ausgrid.

Return on Assets

Return on assets ratios decreased for the Distributors in 2014-15 mainly due to Ausgrid's reduced profit before interest and tax.

Gearing

At 30 June 2015, total external debt for Distributors was $17.8 billion ($17.2 billion). Gearing ratios fell slightly in 2014-15 across the Distributors due to higher net assets.

TransGrid

Return on Equity and Assets

Returns on equity and on assets increased in 2014-15 as TransGrid generated a higher profit after tax.

Gearing

TransGrid's gearing ratio increased in 2014-15 mainly due to a $192 million increase in short-term borrowings.

Liquidity

TransGrid's liquidity deteriorated further in 2014-15 due to an increase in short-term borrowings and the dividend provision.

Financial Controls

Appropriate financial controls help ensure the efficient and effective use of resources and the implementation and administration of entity policies. They are essential for quality and timely decision making to achieve desired outcomes.

Financial controls	
Observation	**Conclusion**
No high risk internal control weaknesses were identified in the electricity businesses.	Internal controls were generally designed appropriately and operated effectively to produce reliable and timely financial reports.
The information system audits identified only three issues in 2014-15, compared to 21 issues in 2013-14.	Information technology (IT) processes and controls improved in 2014-15 and supported the integrity of financial data used to prepare the financial statements.
The costs of overtime and associated allowances were lower in 2014-15 than 2013-14.	The Distributors and TransGrid have continued to improve the management of overtime.
External debt held by Distributors and TransGrid increased by 3.5 per cent to $20.6 billion in 2014-15.	Over $10.1 billion in debt must be repaid or refinanced over the next five years.

Internal Controls

No high risk control weaknesses were identified by the 2014-15 audits

The 2014-15 audits did not identify any high risk internal control weaknesses, but areas were identified where internal controls could be improved. These were reported to the relevant agencies' management together with recommendations to address the weaknesses. The audits identified common lower level risks in areas such as information technology, asset management, segregation of duties and human resource management.

Audits involve performing procedures to obtain sufficient evidence to support the amounts and disclosures in financial statements. The procedures depend on the auditor's judgement, including an assessment of the risks of material misstatement of the financial statements. When assessing the risks, the auditor considers internal controls relevant to the preparation of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control.

Information Technology

The number of IT issues identified in NSW electricity businesses fell in 2014-15

The information system audits identified three issues in the electricity businesses in 2014-15, compared to 21 issues in 2013-14. All issues reported in the previous financial year were addressed during 2014-15.

Information technology processes and controls support the integrity of financial data used to prepare the financial statements and reduce the risk of unauthorised access, security attacks, data privacy breaches and identity theft.

Human Resources

Overtime and Associated Allowances

Overtime and associated allowances were lower in 2014-15

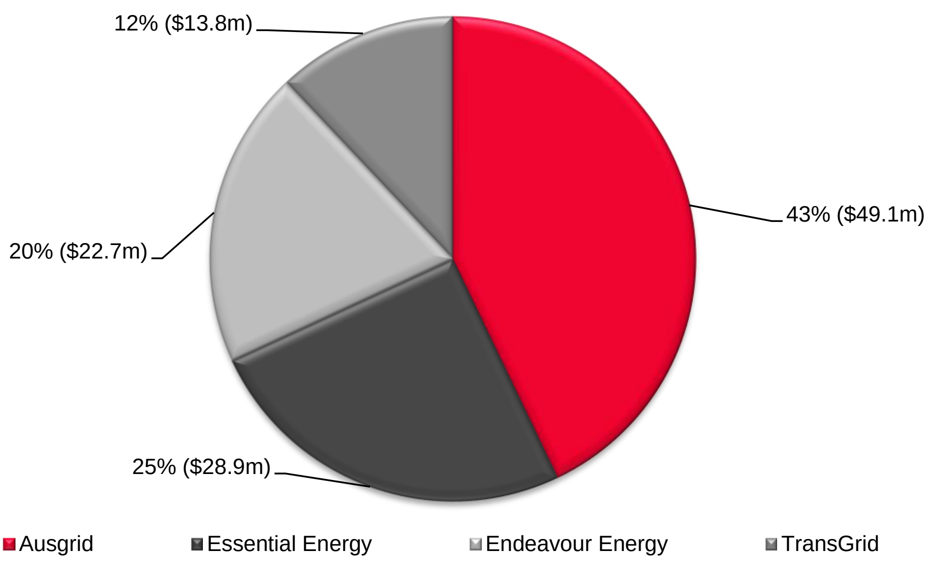
The Distributors and TransGrid have continued to improve the management of overtime, which is impacted by the frequency of network-related incidents, such as fault and emergency responses to weather conditions, the need for capital and maintenance work to be completed outside employees' scheduled operating hours, and the remoteness of some locations where work is required.

Overtime is paid at a premium rate and, if not effectively managed, may result in unnecessary costs and increased work, health and safety issues, particularly when fatigued employees perform high-risk tasks. Previous Auditor-General’s Reports to Parliament have identified the need to closely monitor overtime levels to ensure business needs are met efficiently.

NSW Distributors and TransGrid

Total overtime and associated allowances paid by Distributors and TransGrid decreased to $114 million in 2014-15 ($120 million in 2013-14). Ausgrid, the largest Distributor, paid $49.1 million (43 per cent) of the total overtime expense.

Total overtime and associated allowances for the year ended 30 June 2015

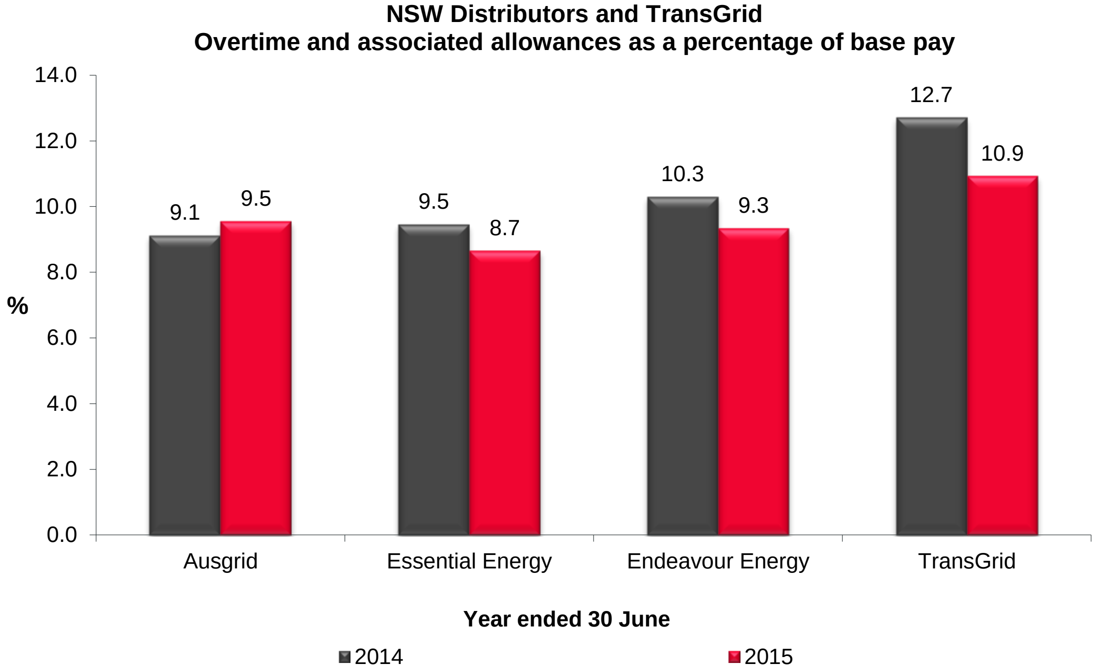


Note: Graph composition does not add due to rounding.

Source: NSW Distributors and TransGrid (unaudited).

The graph below shows overtime and associated allowances, as a percentage of base pay, fell for TransGrid and all Distributors during 2014-15, except for Ausgrid.

Ausgrid's overtime increased due to additional work associated with severe weather, which caused substantial damage to its network in April 2015.



Source: NSW Distributors and TransGrid (unaudited).

In 2014-15, total overtime as a percentage of total base pay ranged from 8.7 per cent for Essential Energy to 10.9 per cent for TransGrid. Essential Energy and Endeavour Energy experienced the largest reductions with overtime and associated allowances falling by $2.6 million and $2.7 million respectively.

In 2014-15, 168 employees were paid more than 50 per cent of their base salary in overtime and associated allowances, compared to 217 in the prior year. This represents an overall decrease of 22.6 per cent.

	Number of employees receiving more than 50% of their base salary in overtime and associated allowances			
Year ended 30 June **NSW Distributor**	**2015**	**2014**	**2013**	**Increase/(Decrease) from 2014 %**
Ausgrid	144	169	245	(14.8)
Essential	11	32	144	(65.6)
Endeavour	12	6	17	100.0
TransGrid	1	10	11	(90)
Total	**168**	**217**	**417**	**(22.6)**

Source: NSW Distributors and TransGrid (unaudited).

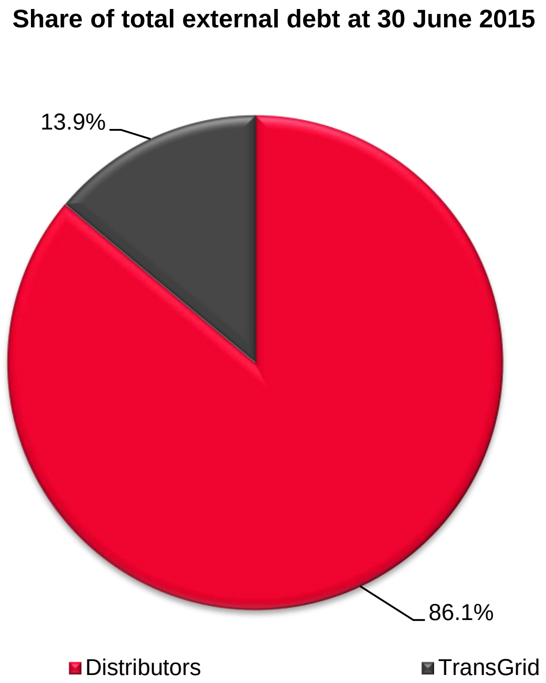
Asset Management

Borrowings

External debt held by Distributors and TransGrid increased by 3.5 per cent in 2014-15

The Distributors' and TransGrid's total external debt increased to $20.6 billion at 30 June 2015 ($19.9 billion at 30 June 2014). Ausgrid accounted for 43.7 per cent of the total debt with borrowings of $9.0 billion ($8.7 billion). It has the largest capital investment program of the Distributors.

The chart below shows Distributors account for 86.1 per cent of the total external debt held by electricity businesses at 30 June 2015. Generators had no debt at 30 June 2015.



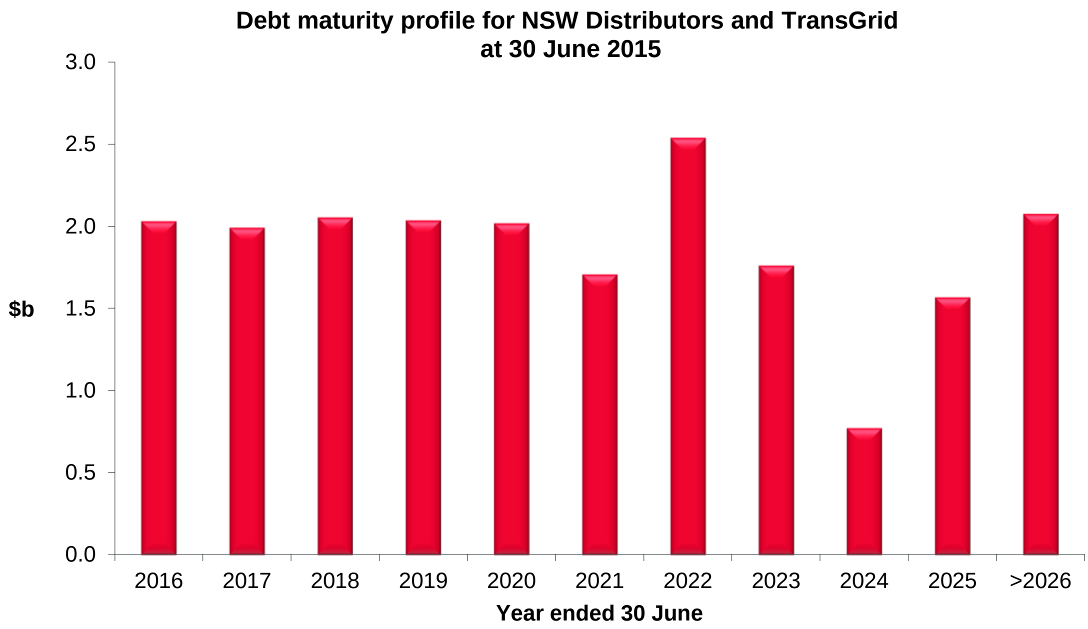
Source: NSW Distributors, NSW generators and TransGrid Financial Statements (audited).

Over $10.1 billion in debt must be repaid or refinanced over the next five years

The Distributors and TransGrid are due to repay or refinance 49.3 per cent of their total debt in the next five years.

Historically, debt levels have increased with the Distributors and TransGrid rolling over debts as they fall due.

The following graph shows the debt maturity profile of the Distributors and TransGrid:



> 2026 includes all debt maturing in the financial year ending 30 June 2026 and beyond.

Source: NSW Distributors and TransGrid (audited).

Borrowing costs of electricity businesses increased marginally in 2014-15

Borrowing costs (including capitalised interest) totalled $1.6 billion in 2014-15, marginally higher than 2013-14. External debt held by all electricity businesses at 30 June 2015 was $20.6 billion ($21.3 billion). The decrease in external debt was mainly due to the repayment of debt from the proceeds received from the sale of Macquarie Generation and Colongra power station. Delta Electricity's remaining debt of $259 million was assumed by the Crown.

Borrowing Costs and External Debt			
Year ended 30 June	2015 $m	2014 $m	2013 $m
Borrowing costs	151	112	129
External debt	--	1,370	1,530
Distributors			
Borrowing costs	1,231	1,237	1,220
External debt	17,771	17,161	16,197
TransGrid			
Borrowing costs	173	176	166
External debt	2,875	2,738	2,436
Total borrowing costs	**1,555**	**1,525**	**1,515**
Total external debt	**20,646**	**21,269**	**20,163**

Source: NSW Distributors, NSW generators and TransGrid Financial Statements (audited).

Asset Maintenance

Maintenance expenditure in 2014-15 is consistent with the previous year

The following table shows the value of the Distributors and TransGrid's property, plant and equipment (PPE) increased 35 per cent ($9.2 billion) over the past five years. However, the ratio of maintenance expenditure to PPE values has decreased from 3.4 per cent in 2010-11 to 2.4 per cent in 2014-15.

Asset Maintenance Expenditure					
Year ended 30 June	2015	2014	2013	2012	2011
Maintenance expenditure ($m)	865	864	918	901	882
PPE values at 30 June ($b)	35.5	34.7	33.5	29.1	26.3
Maintenance expenditure/PPE values (%)	2	3	3	3	3.4

Source: NSW Distributors and TransGrid (audited).

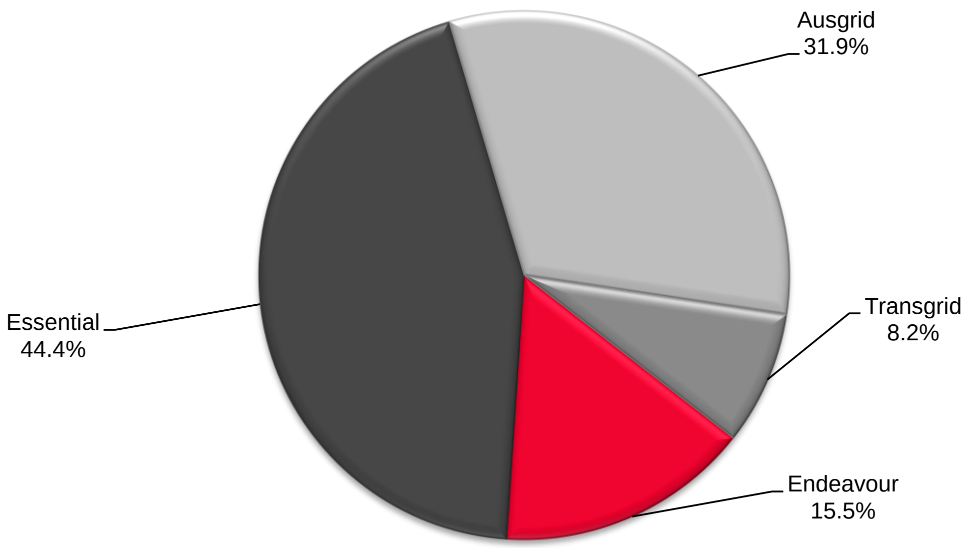
More than $4.4 billion has been spent on maintenance over the past five years

The Distributors and TransGrid have spent over $4.4 billion on maintenance over the past five years. Essential Energy accounted for 44.4 per cent of this expenditure. It maintains the electricity distribution network in regional New South Wales, servicing 95 per cent of the area within the State.

Ausgrid incurred 31.9 per cent of total maintenance expenditure. It maintains the electricity distribution network in Sydney, Newcastle, the Hunter Valley and Central Coast of New South Wales.

Endeavour Energy incurred 15.5 per cent of total maintenance expenditure. It maintains the electricity distribution network in Sydney's Greater West, the Blue Mountains, Southern Highlands, Illawarra and South Coast of New South Wales.

Total maintenance expense over the past five years

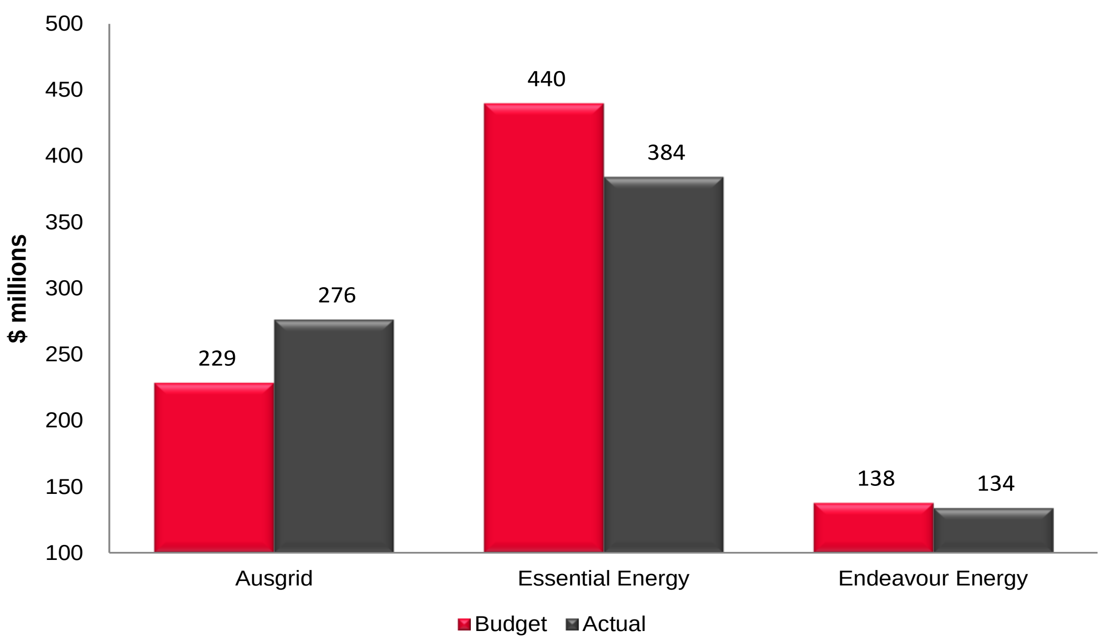


Source: NSW Distributors and TransGrid (audited).

Distributors spent less than budget on maintenance in 2014-15, but met maintenance targets

In 2014-15, the Distributors spent a total of $794 million on maintenance, compared to the budget of $807 million. Ausgrid exceeded its $229 million budget by $47.0 million mainly due to repairs associated with severe storm damage in April 2015. Essential Energy and Endeavour Energy spent $56.0 million and $4.0 million less than budget respectively.

2014-15 Distributors' Maintenance Expense vs Budget



Source: NSW Distributors (unaudited).

Governance

Governance refers to the framework of rules, relationships, systems and processes within, and by which, authority is exercised and controlled. It includes the systems the entities, and those charged with governance, use and are held to account by others.

This chapter outlines key findings about Governance relating to the Distributors and TransGrid for 2014-15. The key findings and conclusions are summarised in the following table.

Governance reporting	
Observation	**Conclusion**
The NSW Government enacted legislation to lease 49 per cent of the State's electricity networks.	In 2014-15, the NSW Government confirmed TransGrid, Ausgrid and Endeavour Energy would be leased in full or in part to the private sector. On 25 November, the NSW Government announced the successful consortium to lease TransGrid for 99 years for $10.3 billion. Net proceeds from these transactions will be used to build new infrastructure.
In 2014-15, the Distributors and TransGrid referred 33 incidents of fraud, three less than in 2013-14.	The Distributors and TransGrid have continued to implement frameworks to prevent, identify, investigate and report suspected and actual fraud.

Governance Frameworks

Key Legislative Changes

Legislation enacted to lease 49 per cent of the State's electricity networks

On 4 July 2015, the *Electricity Network Assets (Authorised Transactions) Act 2015* and the *Electricity Retained Interest Corporations Act 2015* were enacted by the NSW Government.

Electricity Network Assets (Authorised Transactions) Act 2015

The *Electricity Network Assets (Authorised Transactions) Act 2015* (ENA Act) allows the NSW Government to lease 49 per cent of the State's electricity networks to the private sector for an initial term of up to 99 years. Net proceeds from the transactions will be used to build new infrastructure. The ENA Act prevents transfer of Essential Energy's assets, rights or liabilities.

Key elements of the ENA Act include:

- cessation of the joint board arrangements for Ausgrid, Endeavour Energy and Essential Energy, when requested by the Treasurer
- successful bidders are required to guarantee total network charges for the 2018-19 financial year are lower than in 2013-14
- successful bidders will need to promote efficient investment in operations, protect the long term interests of electricity consumers and comply with the AER's Efficiency Benefit Sharing Scheme
- transferred employees will be entitled to the same work terms and conditions when the leases commence. A five year employment guarantee period will exist from 1 July 2015 to 30 June 2020
- the following minimum numbers of full time employees must be maintained, 3,570 for Ausgrid, 2,100 for Endeavour Energy and 1,000 for TransGrid
- no forced redundancies can occur during the guarantee period other than by agreement or in accordance with the *Fair Work Act 2009* for continuing employees
- the Treasurer may direct that no State tax is payable on the privatisation of a network.

Electricity Retained Interest Corporations Act 2015 (NSW)

The *Electricity Retained Interest Corporations Act 2015 (NSW)* (ERIC Act) addresses how residual electricity network assets, retained by the State, will be managed following the long term leases to the private sector.

The key elements of the ERIC Act include:

- the creation of corporations to hold the retained interests on behalf of the State
- ensuring the corporations properly manage the retained assets and maximise their returns to the State
- the governance arrangements for each corporation.

Since 1 July 2012, all three NSW Distributors operated as separate legal entities managed by a joint Board of Directors and common Chief Executive Officer. In preparation for the partial lease of Ausgrid and Endeavour Energy, the group management structure of Networks NSW was dissolved on 1 July 2015.

Parliamentary Review

In May 2015, an inquiry was held into the leasing of the State's electricity infrastructure. The final report was released on 2 June 2015. It concluded that leasing the electricity infrastructure is expected to result in lower electricity network and retail prices.

The inquiry also concluded the leasing arrangements are expected to have a neutral impact on the safety and reliability of the services provided by the leased network businesses.

Risk Management

Risk management has been implemented across the NSW electricity businesses

Effective risk management can improve decision making and lead to significant efficiencies and cost savings. By embedding risk management directly into processes, agencies can derive additional value from their risk management programs. The more mature an agency's risk management, the stronger its culture in balancing the tension between value creation and protection.

Treasury Policy Paper TPP 15-03: Internal Audit and Risk Management Policy for the NSW Public Sector requires an agency to establish and maintain an appropriate risk management framework and related processes.

A mature risk management process should:

- foster an embedded risk aware culture
- align strategic and business decision making processes with risk management activities
- improve resilience in dealing with adversity
- increase agility in pursuing new opportunities.

Agencies will need to evaluate the costs and benefits of risk management capability if they are to achieve a desirable balance between risk and reward. Some agencies may need more sophisticated risk management processes than others to suit the size and complexity of their activities.

During 2014-15, NSW electricity businesses self-assessed their overall risk maturity. The assessments indicate that the respondents believe:

- risk management is fully implemented across the businesses and used in day to day management activities
- there is strong recognition of risk management at Board level
- aggregated risk reports are prepared and reported to executive management
- risk management is proactive and key risk indicators are collected and monitored consistently.

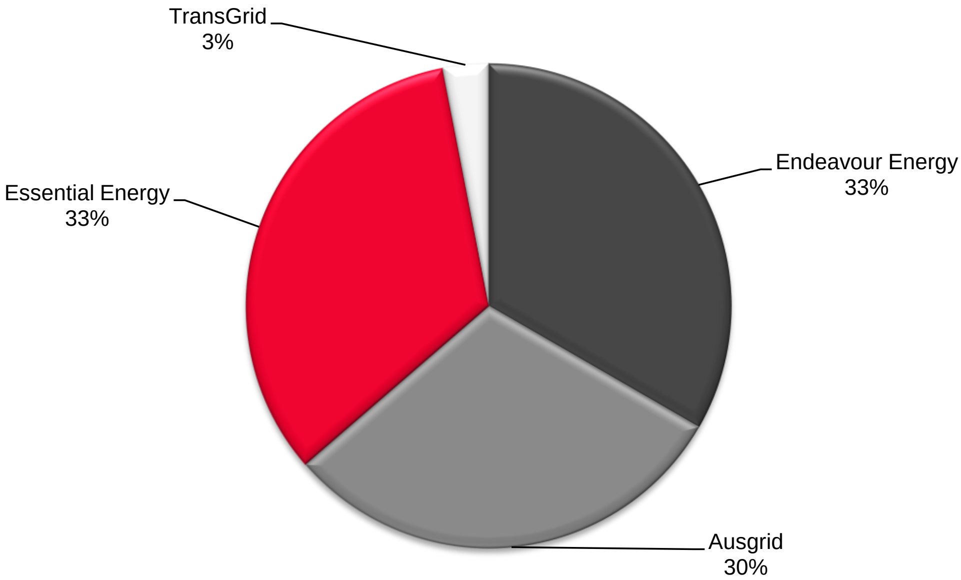
Fraud Control

Instances of alleged fraud and corruption have reduced

In 2014-15, 33 incidents of alleged fraud and corruption were reported to the Independent Commission Against Corruption (ICAC) or were referred to the Chief Executives of the Distributors or TransGrid by ICAC. This compares to 36 in 2013-14 and equates to an average of one alleged incident per 400 employees. The businesses employed over 14,000 employees during 2014-15.

The chart below shows that a similar number of the alleged incidents occurred in Essential Energy, Endeavour Energy and Ausgrid. TransGrid only referred one incident to the ICAC in 2014-15.

Share of alleged incidents of fraud and corruption in 2014-15
Distributors and TransGrid



Note: Graph composition does not add due to rounding.

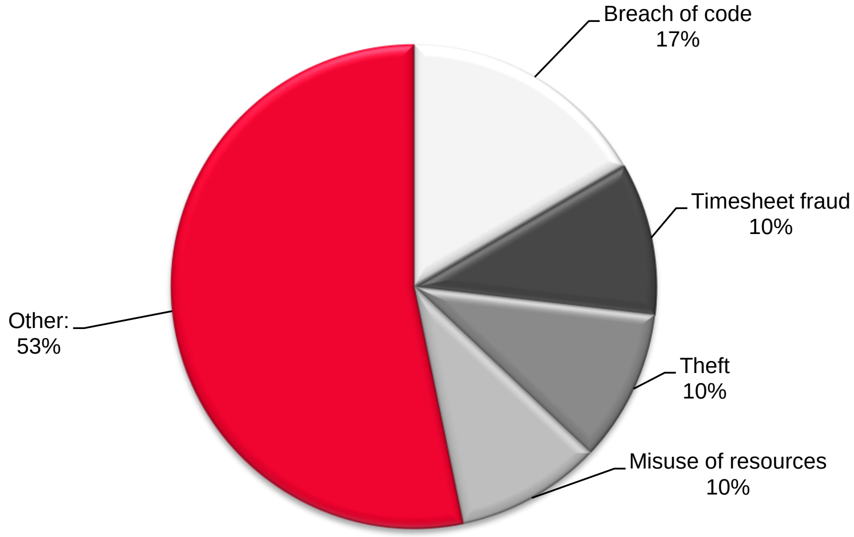
Source: TransGrid and NSW Distributors (unaudited).

The following chart shows the outcome of the entities' investigations into the alleged incidents of fraud and corruption in 2014-15.

The main types of substantiated incidents were breaches of codes of conduct, misuse of resources, timesheet fraud and theft. Other types of substantiated incidents of fraud or corruption mainly relate to falsifying records and recruitment.

Substantiated incidents mainly resulted in the termination of employees or contractors, counselling or formal warnings.

Substantiated Types of Fraud or Corruption in 2014-15
Distributors and TransGrid



Source: TransGrid and NSW Distributors (unaudited).

The Distributors and TransGrid have strong frameworks to help prevent, identify, investigate and report suspected and actual fraud. In 2014-15, they conducted the following fraud and corruption activities:

- reviewed and updated the fraud risk registers during the year to respond to changes in business environments
- developed a new Fraud and Corruption Control Plan for 2015-2017.

The Distributors' fraud investigation procedures require all allegations to pass through a three-stage process of assessment and investigation. This process ensures only allegations supported by evidence progress to investigation.

Service Delivery

This chapter outlines key findings about Service Delivery for the Distributors and TransGrid for 2014-15. The key findings and conclusions are summarised in the following table.

Service Delivery	
Observation	**Conclusion**
Demand for electricity is falling, but the total amount of energy used fell less than it did in 2013-14.	The downward trend in energy consumption slowed in 2014-15 mainly due to the repeal of the carbon price, lower electricity price movements and a cooler winter season.
Network reliability improved for TransGrid and Ausgrid, but deteriorated for Essential Energy and Endeavour Energy.	Severe unfavourable weather events throughout 2014-15 impacted network reliability for Essential Energy and Endeavour Energy. TransGrid's attribute network reliability improved mainly due to effective maintenance and operation of the network, and improvements to design standards.
Customer satisfaction, controllable network incidents and lost time injury rates improved for Distributors.	Increased focus on customer orientated processes and safety has improved customer satisfaction and safety.

Customer Demand for Electricity

Demand for electricity continues to fall

The Australian Energy Market Operator (AEMO) reported the following average growth rates in energy consumption and peak demand for electricity in New South Wales over the last four years.

Average growth rate for the year ended 30 June	2015	2014	2013	2012
Peak demand increase/(decrease) (%)	(1.2)	0.5	1	1.2
Energy consumption increase/(decrease) (%)	(0.1)	(2.8)	(2.1)	1.2

Source: AEMO National Electricity Forecasting Report 2015 (unaudited).

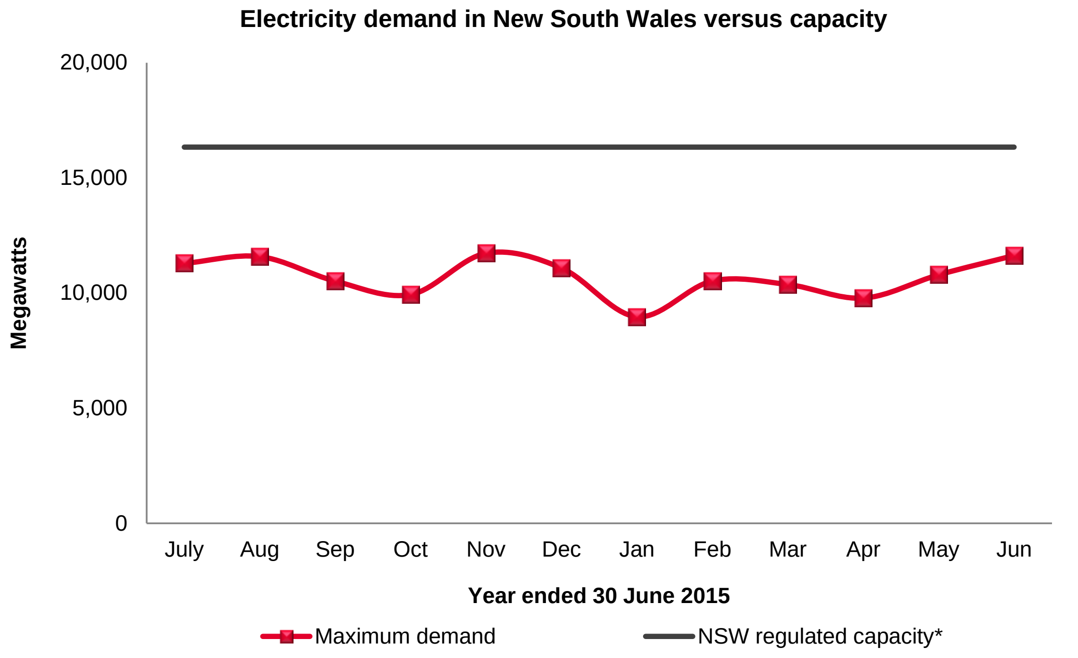
The decrease in the peak demand for electricity in 2014-15 is attributed to fewer days with a maximum temperature over 30°C compared to previous years.

Energy consumption has declined since 2011-12 partly due to penetration of energy efficient appliances, rising electricity prices, loss of major industrial load and an increase in the number of rooftop solar panel systems.

The downward trend in energy consumption slowed in 2014-15 mainly due to the repeal of the carbon price in 2014-15, lower electricity price movements and a cooler winter season.

Although the trend for energy consumption has generally been falling in recent years, the electricity businesses are still required to meet set reliability and performance standards. The cost of maintaining this capacity and reliability is reflected in network costs and customers' electricity bills.

The graph below shows electricity peak demand in New South Wales was well below the total system capacity for the entire financial year. Electricity prices are based on the cost of system capacity, not the cost of electricity used.



* NSW regulated capacity includes all fuel sources of NSW registered participants with the NEM. The graph assumes capacity levels remain constant for the entire year.

Source: Maximum (Peak) Demand from AEMO aggregated price and demand data 2014 and 2015. NSW Regulated Capacity sourced from AEMO registration and exemption list as at 24 March 2015 – accessed 14 October 2015 (unaudited).

Industry Benchmarks

The Distributors and TransGrid use a range of common benchmarks to assess their financial, operational and environmental performance.

Distributors' Benchmarks

	Ausgrid			Essential Energy			Endeavour Energy		
Year ended 30 June	2015 Actual	2015 Target	2014 Actual	2015 Actual	2015 Target	2014 Actual	2015 Actual	2015 Target	2014 Actual
Operational statistics									
Network reliability – unplanned system average interruption duration index SAIDI (minutes)	71.4	83.3	76.5	222	236	181	104	89	83
Customer satisfaction (%)	79	80	78	82	80	81	80	80	78
Employee statistics									
Lost time injury frequency rate	1.4	2	1.8	1.5	2	2	2.7	2	4.8
Reportable incidents - controllable SENI*	44	49	50	12	11	11	16	18	18
Environmental statistics									
Reportable incidents – environment	4	6	5	2	4	5	--	1	--

* SENI is defined as significant electrical network incidents.

Source: NSW Distributors Draft Annual Report 2014-15 and Statement of Corporate Intent 2014-15 (unaudited).

Network reliability performance varies for each Distributor

The system average interruption duration index (SAIDI) is a measure of network reliability and represents the number of minutes, on average, a customer is without electricity. In 2014-15, Ausgrid improved its SAIDI compared to 2013-14, while Endeavour's and Essential Energy's performance fell. Ausgrid and Essential Energy performed better than their targets, while Endeavour Energy performed below its target.

SAIDI for all Distributors was impacted by severe unfavourable weather events throughout 2014-15.

Customer satisfaction improved marginally from the previous year for all Distributors

In 2014-15, Ausgrid did not meet its customer satisfaction target, but performed better than the previous year. Essential Energy and Endeavour Energy either met or exceeded their customer satisfaction targets.

Customer satisfaction improved partly due to the Distributors having more focus on customer orientated processes, which included the introduction of Customer Commitment Statements to raise customer awareness and ensure better alignment of business decisions to customers' needs and priorities.

Lost time Injury Rates improved for all Distributors compared to 2013-14

The lost time injury frequency rate (LTIFR) represents lost time injuries per one million hours worked. In 2014-15, Ausgrid and Essential Energy performed better than target and the previous year, primarily due to work on their health and safety strategic plans. Endeavour Energy did not achieve its LTIFR target of 2.0, but its performance improved compared to the previous year. Endeavour Energy is continuing to implement key strategic elements of its health, safety and environment plan.

Controllable network incidents fell for most Distributors in 2014-15

The reportable incidents, controllable significant electrical network incidents (SENI), were better than target and the previous year for both Ausgrid and Endeavour Energy. The SENI was higher than target and 2013-14 for Essential Energy. Improvements in the SENI are attributed to the implementation of safety action plans to improve safety behaviours, culture and performance. The plans focus on fatal risk management, safety management systems and, safety training and development.

Reported environmental incidents fell for all Distributors

All Distributors experienced reductions in reportable environmental incidents in 2014-15 and performed better than target. An Environment Strategy has been implemented across all Distributors to reduce and manage such incidents.

TransGrid's Benchmarks

	TransGrid		
Year ended 30 June	**2015 Actual**	**2015 Target**	**2014 Actual**
Operational statistics			
Network reliability – system minutes lost	0.31	N/A	0.64
Customer satisfaction (%)	74	>72.0	70.9
Employee statistics			
Lost time injury frequency rate (LTIFR)	1.9	--	0.9
Number of 'high consequence' incidents	10	--	7
Environmental statistics			
Reportable environmental incidents requiring regulatory sanctions	1	--	--

Source: TransGrid data return (unaudited).

N/A: No target exists for TransGrid's network reliability as there are no external regulatory targets established.

TransGrid’s network reliability improved by over 50 per cent

System minutes lost decreased by more than 51.6 per cent compared to the previous year. A system minute is the amount of energy, which would not be supplied if the whole New South Wales system was unavailable for a minute at peak usage.

TransGrid advises the significant improvement in network reliability was mainly due to effective maintenance and operation of the network, improvements to design standards and procurement of equipment.

Customer satisfaction was above target and higher than previous year

TransGrid’s customer satisfaction was two per cent above the target rate of 72 per cent in 2014-15 and is higher than 2013-14.TransGrid advises it focused on delivering connection solutions in a timely and cost effective manner, enhancing communication channels for customers, and ensuring transparency around its costs and pricing framework.

Lost time injuries increased in 2014-15

The lost time injury frequency increased in 2014-15 due to a small increase in minor injuries. The level of ‘high consequence’ incidents increased to ten in 2014-15 (seven in 2013-14).

In 2014-15, TransGrid’s safety focus shifted from lost-time injuries to understanding the risks leading to incidents with high consequence. TransGrid launched a communication program to increase employee awareness to avoid risks associated with high consequence incidents.

Section Two

Appendices

Appendix One – Financial Information

	Total assets		Total liabilities		Total revenue		Total expense		Net result	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Generator										
Delta Electricity	325	1,053	311	1,035	293	581	791	563	(498)	18
Macquarie Generation	--	2,266	--	1,340	171	1,307	416	1,154	(245)	153
Electricity transmitter										
TransGrid	6,647	6,550	4,554	4,342	887	858	684	667	203	191
Electricity distributors										
Ausgrid	16,084	16,246	11,575	11,811	3,173	3,335	2,753	2,727	420	608
Endeavour Energy	7,198	6,913	5,364	5,193	1,577	1,498	1,333	1,197	244	301
Essential Energy	8,228	8,037	5,846	5,919	2,053	1,965	1,787	1,670	266	295

Source: Financial statements (audited).

Appendix Two – Performance Against Budget

	TransGrid		Ausgrid		Endeavour Energy		Essential Energy	
	2015 actual	2015 SCI	2015 actual	2015 SCI*	2015 actual	2015 SCI*	2015 actual	2015 SCI*
	$m	$m	$m	$m	$m	$m	$m	$m
Abridged statement of comprehensive income - year ended 30 June 2015								
Total revenue	887	904	3,173	3,002	1,577	1,436	2,053	1,825
Profit before tax	**292**	**--**	**597**	**385**	**348**	**215**	**381**	**109**
Profit after tax	**203**	**176**	**420**	**269**	**244**	**151**	**266**	**77**
Total other comprehensive income/(expense)**	(25)	--	67	--	37	--	57	--
Total comprehensive income/(expense)	**178**	**--**	**487**	**--**	**281**	**--**	**323**	**--**
Abridged statement of financial position - at 30 June 2015								
Total assets	**6,647**	**--**	**16,084**	**--**	**7,198**	**--**	**8,228**	**--**
Total liabilities	**4,554**	**--**	**11,575**	**--**	**5,364**	**--**	**5,846**	**--**
Net assets	**2,093**	**--**	**4,509**	**--**	**1,834**	**--**	**2,382**	**--**
Abridged statement of cash flows - year ended 30 June 2015								
Purchases of property, plant and equipment	339	--	640	--	391	--	490	--

* Includes NUOS, capital contributions, solar bonus recovery and other income

** Includes transactions taken directly to equity, such as asset revaluation movements and actuarial movements on defined benefit superannuation plans.

Appendix Three – Financial Sustainability

Indicator	Formula	Description
Underlying result per cent	**Adjusted net surplus / total underlying revenue**	A positive result indicates a surplus, and the larger the percentage, the stronger the result. A negative result indicates a deficit. Operating deficits cannot be sustained in the long term. Underlying revenue does not take into account one-off or non-recurring transactions. Net result and total underlying revenue is obtained from the comprehensive operating statement and is adjusted to take into account large one-off (non-recurring) transactions.
Liquidity (ratio)	**Current assets / current liabilities**	This measures the ability to pay existing liabilities in the next 12 months. A ratio of one or more means there are more cash and liquid assets than short-term liabilities. Current liabilities exclude long-term employee provisions and revenue in advance.
Debt-to-equity (%)	**Debt / equity**	This is a longer-term measure that compares all current and non-current interest bearing liabilities to equity. It complements the liquidity ratio, which is a short-term measure. A low ratio indicates less reliance on debt to finance the capital structure of an organisation.
Self-financing (%)	**Net operating cash flows / underlying revenue**	Measures the ability to replace assets using cash generated by the entity's operations. The higher the percentage the more effectively this can be done. Net operating cash flows are obtained from the cash flow statement.
Capital replacement (ratio)	**Cash outflows for property, plant and equipment and intangibles / depreciation and amortisation**	Comparison of the rate of spending on infrastructure, property, plant and equipment and intangibles with their depreciation and amortisation. Ratios greater than one indicate that spending is greater than the depreciating rate. This is a long-term indicator, as capital expenditure can be deferred in the short term if there are insufficient funds available from operations, and borrowing is not an option. Cash outflows for infrastructure, property, plant and equipment and intangibles are taken from the cash flow statement. Depreciation and amortisation is taken from the comprehensive operating statement.

Risk	Underlying result	Liquidity	Debt to equity	Self-financing	Capital replacement
High	**Negative 10% or less** Insufficent revenue is being generated to fund operations and assets renewal.	**Less than 0.7** Immediate sustainability issues with insufficient current assets to cover liabilities.	**More than 60%** Potential long-term concern over ability to repay debt levels from own source revenue.	**Less than 10%** Insufficient cash from operations to fund new assets and asset renewal.	**Less than 1.0** Spending on capital works has not kept pace with consumption of assets.
Medium	**Negative 10%–0%** A risk of long-term run down of cash reserves and inability to fund asset renewals.	**0.7–1.0** Need for caution with cash flow, as issues could arise with meeting obligations as they fall due.	**40-60%** Some concern over the ability to repay the debt from own source revenue.	**10–20%** May not be generating sufficient cash from operations to fund new assets.	**1.0–1.5** May indicate spending on asset renewal is insufficient.
Low	**More than 0%** Generating surpluses consistently.	**More than 1.0** No immediate issues with repaying short-term liabilities as they fall due.	**Less than 40%** No concern over the ability to repay debt from own source revenue.	**More than 20%** Generating enough cash from operations to fund new assets.	**More than 1.5** Low risk of insufficient spending on asset renewal.

Risk rating	Indicator
High	High risk of Short-term and immediate sustainability concerns indicated by: red underlying result indicator or red liquidity indicator.
Medium	Medium risk of long-term sustainability concerns indicated by either: red self-financing indicator red debt to equity indicator red capital replacement indicator
Low	Low risk of financial sustainability concerns. There are no high risk indicators.

Appendix Four – Cluster Information

Agency	Website
Generator	
Delta Electricity	http://www.de.com.au
Transmitter	
TransGrid	http://www.transgrid.com.au
Distributors	
Ausgrid	https://www.ausgrid.com.au
Endeavour Energy	http://www.endeavourenergy.com.au
Essential Energy	https://www.essentialenergy.com.au

* This entity has no website.

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