New connections

Annual Performance Report 2008–09

INTEGRAL energy

The power is in your hands

Front cover
Pictured at our new $14.3 million technical training centre at Hoxton Park in Sydney's west are, from left, Daren McMurray, 2009 Western Sydney Distribution Powerline Apprentice of the Year, Paul Knight, member of Integral Energy's Customer Consultative Committee, and David Campbell, Manager Technical Training.

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ISSN 1834-0733

About this report

This report provides a transparent and candid account of Integral Energy's performance in the year under review, identifies areas for improvement and outlines our future direction and challenges.

This year's theme, 'New Connections,' highlights Integral Energy's focus on safety, reliability, growth in customer numbers and the challenges of delivering the Strategic Asset Management Plan. It also highlights the way in which Integral Energy connects with people – through improved customer service and how we are seeking to better 'connect' with our customers, our community and our staff.

This report complies with the requirements of the NSW Annual Reports legislation and the esaa Code of Sustainable Practice. Where practical, the report is based on the principles of the Global Reporting Initiative (GRI).

Statutory accounts and financial information are verified by the NSW Auditor General. Starting this year, we have reported our emissions using the National Greenhouse and Energy Reporting Scheme methodologies where available. We use the National Greenhouse Accounts where such methodologies are unavailable and utilise relevant environmental key performance indicators developed by the Energy Supply Association of Australia.

We printed 500 copies of the report on recycled paper. The report was produced at a total cost for external services of $48,265 (GST inclusive).

Further information about Integral Energy is available at our website at www.integral.com.au or email integral@integral.com.au.

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Letter to shareholding Ministers

30 October 2009

The Hon. Eric Roozendaal, MLC
Treasurer
Level 36, Governor Macquarie Tower
1 Farrer Place
SYDNEY NSW 2000

The Hon. Joseph Tripodi, MP
Minister for Finance,
Minister for Infrastructure,
Minister for Regulatory Reform,
and Minister for Ports and Waterways
Level 31, Governor Macquarie Tower
1 Farrer Place
SYDNEY NSW 2000

Dear Ministers

Report on performance for the year ended 30 June 2009

This report details Integral Energy's performance, operations and statement of accounts for the year ended 30 June 2009, in accordance with the provisions of the *Annual Reports (Statutory Bodies) Act 1984* and the principles of the Global Reporting Initiative. It is submitted on behalf of the Board of Integral Energy for tabling in Parliament.

Copies are being sent to the Auditor-General, the Minister for Energy, Members of Parliament and key customer and stakeholder groups.

Sincerely

Michael McLeod
Chairman

Vince Graham
Chief Executive Officer

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1 Overview

About us

Integral Energy is a New South Wales state-owned energy corporation with a proud 50-year history serving some of Australia's largest and fastest growing regional economies.

Integral Energy manages a $3.8 billion electricity distribution network for 859,519 customers or 2.1 million people in households and businesses across a network franchise spanning 24,500 square kilometres in Sydney's Greater West, the Illawarra, Blue Mountains and the Southern Highlands.

Integral Energy is incorporated under the *Energy Services Corporations Act 1995* and operates within the terms of the *Electricity Supply Act 1995* on behalf of our shareholder, the New South Wales Government.

Our retail business operates successfully in the National Electricity Market, with services focused in NSW and south-east Queensland.

The focus of our 2,871 staff is to deliver a safe and reliable electricity supply valued by customers while delivering strong financial results for our shareholder. We also seek to minimise our environmental footprint and respect the unique heritage of the communities we serve.

Mission

Our mission is to provide safe, reliable and sustainable customer services.

Vision

To be a best-practice electricity network business.

Values

Our corporate values guide an ethical and responsible culture and underpin the way we work at Integral Energy. They include:

- Safety excellence
- Integrity
- Management by fact
- Enterprising spirit
- Customer commitment
- Respect for people
- Accountability and responsibility
- Sustainable outcomes

Year at a glance

ITEMS		2008–09	2007–08	% CHANGE
ECONOMIC				
EBITDA (including capital contributions)	$'000	**492,817**	496,761	(0.8)
Operating profit after tax	$'000	**142,190**	172,377	(17.5)
Total retail sales of electricity	GWh	**12,099**	11,785	2.7
Total network customer connections		**859,519**	853,328	0.7
Reliability (unplanned interruptions to supply)	Min/lost/cust	**89.3**	97.8	8.7
Customer Service Indicator	%	**83**	83	–
Sales revenue (excluding Community service obligations)	$'000	**1,852,002**	1,705,953	8.6
Capital expenditure	$'000	**442,876**	373,497	18.6
Net assets	$'000	**910,980**	1,038,258	(12.3)
Return on assets	%	**8.7**	9.2	(6.0)
Return on equity	%	**14.6**	14.6	(0.0)
Returns to NSW Government	$'000	**167,064**	191,687	(12.8)
Dividend	$'000	**103,619**	124,992	(17.1)
Income tax equivalents	$'000	**63,445**	66,695	(4.9)
Qualified credit rating Fitch Ratings		**AA**	AA	
ENVIRONMENTAL				
Energy purchased from alternative sources	%	**12.0**	13.0	(7.7)
Transformer oil recycled	litres	**302,866**	419,987	(27.9)
Greenhouse gas emissions – direct emissions	t CO_2e	**29,889**	27,271	9.6
Reportable environmental incidents	No.	**2**	4	(50.0)
SOCIAL				
Social programs	$'000	**23,962**	21,056	13.8
Pensioner Rebates	$'000	**23,324**	20,426	14.2
Life Support Equipment Rebate	$'000	**638**	630	1.3
Energy Accounts Payment Assistance (EAPA)	$'000	**2,092**	2,058	1.7
Total employees (full time equivalents)		**2,871**	2,760	4.0
Lost time incidents		**17**	19	10.5

To ensure consistency on an annual basis, prior year statistics may have changed in line with amendments to comparative financial statement disclosures and amended definitions.

* As at 30 June 2009

1 Overview

Highlights/lowlights

ECONOMIC

- ✓ Reliability – delivered SAIDI result of 89 minutes against a target of 93 minutes, the best result in 10 years.
- ✓ Earnings before interest, tax, depreciation and amortisation (including capital contributions) decreased slightly by 0.8% to $492.8 million, compared with $496.8 million in 2007–08.
- ✓ Returned $167.1 million in dividends and tax equivalents to our shareholder, the NSW Government.
- ✓ The Australian Energy Regulator approved our $4.2 billion network investment plans.
- ✓ Retail continued to meet and exceed targets in a highly competitive environment, a volatile wholesale electricity market and an evolving energy industry.
- ✓ Signed over 130,000 customers in Queensland in the first two years of operations against an initial target of 73,000 customers for the period.
- ✓ Opened the $14.3 million state-of-the-art Technical Training Centre at Hoxton Park, providing first class training facilities for our apprentices and technical employees.
- ✓ Completed the first stage of the $4.7 million Parramatta field support centre refurbishment to service customers in the Parramatta area.
- × Delivered record capital expenditure of $442.9 million, but fell short of our target investment of $542.7 million.

ENVIRONMENTAL

- ✓ Achieved our annual greenhouse reduction target to progress toward carbon neutrality for direct emissions by 2020.
- ✓ Completed two innovative energy saving trials as part of the Blacktown Solar City program, a $75 million Australian Government initiative.
- ✓ Completed an interactive training program of over 1,000 employees on environmental compliance.
- ✓ Achieved water savings of 9% compared with 2007–08 as part of an employee engagement program designed to improve environmental performance and achieve cultural change in environmental values.
- × Two environmental incidents were reported to the NSW Department of Environment and Climate Change. See the Environmental Performance section for further details.

SOCIAL

- ✓ Improved employee safety results – 17 lost-time incidents were reported compared with 19 the previous year.
- × While our safety result improved we did not meet our target of 14 lost-time incidents.
- ✓ Employed 75 first-year apprentices – a record number for Integral Energy.
- ✓ Achieved our target customer satisfaction of 83%.
- ✓ Reduced NSW customer disconnections in NSW by 27% compared with 2007–08.
- ✓ Launched a Wellness program to encourage and support employees to make safe and healthy lifestyle choices.
- ✓ Raised $148,226 for the Victorian Bushfire Relief Appeal through payroll donations and Integral Energy matching funds.
- ✓ Held inaugural staff volunteering event for the Nepean Youth Accommodation Service.
- ✓ Raised $238,654 through our employee workplace giving program *I care!* This includes Integral Energy matching funds.

Chairman's and CEO's report

We're pleased to report Integral Energy made significant progress in meeting our 2008–09 strategic objectives in a challenging year.

Integral Energy serves 2.1 million people located across 24,500 square kilometres in some of Australia's largest and fastest growing regional economies.

A safe, reliable and affordable electricity supply underpins the economic prosperity and the social fabric of our geographically diverse region.

In the year under review, our most critical strategic goals included boosting safety performance, improving reliability, securing adequate network investment to meet customer expectations and growth, planning the transition of our retail business to a new owner, driving efficiencies and transitioning to a low carbon economy.

Boosting safety performance

Our safety performance has improved by around 40% over the past five years, with the 2008–09 result again bettering all previous years. We recorded 17 lost-time incidents compared with 19 in 2007–08, falling short of our target of 14 lost-time incidents.

Our objective is to be recognised as a best practice organisation. To achieve this we continue to focus our efforts on significantly reducing our avoidable workplace injuries.

We gave greater focus to the impact of our network on public safety in 2008–09 and developed preventative programs to address pole and car collision 'black spots', aircraft striking overhead powerlines and non-electrical tradespeople injuring themselves while working on homes and construction sites.

The focus on safety was extended to encouraging and supporting employees to make safe, healthy lifestyle choices through the launch of *Energise4Life*, Integral Energy's wellness program.

Our safety performance has improved by around 40% over the past five years.

Connecting customers to our network

We're proud to report our best result in ten years for network reliability as measured by the system average interruption duration index (SAIDI). Against a target of 93 minutes, we achieved 89 minutes and are targeting an 18% improvement in SAIDI results to 80 minutes by 2013–14.

2008–09 saw us embark on our largest investment program in our history. We delivered capital investment totalling $443 million, falling slightly short of our target of $543 million. Of this investment, an amount of $381 million was invested in the network. This was a 29% increase on the previous year.

A highlight of the year was the energising of Integral Energy's largest transmission substation to date – the $64 million Springhill Substation near Wollongong.

We welcomed the Australian Energy Regulator's independent assessment and approval of our record network investment program totalling $2.7 billion in capital expenditure and $1.5 billion in operating expenditure for the five-year regulatory period commencing 1 July 2009. This investment is necessary to meet customer expectations and growth in energy demand and customer connections, replace ageing network assets and meet the NSW Government's licence conditions requiring further reliability improvements by 2014.

We completed a strategic end-to-end process review, along with a strategic procurement review, to identify improvements needed to deliver this significantly increased investment.

Key outcomes included an extensive organisational realignment to give renewed focus on accountability, finalisation of a workforce plan to ensure the necessary people resources are available to deliver the investment program on time, a new methodology for end-to-end project management and a new approach to procuring strategic network assets across the NSW electricity industry to secure the greatest benefit for customers.

Delivering our promised network investment program for customers safely, on time and on budget presents an ongoing challenge for Integral Energy.

2008–09 saw us embark on our largest network investment program in our history.

Financial results

Integral Energy's earnings before income and tax (EBIT) of $356 million were $41 million better than target. This year's total distributions to Government of $167 million were $47.3 million better than target.

Integral Energy sought to navigate its way through the global financial crisis through a renewed focus on efficiency and targeted programs to improve safety and customer value.

Financial results are discussed in detail on pages 69 to 101 of the report.

1 Overview

Keeping customers connected

As a consequence of the significant investment in our network, electricity consumers, including Integral Energy's customers, will experience significant increases in the cost of energy over the next five years.

We recognise this will pose difficulties for some customers. In preparation for this emerging issue, we are designing a program of initiatives that will provide our customers with increased options to use electricity more efficiently and help reduce their overall energy costs.

We delivered impressive results through our hardship program, *'INpower,'* and reduced customer disconnections by 27% in New South Wales this year. A recent Independent Pricing and Regulatory Tribunal report rated Integral Energy the best performing NSW distributor in managing customer hardship.

Retail

We achieved our target customer satisfaction of 83%.

Our retail business met and exceeded all targets, thanks in large part to our multi-channel sales and marketing strategy in New South Wales and Queensland. In our first two years of operations in Queensland we have gained more than 130,000 customers against our initial target of 73,000. The retail business sold 12,099 GWh of electricity, an increase of 2.7% over last year.

Electricity trading saw less volatility in prices than the previous year as a result, inter alia, of lower-than-average temperatures over the summer which reduced demand. New generation capacity coming on line and higher rainfall relieved supply-side constraints. This led to the average spot price falling to $38.85 from the previous year's record of $41.66.

A major focus for Integral Energy in 2008–09 has been and remains the efficient delivery of retail services while preparing for the New South Wales Government's announced sale of our retail assets.

The proposed sale of our retail business will mark a fundamental change in Integral Energy's operating structure. In preparing for the sale process and the challenges and opportunities that go with it, we have developed thorough transition and separation plans.

The proposed sale of our retail business will mark a fundamental change in Integral Energy's operating structure.

People

The number of full-time equivalent staff grew by 4% in 2008–09 to 2,871. We thank them for their contribution to our success throughout the year.

We opened our state-of-the-art $14.3 million technical training centre in Hoxton Park in Sydney's west in March 2009, marking a major milestone in Integral Energy's commitment to developing the next generation of electricity workers and providing jobs close to home for many new recruits.

We welcomed another record intake of apprentices – 75 for the year and 230 in total. Among our new recruits this year were the first graduates of the adult apprenticeship support program, designed to help mature age students transition to an apprenticeship.

Integral Energy negotiated a new Enterprise Agreement Award for award employees in line with the NSW Government's wages policy. Under the policy, all award increases beyond 2.5% must be funded from employee related cost savings. To this end, Integral Energy has identified $7.5 million in employee savings to fund agreed award increases above 2.5% in 2009–10.

The award outlines our obligations to provide our customers with a high standard of service in the most efficient way through more cooperative work arrangements, improvements in competitiveness, efficiency, flexibility and productivity.

The implementation of the award savings program will involve changes for many employees and deliver improved value for customers.

Preparing for a low carbon economy

With climate change firmly on the corporate and public agenda, Integral Energy has investigated greenhouse reduction initiatives across the business and we are prioritising a number of ways in which we can genuinely make a difference. Cutting carbon emissions will be a major priority in 2009–10 so that we can achieve our goal of carbon neutrality for direct emissions by 2020.

Short-term targets include reducing electricity consumption by 5% a year to 2011–12, boosting waste recycling and cutting vehicle emissions by transitioning to four-cylinder cars and increasing the efficiency of our commercial fleet.

Innovation

An ongoing focus on innovation and technology is helping to drive efficiency across the organisation. Plans to identify efficiency opportunities by working more closely with other New South Wales distributors are well advanced. The use of a shared services model can directly benefit our bottom line and maximise benefits to customers as it offers us an opportunity to share the cost of transformational information technology systems with other distributors.

The Ministerial Council on Energy's endorsement of a national smart meter initiative means the information systems supporting these meters will become a critical program of work within Integral Energy's operations.

Work continued to implement a 'smart grid' roadmap to deliver electricity using technology to save energy, reduce cost, increase the use of renewable power and increase reliability and transparency.

Smart grid preparations currently include the development of a communications network strategy to support distribution monitoring and smart meters which can track how much electricity a consumer uses and when it is used. We will be conducting further investigations in 2009–10 to guide the development of the smart grid roadmap.

The road ahead

While our achievements over the past year demonstrate improvements on many fronts, we're aware of the substantial challenges in the year ahead.

We're seeking fundamental shifts in performance to:

- Improve safety
- Deliver Integral's Australian Energy Regulator (AER) determined capital program
- Improve customer value
- Manage business risks
- Leverage technology and seek smart grid opportunities.

To support the plan, our priorities include further reduction in employee, contractor and public safety incidents and injuries to achieve a 'zero harm' workplace and culture.

We recognise it is especially important that we remain committed to improving services and programs to help customers manage electricity price increases taking effect in 2009 and to maintain the value of our retail business ahead of privatisation.

We will continue to review our environment strategy to reflect key changes in the external environment and prepare for the introduction of a Carbon Pollution Reduction Scheme.

At the same time we will strive to ensure we are flexible enough, skilled enough and appropriately equipped to seize the opportunities that will present themselves. Our stakeholders expect nothing less.

Finally, we would like to take this opportunity to thank all the dedicated employees of Integral Energy including our Executive Leadership Team and our colleagues on the Board for their dedication and enthusiasm in their work to strengthen and grow our business in the past year.

A challenging – but exciting – future awaits our organisation. With their continued commitment, we are confident we will realise it.

Our priorities include further reduction in safety incidents and injuries to achieve a 'zero harm' workplace and culture.

Michael McLeod
Chairman

Vince Graham
Chief Executive Officer

2 Economic Performance

keeping customers
connected

Big connections – Project Director Greg Schafer and Project Manager Peter D'Angelo at the $64 million transmission substation in Springhill near Wollongong. Integral Energy's largest substation to date was commissioned early in 2009.

Economic indicators – did we meet our objectives?

2008–09 OBJECTIVE	PROGRESS TO DATE	STATUS	2009–10 OBJECTIVE
Improve network reliability against an unplanned SAIDI target of 93 minutes.	Achieved our best result of 89 minutes of unplanned SAIDI in ten years. Our capital investment over the past five years has delivered an overall 25% improvement in reliability.	✓✓	Reach target of unplanned SAIDI of 90 minutes. Our aim is to improve performance to 80 minutes of unplanned SAIDI within the next five years.
Deliver our AER approved capital program for a safe and reliable customer network.	Achieved a record capital investment of $380.7 million. While we did not meet our target of $448 million it was still a 29% increase on the previous year's figure. The AER approved our $2.7 billion capital investment plan for 2009–14 to provide a safe and reliability electricity supply for customers.	× ✓✓	Deliver our approved $2.7 billion 2009–14 network plan on time and within budget. Establish a 'safe on time' delivery culture to provide certainty in customer outcomes.
Position Integral Energy to leverage emerging and converging technologies.	Researched smart grid technology and what it means for the organisation. Evaluated results from smart metering trials to determine customer responsiveness to peak pricing tariffs and energy reduction.	▲	Develop a smart grid strategy, which integrates network automation, smart metering and customer interaction. Identify options for the meter data management and network billing systems. Implement field force automation initiatives to provide productivity and service improvements.
Deliver strong financial performance for our stakeholders.	Exceeded budgeted EBITDA target by 4%. Returned a $167.1 million dividend and tax equivalents to our shareholder, the NSW Government.	✓✓	Continue to deliver sustainable financial outcomes – EBITDA of $530.6 million and NPAT of $136.5 million.
Maintain the value of the retail business.	Acquired over 130,000 customers in Queensland, making Integral Energy the most successful new market entrant.	✓✓	Ensure the necessary frameworks are in place for the proposed sale of the retail business, to enable a smooth transition of operations to new owners.

Key

✓✓ Objective exceeded
✓ Objective achieved
× Objective not achieved
▲ Ongoing objective with targets met to date or positive progress shown
▼ Ongoing objective with targets not met to date

2 Economic Performance

Performance indicators

Network

- Total network customer connections were 859,519, a 0.7% increase over last year.
- Reliability has continued to improve with Integral Energy achieving a result of 89.3 minutes lost per customer (excluding major events) against a target of 93 minutes per customer. This is Integral Energy's best result in 10 years. Through prudent investment and planning we are working towards a target of 80 minutes lost per customer by 2013–14.

Capital management

- Earnings before interest, tax, depreciation and amortisation (including capital contributions) decreased slightly by 0.8% to $492.8 million, compared to $496.8.
- We returned a net profit after tax of $142.2 million, down 17.5% on last year's figure.
- We returned a $103.6 million dividend to our shareholder, a 17.1% decrease on the dividend for 2007–08.
- Interest on debt was $150.1 million.

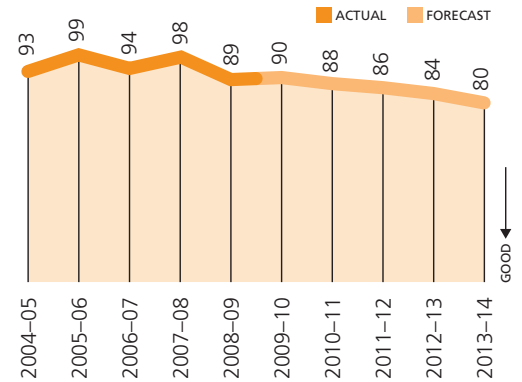
Public sector

- Income tax equivalents were $63.4 million, a decrease of 4.9% on the 2007–08 amount.

Retail

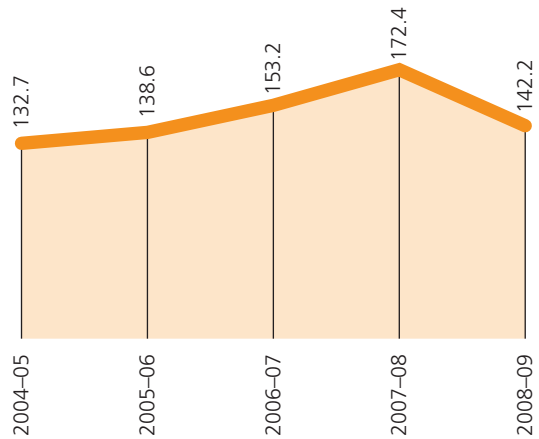
- Our retail business sold 12,099.09GWh of electricity, and managed billing and customer service for over 830,000 customers in New South Wales and Queensland.

Supply reliability – normalised unplanned SAIDI

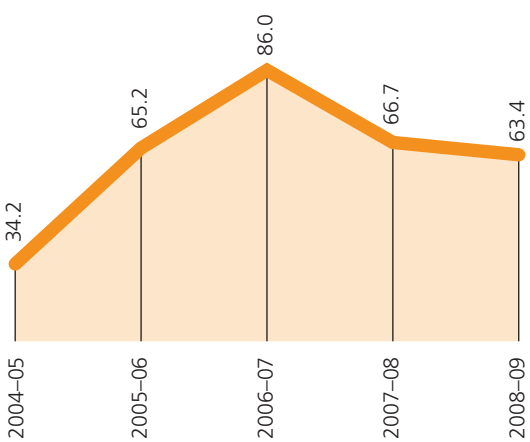


Note: these SAIDI outcomes are normalised using the 2.5 Beta method. This has slightly increased reliability results that were previously reported.

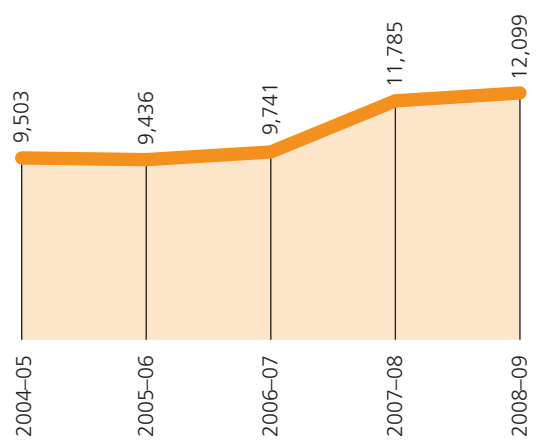
Operating profit after tax ($m)



Income tax equivalents ($m)



Electricity sold (gigawatt hours)



Connecting customers to our network

Integral Energy is committed to managing its network assets in a structured and systematic manner to meet customers' expectations, fulfil the organisation's business needs and satisfy obligations to stakeholders, the regulator and the community. We are also committed to making specific network improvements that customers require, depending on the feasibility of those improvements and customers' willingness to pay.

The three most significant challenges currently facing the network business are:

- Servicing growth in demand in Integral Energy's network area
- Renewing ageing network assets to maintain network reliability
- Meeting the NSW Government's initiatives to improve the security and reliability of electricity supply across the state.

Integral Energy's network strategy is summarised below in Figure 1.

Optimising network capacity

Integral Energy must ensure there is sufficient capacity available in the network to meet load and security requirements in a sustainable and cost-effective manner. Integral Energy's strategy to achieve this outcome involves:

- Implementing demand management programs where feasible to defer augmenting the network to meet growth and security requirements
- Ensuring security standards are met by conducting annual reviews of available capacity on the network
- Understanding the factors that will influence future electricity use by customers to plan for efficient development of the network.

Meet customers' reliability needs

Integral Energy is focused on maintaining the continuity and quality of supply to existing customers by preventing faults, efficiently restoring supply after faults and minimising scheduled outages for maintenance. Where reliability is below acceptable levels, improvements can be achieved by capital investment and operating expenditure projects targeted at the poorly performing parts of the network.

Provide value for money

The network strategy ensures customers receive value for money by continually improving the effectiveness and efficiency of capital and operating programs.

2009 network determination

As Integral Energy's network is a natural monopoly, charges to customers are independently regulated to ensure that customers get a fair deal for a safe and reliable electricity service. From 1 January 2008, the economic regulation of NSW electricity distribution networks moved from a state-based regime to a national framework regulated by the Australian Energy Regulator (AER).

On 30 April 2009, the AER approved Integral Energy's $2.7-billion capital and $1.5-billion operating investment programs for the period 2009-14.

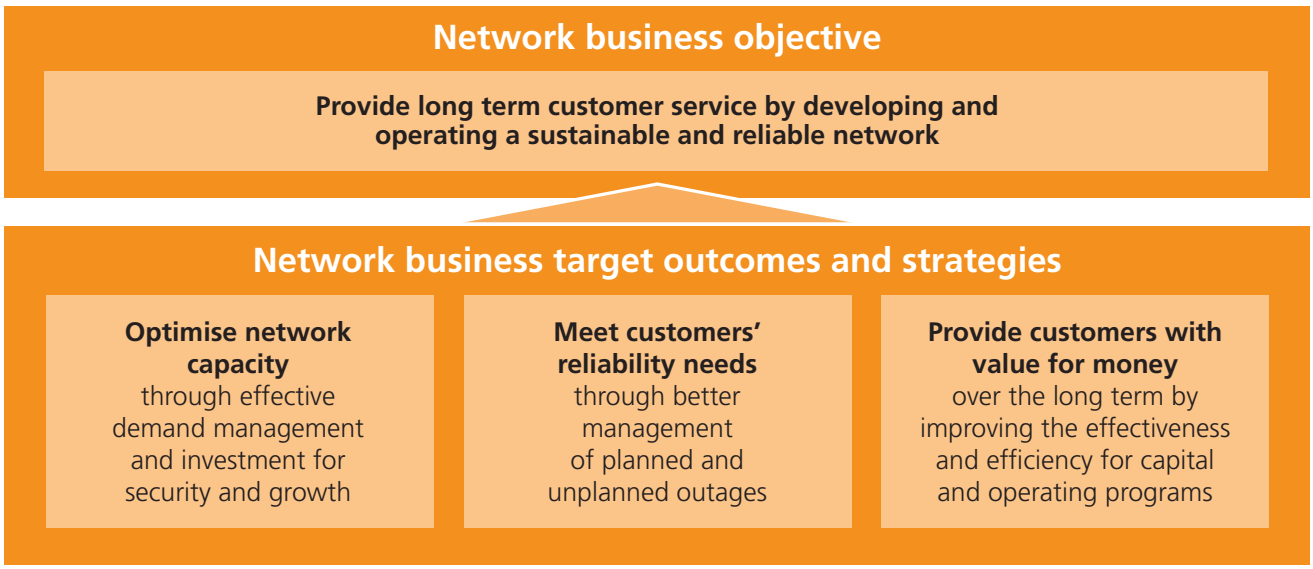
Accounting for growth and attrition, this investment will generate 600 jobs over the next five years, including 300 new apprenticeships. Productivity improvements equalling $76 million have been built into the proposed operating expenditure program to ensure that customers pay only for the costs of delivering essential network services.

Reliability of supply

The reliability of the electricity supply is an important customer service measure for electricity network operators. A common measurement of reliability is the system average interruption duration index (SAIDI), which measures the number of minutes that customers, on average, are without electricity each year.

Integral Energy's network reliability continued its improving trend (measured as normalised SAIDI) in 2008–09 with an average of 89.3 unplanned minutes without supply per customer, against a target of 93 minutes. It should be noted that normalised interruptions are measured

Figure 1: Integral Energy's network strategy



2 Economic Performance

to exclude interruptions caused by events beyond the control of distribution management practices. Total interruptions may be higher than the sum of planned and unplanned interruptions because they include outages that were actually caused within the network.

This pleasing result represents a 25% improvement in overall network reliability since 2003–04. In 2009–10 our target for overall network reliability is 90 minutes.

Events that had a significant impact on the overall reliability result included:

- 23 interruptions to zone and sub-transmission substations throughout the year contributed approximately three minutes to SAIDI
- 36 sub-transmission feeder interruptions contributed 4.9 minutes to SAIDI, including the loss of feeders from Hawkesbury Transmission Substation on 6 February 2009 which contributed one minute to SAIDI
- Approximately 900 distribution feeder interruptions contributed approximately 64 minutes to SAIDI
- Adverse weather and minor storms also contributed approximately 55 minutes to SAIDI. It should be noted that the contribution of weather-related outage events also coincides with the interruptions outlined above.

Over the next five years, the successful implementation of our network plans approved by the AER is forecast to yield a normalised unplanned SAIDI of 80 minutes by 2013–14.

Growth

Integral Energy takes account of a range of regional, climatic, customer, asset and licence requirement issues in delivering network services to customers.

- Integral Energy's network contains some of Australia's fastest growing communities. Population in the region is forecast to grow by 6% by 2013–14, while maximum demand for electricity is forecast to increase by 33% by 2013–14.
- Land use continues to shift from rural and semi-rural to urban and light commercial. As a result, customers now expect improved reliability performance in these areas.
- Peak temperatures across the network are typically higher and more sustained than those of central Sydney and other coastal areas, meaning extreme weather events are more likely.
- Customers' use of electricity has changed rapidly over the last ten years. Eighty-one per cent of households in the Greater Western Sydney region now have air conditioning units, compared with 51% in the Illawarra and 50% in the Blue Mountains. This has resulted in a 'peakier' load pattern for Integral Energy in hot weather requiring more assets to service demand that only exists for a short time each year.
- The uptake of other appliances such as plasma televisions, in-home computers and entertainment systems has also increased. This trend is also changing consumption patterns, resulting in heightened customer expectations and awareness about reliability and security of supply.
- Many network assets were built in the infrastructure boom of the 1960s and 1970s and are now nearing the end of their useful lives. For example, 45% of Integral Energy's major power transformers have been in service for 36 years or more. As a result, asset renewal is an important component of our AER approved capital program.

Scott Rogers and Simon Kellett, Live Line workers.

Integral Energy's network reliability continued its improving trend in 2008–09 with an average of 89.3 unplanned minutes without supply per customer, against a target of 93 minutes.

Meeting demand

In response to increasing peak electricity demand, Integral Energy has significantly ramped up network investment. Six new projects to maintain reliable network capacity, worth $122.9 million, were approved during 2008–09. These projects are scheduled for construction over the coming years.

Table 1: Growth projects approved in 2008–09

PROJECT	TOTAL ESTIMATED COST ($M)
Schofields 132/11kV ZS establishment with 132kV supply from Rouse Hill	34.5
Establish East Richmond ZS to service growing load in the Richmond area	27.3
Establish Nepean ZS to meet growing demand in Elderslie and Springs Farm areas	19.9
Connection works associated with Macarthur BSP	16.5
South Nowra ZS transformer augment	7.5
Line works associated with Oran Park ZS	17.2

Capital program

While we fell short of our network capital investment target of $448.4 million in 2008–09, we delivered a record network capital investment of $380.7 million, representing a significant 29% growth in the network capital program compared with 2007–08.

To meet this challenge, an end-to-end process review of the network capital program was undertaken in 2008–09 to improve our capability to deliver an expanded program over the coming five years.

Arising from this review, an organisational realignment and a range of business reforms were adopted by Integral Energy to ensure effective and efficient delivery of our Strategic Asset Management Plan. The initiatives adopted from the review included:

- Realigning the corporate structure to meet the upcoming growth in the capital program
- Increasing our workforce to a sustainable level with supplementation from external service providers to deliver the peak of the capital program
- Developing staff to ensure that the organisation has the correct skills mix to meet program requirements
- Adapting business systems and processes to ensure the capital program is delivered in the most efficient manner
- Standardising network design to achieve efficient delivery
- Putting in place governance and reporting structures to ensure we have the right controls to manage the capital program.

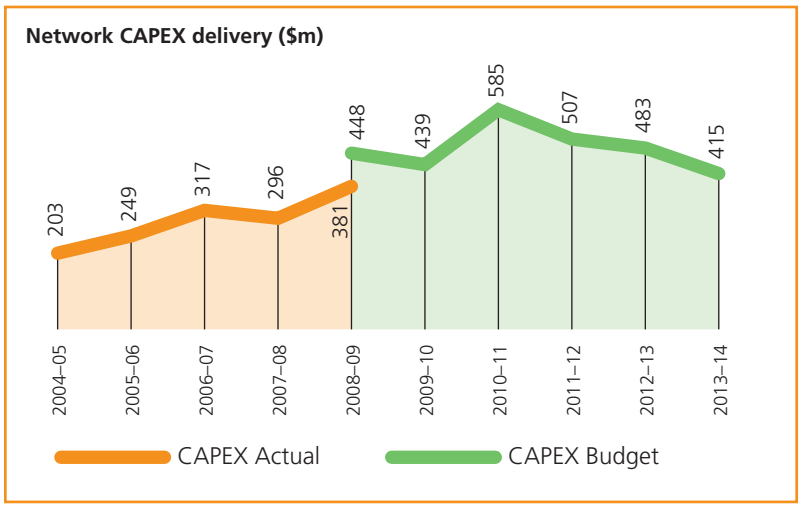


Figure 2: Total capital expenditure 2004–2014
Demand curve includes $68 million of carryover from 2008–09.

In response to increasing peak electricity demand, Integral Energy has significantly ramped up network investment.

Table 2: Major works in progress 2008–09:

DESCRIPTION	COST TO DATE ($)		TOTAL COST ($)	PRACTICAL COMPLETION DATE	COMMENTS
	BEFORE 2008–09	2008–09			
Quakers Hill ZS augmentation	7,264,115	809,383	8,073,498	Complete	Install new 132/11kV transformer and prepare site to be converted to full 132kV in the future.
Wetherill Park West TS	19,386,797	10,857,277	30,244,074 (includes land)	Complete	Develop new 132/33/11 kV transmission/zone substation.
Tower painting	14,072,788	822,835	15,844,613	Ongoing	Paint all steel transmission towers.
Security fence replacement program	37,119,822	7,566,463	44,686,285	Ongoing	Replacement of all transmission/zone substation security fences with new high-security construction.
Bund wall installation program	15,257,326	698,046	15,955,372	Ongoing	Construct oil containment bunds around all transformers in transmission/zone substations.
Springhill TS rebuild	45,290,185	11,718,396	57,008,581	Jan 2010	Construct a new 132/33kV GIS substation consisting of eight power transformers, eight 132kV feeders and 14 33kV feeders, as well as three capacitor banks.
Narellan ZS augmentation	7,488,578	219,909	7,708,487	Complete	Replace two 66/11kV existing power transformers with higher capacity units and install a third power transformer and associated switchgear.
Eastern Creek ZS	13,424,559	179,365	13,603,924	Complete	Develop a new 132/11kV zone substation.
Lawson TS redevelopment	4,919,825	2,452,480	7,372,305	Nov 2010	Replace existing 132/66/11kV substation and build new control building, new indoor 66kV GIS and 132kV outdoor switchgear.
Guildford TS 132kV switchgear renewal	2,009,948	42,375	2,052,323	Complete	Install new 132kV outdoor switchgear.
Jasper Rd ZS redevelopment	3,123,641	1,520,068	4,643,709	Oct 2010	Extend control building, install new 11kV indoor switchboard.
Plumpton ZS augmentation	3,079,824	308,508	3,388,332	Complete	Install a new third power transformer with associated switchgear.

DESCRIPTION	COST TO DATE ($)		TOTAL COST ($)	PRACTICAL COMPLETION DATE	COMMENTS
	BEFORE 2008–09	2008–09			
Emu Plains ZS augmentation	5,216,624	897,396	6,114,020	Complete	Install a third transformer and 11 & 33kV switchboards in a new control building.
Penrith TS augmentation	12,550,133	9,026,965	21,577,098	Nov 2011	Construction of a new 132/33kV indoor substation.
Berry ZS augmentation	2,530,740	1,462,363	3,993,103	April 2010	Replacing two existing power transformers with higher capacity units and associated switchgear.
Glossodia ZS augmentation	1,600,171	3,031,030	4,631,201	April 2010	Replacing two existing power transformers with higher capacity units and associated switchgear.
Anzac Village ZS augmentation	1,690,001	4,008,189	5,698,190	Nov 2009	Install a new third power transformer and associated 11kV switchgear.
Russell Vale ZS augmentation	1,052,521	3,206,171	4,258,692	June 2010	Augment existing 33/11kV substation replacing two transformers with higher capacity ones.
Campbelltown ZS augmentation	5,220,693	4,568,256	9,788,949	Oct 2009	Install a new third transformer and build a new control building with new 11kV switchboard.
Rouse Hill SS establishment	1,421,245	8,251,419	9,672,664	Jan 2010	Develop a new indoor 132kV GIS switching station.
Mungerie Park ZS establishment	2,782,660	17,631,133	20,413,793	April 2010	Develop a new indoor 132/22kV substation.
North Eastern Creek ZS establishment	846,309	8,129,724	8,976,033	Dec 2010	Develop a new 132/11kV substation.
Redevelopment of Evans Lane SS	974,177	3,135,727	4,109,904	March 2010	Rebuild existing S/S with new control building and outdoor switchgear.
Fairfield ZS augmentation	3,523,426	5,270,712	8,794,138	Aug 2009	Replace existing substation with a new higher capacity 33/11kV indoor substation.
West Liverpool ZS establishment	72,654	1,828,905	1,901,559	March 2011	Rebuild existing substation with a higher capacity.
Liverpool TS establishment	2,749,451	7,974,506	10,723,957	Dec 2010	Construct a new 132/33kV GIS substation with provision for three power transformers, three 132kV feeders and 16 33kV feeders.
Claremont Meadows ZS establishment	221,373	1,966,842	2,188,215	May 2011	Construct a new 33/11kV indoor substation.

DESCRIPTION	COST TO DATE ($)		TOTAL COST ($)	PRACTICAL COMPLETION DATE	COMMENTS
	BEFORE 2008–09	2008–09			
Doonside 132kV/11kV ZS establishment	93,674	6,364,271	6,457,945	Sept 2011	Rebuild existing substation with a higher capacity 132/11kV GIS indoor substation.
West Parramatta ZS and East Parramatta SS establishment	1,512,274		1,512,274	Dec 2012	Construct a new 132/11kV GIS substation and a new 132kV GIS switching station and associated feeder works.
Augment feeders 477 and 466 to Westmead	439,323	2,072,890	2,512,213	Feb 2010	Augment existing 33kV feeders.
Augment Nowra ZS	20,652	778,258	798,910	Dec 2010	Augment existing 33/11kV substation replacing two transformers with higher capacity ones.
Nepean ZS establishment	699	20,569	21,268	June 2012	Rebuild existing substation with a higher capacity and at 66kV.
Sherwood ZS augmentation	1,282,212	3,502,537	4,784,749	Oct 2009	Replace existing transformers with low noise units.
Dapto ZS augmentation	180,232	4,004,121	4,184,353	Nov 2010	Replace two existing power transformers with three higher capacity units and replace 33kV outdoor switchgear with indoor units.
Gerringong ZS augment	53,767	640,963	694,730	July 2010	Replace two existing transformers with higher capacity units and replace all switchgear.
South Nowra ZS augment	28,290	388,065	416,355	Nov 2010	Replace existing transformer with higher capacity unit. Construct a new control room to house new 11kV switchboard.
Cheriton Ave ZS establishment	173,491	11,863,058	12,036,549	Oct 2011	Construct a new 132/11kV GIS substation.
Schofields ZS establishment	23,405	361,978	385,383	July 2011	Construct a new 132/11kV GIS substation.
Cawdor ZS establishment	26,924	74,951	101,875	Aug 2011	Construct a new 33/11kV substation.
Oran Park establishment – Line Works	2,242	33,648	35,890	June 2010	Construct two new 132kV feeders to supply temporary Oran Park ZS.
Wilton ZS establishment	119,831	145,296	265,127	June 2011	Construct a new 66/11kV substation.

DESCRIPTION	COST TO DATE ($)		TOTAL COST ($)	PRACTICAL COMPLETION DATE	COMMENTS
	BEFORE 2008–09	2008–09			
Mittagong ZS augmentation	5,500	51,860	57,360	Aug 2011	Install a new third transformer and associated switchgear.
Granville ZS rebuild	575,916	8,576,905	9,152,821	Aug 2011	Rebuild existing substation with a higher capacity 132/11kV GIS indoor substation.
Douglas Park SS augmentation	1,318,022	1,058,918	2,376,940	Dec 09	Extend 66kV bar and replace three circuit breakers.
Warragamba ZS augmentation	73,000	1,733,438	1,806,438	Feb 2010	Install a new power transformer and associated switchgear.
Wetherill ZS Augmentation	15,844	578,459	594,303	June 2010	Extend existing control room to accommodate the 11kV switchboard extension.
Mobile zone substations	0	488,180	488,180	Feb 2010	Establish new 132/11kV and 66/11kV mobile zone substation.
Windsor ZS augmentation	38,575	676,689	715,264	Oct 2011	Rebuild existing substation with a higher capacity indoor substation.
Whalan ZS augmentation	129,005	2,044,543	2,173,548	Sept 2010	Install a new third power transformer and associated 11kV switchgear.
Connection works for the establishment of Macarthur BSP	45,532	2,576,383	2,621,915	Dec 2010	Connection works associated with the new TransGrid Macarthur BSP.
Berrima Junction ZS	0	1,396,567	1,396,567	Complete	Construct a new single transformer 33/11kV substation.
Rosehill ZS renewal	50,623	539,650	590,273	Oct 2011	Rebuild existing substation with a higher capacity indoor substation.
Holroyd ZS redevelopment	52,010	384,084	436,094	April 2011	Rebuild existing substation with a higher capacity indoor substation.
Rydalmere ZS redevelopment	82,101	1,067,616	1,149,717	Jan 2013	Rebuild existing substation with a higher capacity 66kV GIS indoor substation.
Kemps Creek ZS augmentation	8,876	67,222	76,098	Feb 2011	Extend control room to accommodate new 11kV switchboard.
Smithfield ZS rebuilding	346,571	1,420,035	1,766,606	Complete	Rebuild existing substation following fire damage.

2 Economic Performance

Demand management

NSW electricity distributors are required to investigate demand management alternatives to network augmentation for specific capital expenditure projects. The NSW Code of Practice – Demand Management for Electricity Distributors (the DM Code) requires electricity distributors to facilitate input into the planning of major network upgrades to allow for the development of demand management and other system support options.

The DM Code stipulates that a 'reasonableness test' is to be conducted to determine whether a 'request for proposals' (RFP) is to be issued or some other investigation process used. An RFP is a public process in which the distributor invites interested stakeholders to make submissions for system support options, to be evaluated against network options.

Table 3 below outlines the Network Demand Management Plan projects undertaken by Integral Energy in 2008–09.

Table 3: Demand management projects implemented during current year

	DESCRIPTION	PEAK DEMAND REDUCTION (KVA)	CO_2 REDUCTION	PV OF COSTS OF DEMAND MANAGEMENT PROJECT	PV OF TOTAL OF CAPITAL EXPENDITURE DEFERMENT PLUS OPERATING EXPENDITURE SAVINGS
Chipping Norton industrial & surrounding area	Customer demand reduction identified and implemented	3,300	Estimated to be 1,160 T CO_2e pa (greater than 10 years)	$390,000 over 3 years	$457,000 (Avoided distribution cost)
Windsor/ Richmond supply area	Customer & local council demand reduction identified and implemented	1,500	Estimated to be 530 T CO_2e pa (greater than 10 years)	$282,000 over 3 years	$328,000 (Avoided distribution cost)
Parramatta commercial area	Customer demand reduction identified and implemented	2,000	Estimated to be 704 T CO_2e pa (greater than 10 years)	$200,000 over 3 years	$370,000 (Avoided distribution cost)
Subtotals		**6,800**	**Est. 2,394Tpa**	**$872,000**	**$1,155,000**

The Network Demand Management Plan also details the major projects planned in the next three years and as listed in the 2009 Electricity System Development Review. Where the DM Code reasonableness test indicates that a public RFP process is not warranted, Integral Energy may still perform an in-house investigation with specific major customers to identify the potential for demand reduction. Current investigation areas are detailed in Tables 4 and 5.

Table 4: RFP projects and target dates

PROJECT	FIN YEAR	RFP ISSUE	RFP RESULTS	DECISION
Granville ZS	2009–10	Sep 2009	Feb 2010	July 2010
Riverstone ZS	2010–11	Sep 2010	Feb 2011	July 2011
Prospect ZS	2011–12	Sep 2011	Feb 2012	July 2012
Huntingwood ZS	2011–12	Sep 2011	Feb 2012	July 2012

Table 5: Planned in-house demand management investigations

PROJECT	COMPLETION DATE
Abbotsbury ZS	June 2010
South Granville ZS	June 2010

The items that have been identified for in-house investigation have not passed the DM Code reasonableness test, but may involve a possible non-network demand management alternative for one or more major customers (generally those responsible for creating the peak demand).

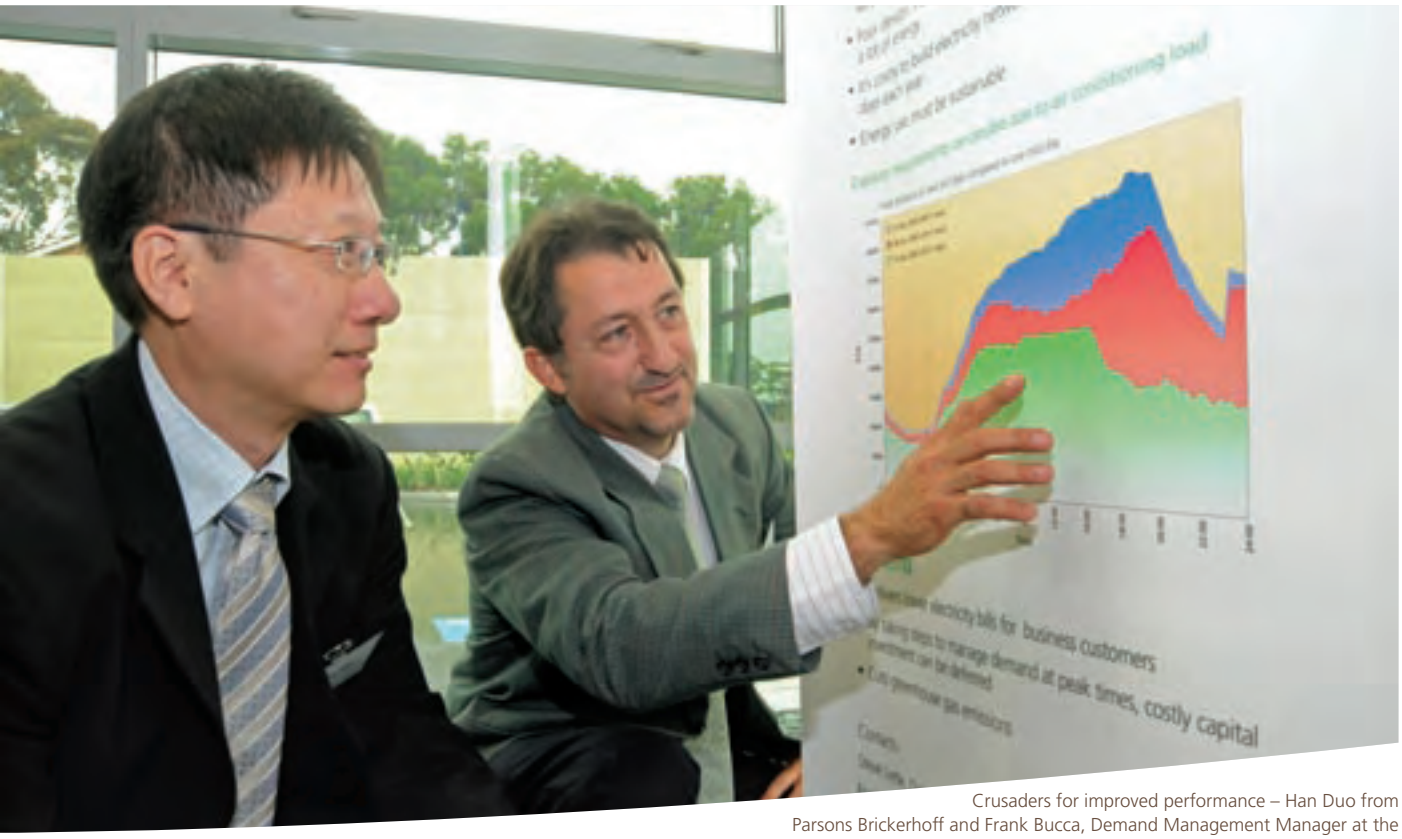
Maintenance program

Integral Energy's Strategic Network Maintenance Plan (SNMP) analyses maintenance needs against business objectives and details the maintenance strategies the organisation has adopted for particular assets to meet the network strategy.

The SNMP provides a high-level functional performance review of Integral Energy's network assets and establishes the framework by which the maintenance programs fulfil Integral Energy's performance requirements. This plan is reviewed and updated annually to identify the network maintenance activities over the ensuing 12-month period.

In 2008–09, Integral Energy achieved a record level of expenditure on maintenance of $206.9 million, compared with our 2007–08 expenditure of $198.9 million, and achieved 99% compliance with our maintenance target. Our maintenance performance contributed to Integral Energy's continued improvement in system reliability at 89.3 minutes lost per customer (excluding major clients).

Our maintenance performance contributed to continued improvement in system reliability.



Crusaders for improved performance – Han Duo from Parsons Brickerhoff and Frank Bucca, Demand Management Manager at the Chipping Norton demand management project launch.

2 Economic Performance

New connections

While connections for new installations showed a slight downturn on previous years, Integral Energy still connected more than 9,000 new customers to its network in 2008–09.

Table 6: New customer connections 2004–09

YEAR	NEW CUSTOMER SITE CONNECTIONS
2004–05	11,377
2005–06	11,408
2006–07	10,053
2007–08	11,013
2008–09	9,111

We completed 9,111 new network connections during the year.

We have continued to exceed our target of certifying contestable works designs, with 97% of designs being certified within the target of 14 days.

We issued 94% of all design briefs within 14 days, against our target of 85%.

To ensure that Accredited Service Providers (ASPs) have the latest information to comply with relevant network standards and processes, we maintained open communications through industry seminars and a dedicated website. The website provides access to a full range of technical data, standards and safety and hazard notices produced by Integral Energy.

Access to the Geographic Information System (GIS) and manuals covering the full range of overhead and underground construction requirements is currently available to ASPs at major organisational locations. Field access to in-service equipment by ASPs has also been enhanced by the provision of a loan key system managed at the local field support centre level, or by accompanied access as required. During the year, 54 postings (including 20 safety bulletins) were placed on the ASP website. In addition, six technical information seminars and a training seminar to cover the introduction of the Level 1 ASP Quality Assurance initiative were held.

To better manage connection applications with unique and complex requirements, we continued to use the project management framework to enable the connection of those projects with special technical requirements. For example, the Federal Government has committed $1.41 billion of grants to provide new buildings and upgrades to schools in the Integral Energy franchise area under the *Building the Education Revolution* package. Six hundred and ninety schools in Integral Energy's network have received grants of up to $3 million of which Integral Energy has processed 487 applications to connect additional loads in 2008–09. As all construction works must be completed by 31 March 2011, Integral Energy has streamlined arrangements and dedicated project management resources to ensure connection issues do not cause delays for schools in using their new facilities when building works are completed.

We enhanced Integral Energy's Customer Application Management System (CAMS) in 2008–09 to provide more accurate data to monitor and report on the progress of projects. Investment in these systems will eventually lead to web-enabled tracking tools to allow ASPs to monitor progress and performance relating to their individual projects.

In 2009–10, we will initiate a performance monitoring and reporting system to provide ASPs with valuable information about improvements that can be made within their operations. A number of strategic initiatives are under development that will provide enhanced electronic contact between Integral Energy and ASPs, allowing remote access to data and submission of application information and process documentation electronically. This will include availability of GIS data direct to the ASP's place of business, automation of data transfer from GIS to CAD, and electronic submission of design drawings between ASPs and Integral Energy. Significant development of ASP auditing, performance management and inspections is planned during the next reporting period.

Street lighting

We manage 186,000 streetlights on behalf of 29 public lighting customers, including 23 local councils. As a public lighting service provider, Integral Energy recognises that well-designed and maintained public lighting contributes to public safety.

The NSW Public Lighting Code has provided Integral Energy with an opportunity to work closely with its customers to maintain and improve public lighting services. This is achieved partly through a Public Lighting Management Plan, developed to align with the regulatory period 2009 to 2014 set by the Australian Energy Regulator (AER). The revised plan will be sent to customers for their endorsement. It includes revised information on tariffs, contestable works, and capital contributions. Much has been achieved in the past three years through regular meetings with customers at which public lighting matters are discussed.

This customer relationship management program aims to meet with all customers at least twice a year.

Energy efficient lighting

Integral Energy has been a pioneer in the introduction of energy efficient luminaires for public lighting. The concept of using T5 fluorescent technology for minor road lighting was developed by an Integral Energy staff member and, as a result, we were the first in the industry to introduce this technology, in 2003.

Integral Energy has recently introduced compact fluorescent technology. Public lighting customers now have the option of two energy efficient luminaires for minor road lighting.

Integral Energy's search for energy-efficient, environmentally sustainable, reliable and long-life luminaires on its public lighting network is ongoing.

We provide regular feedback to guide manufacturers in developing new energy efficient luminaires with longer life and less deterioration of light output over time. Integral Energy also plays a proactive role in the industry and with suppliers to keep abreast of public lighting developments. Customers benefit from shortened lead times for new lighting products.

Integral Energy has been a pioneer in the introduction of energy efficient luminaires for public lighting.

The $6 million upgrade of the Emu Plains zone substation increased the facility's capacity by a third. Pictured from left are some of the team who made it possible: Michael Costigan (Technologist), Michael Ross (Project Manager – Transmission Major Projects), Michael Pilch (Project Manager – Transmission Mains) and Brian Stockman (Technologist).

Case study

Smart grids, the way of the future

As environmental concerns grow along with demand for electricity, the term 'smart grid' is being used more and more in the electricity industry.

What does it mean? The best smart grid concepts seek to integrate the operation of the electricity grid with renewable generation. The resulting new type of grid has multi-directional power flow, customers who respond to network and pricing events, and electric vehicles to help balance network demands with supply, as shown in the figure below.

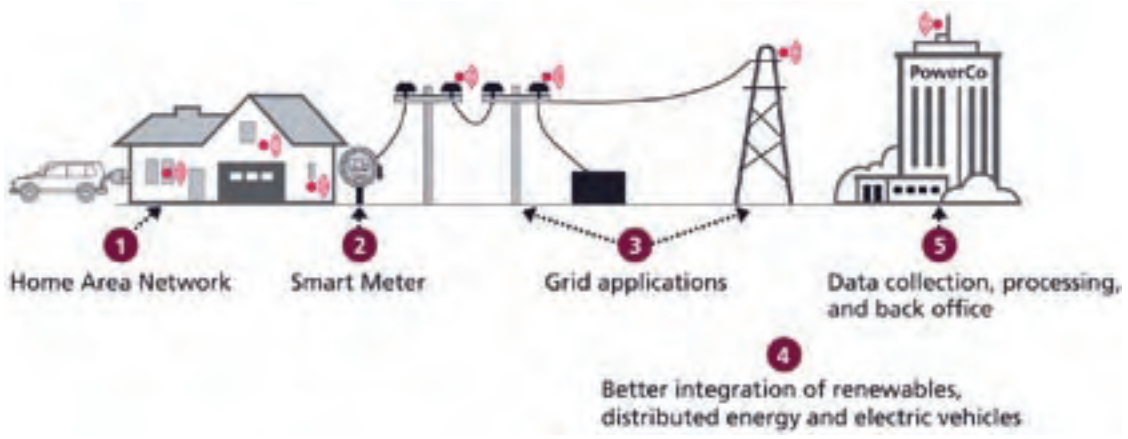
We expect smart grids to fundamentally change the nature of electricity supply over the next five to ten years. While smart grid technology offers the opportunity to change our interaction with customers, improve reliability and efficiency and defer investment in network, it needs to be carefully assessed to maximise gains for customers at an efficient cost.

We explored the benefits achieved by utilities in Europe and the USA in 2009 and plan to develop a smart grid strategy which quantifies future benefits and identifies key technology platforms.

The integration of meters, grid sensors, communications across the network and within building and homes, and IT systems is the primary challenge facing smart grid development. The lack of standards that allow 'plug and play' by consumers and utilities means that a cautious approach is preferred. For this reason, once our strategy is completed, planning for a large scale pilot will focus on the integration of the various technologies and the end-to-end demonstration of the strategic benefits. This will allow standards to mature and for a franchise-wide rollout to be planned from 2013.

We plan to develop a smart grid strategy which quantifies future benefits and identifies key technology platforms.

Figure 3: A smart grid electricity network



Retail – connecting customers to great service

The retail business is responsible for Integral Energy's sales and marketing and forms a critical link to our customers in over 830,000 homes and businesses across rural and metropolitan New South Wales and southeast Queensland.

Our multi-channel sales and marketing strategy helped us to meet and exceed targets during the year, despite operating in a highly competitive environment, a volatile wholesale electricity market and an evolving energy industry.

NSW energy reform

The New South Wales Government has announced plans to sell its electricity retailers. In preparation for privatisation and the accompanying challenges and opportunities, we have updated our transition and separation plans.

How we trade

Integral Energy does not generate electricity. We buy it from the National Electricity Market (NEM) and sell it to customers at a regulated price or under contract arrangements.

Integral Energy actively manages its exposure to spot electricity prices in the NEM. The year saw reduced volatility compared with last year thanks to lower-than-average temperatures over the summer which helped reduce demand, and new plant commissioning and higher rainfall, which relieved supply-side constraints. This led to average spot prices falling to $38.85 from the previous year's record of $41.66.

Sales and marketing initiatives

In New South Wales and Queensland, door-to-door activity again proved to be the most effective way to acquire customers, boosted by shopping-centre kiosks and outbound telesales, which generated more sales than in previous years.

We continued to offer our *INrewards* discount card for some contract customers. The card has proved to be the most cost-effective value-add for the mass market segment. This year we developed the concept further to target the business and 'green' market segments – we now offer *INgreen Rewards* and *INbusiness Rewards* discount cards.

Several new third-party partnerships were trialled during the year as potential new channels for acquiring customers. An affinity partnership with National Seniors Australia (see page 25 for more details) aims to secure new customers from the growing seniors' segment, while a collaboration with a residential energy broker seeks to gain 'move-in' clients in southeast Queensland. Integral Energy also established partnerships with a number of business energy brokers to test the viability of acquiring new SME and corporate customers through this emerging channel.

Several research projects were commissioned to help us make decisions about new strategies for residential and business segments. These included ongoing customer satisfaction tracking, determining customers' value perceptions of energy contracts, measuring customer loyalty and understanding customer perceptions of value-adds, carbon off-set product offers and new sales channels.

We introduced a 'test-and-learn' methodology to gain a deeper understanding of significant drivers in buying behaviour from new and existing customers. This was used to test various ideas including telemarketing campaigns, product initiatives and direct-mail programs. Coupled with this, we have used the propensity to switch and customer analytic models to manage customer targeting. This approach increases our marketing efficiency and lowers the cost per sale by driving improved response rates in marketing campaigns.

2 Economic Performance

Integral Energy again took part in events with industry groups to broaden relationships and acquire and retain corporate and SME customers. The relationship with the Illawarra Business Chamber has strengthened further throughout the year, with Integral Energy sponsoring a number of business networking activities in the Illawarra region.

The *INhome* bi-annual residential customer newsletter was reintroduced to provide information about energy efficiency and updates on changes in the energy industry. Each issue includes energy saving advice, energy news and competitions.

After introducing our mid-range 20% and 50% green products, we repositioned our green product range with the aim of demystifying 'green' to make the customer's choice easier. Our green collateral was updated to support these new green products.

Queensland – our sunshine state

The Queensland market has enjoyed continued strong growth. In our first two years in the state we have acquired over 130,000 customers, well above our target of 73,000, making us the most successful new market entrant in Queensland history. We supply around 10% of residential customers in southeast Queensland and generate an average of 10,000 bills each week.

This is an impressive achievement in what's considered to be one of the most exciting electricity markets in the world. According to global research company VaasaEtt, Victoria and South Australia are the world's most competitive energy markets and New South Wales is number five. After just two years of energy market competition, Queensland is ranked seventh.

In addition to achieving successful sales, we have been pleased to see good satisfaction levels with our connections process. Ninety-two per cent of customers surveyed over the past six months said the connections service met or exceeded their expectations. (We work with the electricity distributor Energex to improve connection services for customers.)

Our customer hardship program *INpower,* created for the New South Wales market, was extended to southeast Queensland this year. The program's goal is to help customers in financial difficulties who are having problems paying their electricity bills.

Finally we worked on building relationships with key Queensland stakeholders and held regular meetings with the Energy Ombudsman, the Queensland Competition Authority and the Department of Mines and Energy to ensure we met our regulatory and customer obligations.

Environmental compliance

Integral Energy complies with the mandatory environmental requirements of the:

- NSW Greenhouse Gas Reduction Scheme (GGAS)
- Australian Government's Mandatory Renewable Energy Target (MRET)
- Queensland Government's 13% Gas Scheme (GEC)
- Victorian Government's Victorian Renewable Energy Target (VRET)
- NSW Energy Savings Scheme (which began on 1 July 2009).

The retail business is preparing for the introduction of the NSW Solar Feed-in-Tariff program. This program will support small retail customers contributing to the energy needs of NSW through the generation of energy through solar panels. Customers will be paid a tariff for the electricity produced at the premises.

Ongoing and proposed changes to the various national and state environmental schemes create a dynamic, challenging regulatory environment for market participants. That said, Integral Energy is ready to meet all challenges, including those posed by the national emissions trading system – the Carbon Pollution Reduction Scheme (CPRS) – though the proposed legislation has been delayed for a year and is now due to take effect in July 2011.

We met and exceeded targets during the year, despite operating in a highly competitive environment, a volatile wholesale electricity market and an evolving energy industry.

Case study

Affinity deal and power bill discounts see seniors make the switch

An 'affinity marketing' campaign to co-brand electricity offers for seniors has gained momentum this year, demonstrating that jointly run promotional initiatives can deliver good results when they're well designed and the partners' goals are closely aligned.

Integral Energy has collaborated with National Seniors Australia (NSA) – a not-for-profit membership-based community organisation for the over 50s – to offer its members a discount on their electricity bills.

By signing up to a contract, National Seniors members get a discount off standard regulated rates for the next two years and a free 12-month membership renewal to the association.

Growing membership and sales

At the outset, Integral Energy and the NSA had clear objectives. Offering more money-saving benefits to members would help the association retain its membership base. Integral Energy in turn was keen to collaborate with a body which had a strong, trusted affiliation with its members to give its own sales initiatives a boost.

The first activity was a direct mailing to all NSA members in southeast Queensland detailing the offer. This was a success for both parties, with all targets met.

The team behind the successful campaign: from left, Sharon Simpson, Marketing Campaign Manager, Felicity Clark, Sales and Operations Manager and Jenene Robertson, Affinity/Direct Mail Channel Co-ordinator.

Next, building on these results, the campaign was extended for members in southeast Queensland until June 2009, after which the same deal was offered to customers in New South Wales.

These and several other projects have achieved both organisations' original objectives, with the NSA and Integral Energy actively promoting the partnership in their internal and external communications.

Timely for retirees

"The offer has been especially timely for people on pensions and self-funded retirees, because tough economic conditions have impacted them significantly," says Michael O'Neill, National Seniors Australia Chief Executive Officer.

"With the collapse of the share market, many self-funded retirees have seen their investment value and dividends drop by around 50%," Michael says. Moreover households of people aged over 55 spend a bigger proportion of their budget on fuel and power than others.[1] "Some self-funded retirees must now rely on the pension," he says, "and surviving on $281 per week is extremely difficult."

The success of the initiative was the result of a huge team effort with several Integral Energy teams helping provide a seamless, 'end-to-end' customer experience, says Channel Manager Anne Whitehouse.

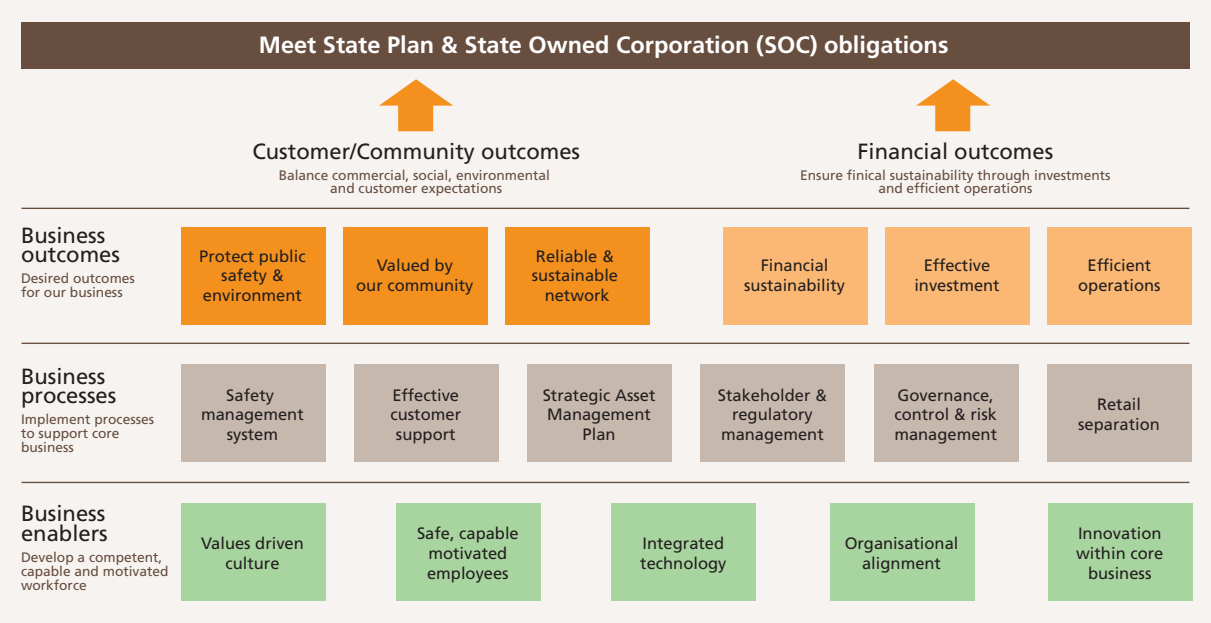
"Channel, Mass Market, Sales Operations and of course the Queensland team all played their part," Anne says.

1 *Household Expenditure Survey 2003-04, Australian Bureau of Statistics (6530.0)

2 Economic Performance

Creating connections within our operations

In 2008–09 as part of a corporate planning process led by the Board, Integral Energy developed a strategy map to illustrate the connections between our strategic business outcomes, our business processes and business enablers. In view of the expected future separation of our retail business, this map focused primarily on a network-only business operation, as shown here:



The 2008–09 corporate planning process also identified Integral Energy's contribution to the New South Wales State Plan. The plan sets out priorities for the state over the next 10 years, as shown below:

NSW STATE PLAN GOALS	NSW GOVERNMENT PRIORITIES	RELEVANT SCORECARD MEASURE FOR INTEGRAL ENERGY
Delivering better services	S8 – Increased customer satisfaction with Government services	Achieve customer satisfaction of 82–84%
Growing prosperity across NSW	P2 – Maintain and invest in infrastructure	Deliver approved capital and operating programs
	P4 – More people participating in education and training throughout their life	Achieve apprentice and graduate recruitment targets, as per Integral Energy's Human Resources Plan
	P5 – AAA rating maintained	Meet SCI financial targets
Environment for living	E2 – A reliable electricity supply with increased use of renewable energy	Achieve electricity reliability of 99.98% by 2016 Integral Energy to be carbon neutral by 2020 for direct emissions

In addition, the corporate planning process identified five objectives for our business for the 2009–10 financial year. These objectives reflect the priority we will give to improving safety performance as well as the obligations we have to our customers, shareholders, the New South Wales Government and citizens of the state.

Connecting with suppliers

Integral Energy values its relationship with suppliers and recognises that an efficient supply chain is critical for delivering safe, reliable energy to customers.

In March 2009 we commenced a strategic review of our procurement operations.

One of the catalysts of this review is the major growth in capital and operating expenditure from 2009 to 2014 across the New South Wales electricity industry as shown below.

The review's recommendations will improve the speed, quality and cost of goods and services procured. Importantly the revised framework will reinforce governance in the procurement process, facilitate investment in capability, expertise and leadership, as well as give us tools for better reporting and documentation.

We are also committed to buying goods and services through established systems wherever practical, to promoting open and effective competition and to getting value for money.

Typically we seek competitive quotes in the open market and advertise tenders in the press and on our website. Our requirements are largely met by businesses competing in the open market in response to calls for expressions of interest or requests for tender.

Most expenditure during the year on goods and services was covered by Integral Energy or State Contracts Control Board contracts or supplier panels which generally have a life of three years. The 40 new contracts or supplier panels established included those for the supply of power transformers and switchgear for Integral Energy's capital program, fuel, network protection hardware, cable, protection panels, facilities management services and various major civil and construction services.

In line with our plans to streamline procurement and improve the way we interact with suppliers, we continued to implement initiatives started in the previous year. These included:

- Improved reporting and strengthening of information security
- A regular newsletter to the supplier community to update them on relevant initiatives at Integral Energy
- The rollout of the master supply agreement that streamlines the engagement of significant engineering suppliers for major work
- A revamped statement of business ethics to clearly and consistently outline the key business principles applied in dealings with suppliers.

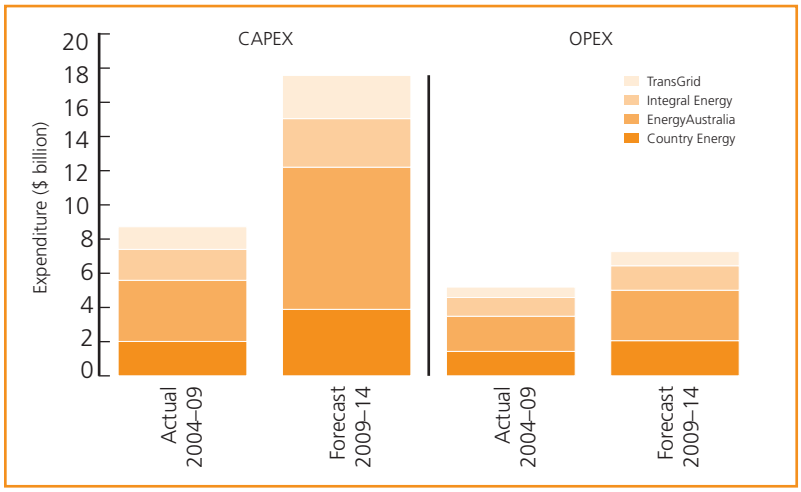


Figure 4: NSW energy forecast and actual 5-year capex and opex spend (2004–14)

Innovation and technology (including smart grid)

Integral Energy's 2008–09 corporate planning process identified 'innovation within core business' as a key business enabler to aid ongoing development. In particular it highlighted the need for an increased focus on efficiency across the business and the need for better-targeted use of innovation (in people, processes and technology) to drive improved performance.

To position the organisation to take advantage of new and emerging technologies and to achieve industry best practice in targeted areas, we set up an innovation branch. Its purpose is to manage the project teams who will identify and facilitate business improvements and ensure all such initiatives are coordinated and aligned. The branch comprises project teams seconded from across the organisation.

Three projects are already underway or complete: improving productivity, identifying opportunities for shared services and developing a smart grid strategy.

The productivity project consisted of a payroll analysis to identify opportunities for improvement. This work was a catalyst for change across a number of areas of our business and involved decisions around overtime levels, overtime distribution and equity outcomes, and managing working hours to improve safety.

The shared services project involves identifying opportunities to improve efficiencies at an industry level by working more closely with other New South Wales distributors. This work will continue in the coming year.

The smart grid strategy development project will allow Integral Energy to prepare for the significant technology changes happening in the electricity sector. These include greater convergence of business and network technologies for managing distribution networks. This work will also continue in the coming year.

2 Economic Performance

Information and communications technology (ICT)

ICT's role is to provide an assured business platform, help maintain cost-effective operations, achieve compliance, boost organisational productivity and enable and drive change in our organisation.

During the year we implemented a number of technology roadmaps to integrate systems, allow workforce mobility, aid business intelligence and reporting, provide desktop, server and storage infrastructure and information security architecture.

A number of these initiatives are already underway:

- Field force mobility. This involves the fit-out of crew vehicles with mobile computing equipment to replace existing paper-based systems and processes
- Business intelligence and reporting. A data warehouse will give us a data store to produce an integrated, common view of data accumulated in the course of business operations. Bringing data across the systems to a single source will allow us to access it more efficiently and productively
- Metering and market operations. Over a number of years we have built systems which have largely remained the same since the introduction of retail contestability. As the technology employed for these has expired, we have initiated projects to upgrade and replace core systems
- Intranet and Internet. A number of projects were initiated to improve the ability of employees, business partners and customers to find information, collaborate on projects and communicate online
- Disaster recovery. We are building capability into every system initiative to ensure that a standby is established, maintained and tested regularly in the event of a main site failure.

Finance

Disciplined business processes lie at the heart of Integral Energy's performance and are fundamental to delivering strong results.

Preparing for the sale of the retail business

In preparation for a potential sale of our retail assets we realigned the Chart of Accounts and the General Ledger to isolate retail transactions, completed the vendor due-diligence process and created a transition services costing model.

In addition we established a customer service branch in our finance division to provide services to the retail business and to enact a Transition Services Agreement (TSA) which would be required by any purchaser. This internal agreement provides training and overall preparation for an eventual sale.

We also established a TSA operating committee to oversee the delivery of services to agreed levels of performance. Monthly reporting of key performance indicators for the new customer service branch is reviewed by the committee for compliance, and any necessary changes are assessed. The customer service branch provides shared services for the retail and network businesses including call centre, credit services, billing and customer care and is working towards being able to separately account for the services provided. This was necessary to enable New South Wales Government advisers to conduct a detailed analysis and appraisal of the financial, legal and operational performance of our retail business.

Managing risk

To update and strengthen our management of fraud risk we undertook an organisation-wide assessment of risk factors as well as a procurement audit this year. After reviewing ICAC recommendations from recent inquiries we incorporated additional measures to mitigate risk and have developed plans to strengthen relevant internal controls. We expect further improvements to flow from the outcomes of a procurement strategy review.

In another important step to mitigate risk, Integral Energy entered a GST annual compliance arrangement with the Australian Taxation Office (ATO). A prerequisite for the ATO to enter such an arrangement is that the taxpaying organisation involved demonstrates a high standard of self-regulation and governance.

The ATO conducted due diligence to assess our suitability for the program. In its review of our broad governance, risk management and assurance processes it concluded that Integral Energy had "established a strong commitment to achieving high levels of compliance and ensuring that risk management and compliance are high level priorities in managing exposure to risk". Advantages of the program include reduced compliance costs, reduced penalties in the case of errors or omissions and a closer relationship with the ATO.

Building for the future

During the year we further developed our workforce plan. The scheduled 45% increase in network investment requires an increase in employee numbers and the development of master plans to ensure appropriate support facilities are available to house them.

Our new state-of-the-art, $14.3 million Hoxton Park Technical Training Facility was officially opened in March 2009. This unique centre provides theoretical and practical training for apprentices and ongoing training for field staff (see page 46).

In June 2009, we completed our oil-handling facility for the Central Region. This specialised building is located at Narellan and handles up to 80,000 litres of recyclable transformer oil.

Design for the redevelopment of our Springhill field support centre commenced in 2008–09, with construction due to start in late 2010. This is an important facility to support our network operations in the Illawarra region and will accommodate one of our customer interaction centres and network control rooms. The refurbishment of Springhill field support centre represents the final stage in the relocation of critical operations into facilities that we own.

The first stage of the refurbishment of the Parramatta Field support centre was completed this year at a cost of $4.7 million. The refurbishment involved extensive civil works, demolition of old buildings and the major refurbishment of an existing building and the yard to provide a facility to effectively service the important Parramatta CBD and surrounding areas over the coming decades. The larger, refurbished building now contains a new storm centre, state-of-the-art energy saving devices and a new 13,500-litre rainwater tank to flush toilets and water the gardens. Stage two of the refurbishment, to be completed in late 2010, will include an upgrade to the vehicle workshop, covered parking, and covered stores areas.

Security

Integral Energy continues to upgrade its security to ensure the safety of the community, our power supplies and electrical assets. We sprayed power cables and other network hardware with microdot identification and used security tape and warning signs to alert the public that property has been marked for police identification. This has reduced the theft of copper and the subsequent danger for staff and the public, and reduced loss-of-power incidents to customers.

Integral Energy continued to raise awareness of copper theft through an extensive local media campaign.

Security fences around field support centres and substations were completed this year and security systems were upgraded.

Future challenges

Over the next 12 months Integral Energy has identified five key objectives detailed in our corporate plan. These are:

- Improving safety performance by reducing employee lost time injuries and reportable electrical incidents by 20% compared with last year
- Improving customer value by limiting unplanned supply interruptions for our average customer to less than 90 minutes
- Delivering on our Strategic Asset Management Plan (SAMP) by delivering our approved network investment plan safely, on time and within budget
- Managing business risks across our business that could potentially affect the performance and reputation of our business
- Leveraging technology effectively by developing a comprehensive 10-year plan to prepare for the Federal Government's proposal to roll out smart meters to all our network customers over the next eight years.

The scheduled 45% increase in network investment requires an increase in employee numbers and the development of master plans to ensure appropriate support facilities are available to house them.

Setting strategy: Ty Christopher (left), General Manager Network Development, and John Kruger, Manager Project Management Office, discuss the Strategic Asset Management Plan (SAMP), which underpins Integral Energy's network investment plans.

3 Environmental Performance

creating connections to a
low-carbon future

Environmental indicators – did we meet our objectives?

2008–09 OBJECTIVE	PROGRESS TO DATE	STATUS	2009–10 OBJECTIVE
Capitalise on the opportunities presented through an integrated environment strategy.	Our improved performance reflected the implementation of key cross-business initiatives.	▲	Undertake a comprehensive review of the environment strategy to accommodate changes in the external environment.
Pursue greenhouse reduction target by focusing on energy efficiency, fleet improvements and waste minimisation.	Achieved our annual greenhouse reduction target to progress towards carbon neutrality for direct emissions by 2020.	▲	Continue to implement the organisation's target of carbon neutrality of direct emissions by 2020.
Align environmental risk assessment process with the organisation's strategic risk profile.	Complete. Environmental risk assessment process fully aligned.	✓✓	Develop strategic initiatives to reduce significant risks.
Implement the recommendations of the waste data project and waste minimisation plan.	Waste data project started and reductions in key waste streams achieved.	▲	Continue to implement the waste data project and waste minimisation plan.
Continue to implement the Eco Depots program and environmental guidelines training program.	Eco Depots program was implemented in 50% of field support centres. Environmental guidelines training program completed.	✓✓	Establish an annual environmental compliance training program, reinforced through communication initiatives.
Align the environment strategy with stakeholder expectations.	Environment strategy continues to evolve in response to stakeholder feedback and performance improvements.	▲	Continue to engage with external stakeholders to understand expectations.

Key

✓✓ Objective exceeded

✓ Objective achieved

× Objective not achieved

▲ Ongoing objective with targets met to date or positive progress shown

▼ Ongoing objective with targets not met to date

3 Environmental Performance

Performance indicators

Regulatory compliance

Integral Energy's focus on environment regulatory compliance resulted in us having no fines or prosecutions in 2008–09.

Expenditure

- Environmental expenditure exceeded $6.1 million, up 37% from last year and partly attributable to the Eco Depots program, which resulted in increased energy efficiency and water conservation initiatives such as rainwater tanks for vehicle wash bays.

Greenhouse gas emissions

- Total emissions directly attributed to our activities meet our greenhouse target of 29,889 tonnes of carbon dioxide equivalent (CO_2e).
- Total emissions relating to losses from our network increased by 25% to 781,755 tonnes of CO_2e. This reflects a significant change in the reporting methodology from the adoption of the National Greenhouse and Energy Reporting Scheme.

Oil regeneration

- A total of 729,607 litres of oil was removed from the network, 41% of which was recycled.

The remaining oil was recycled through energy recovery.

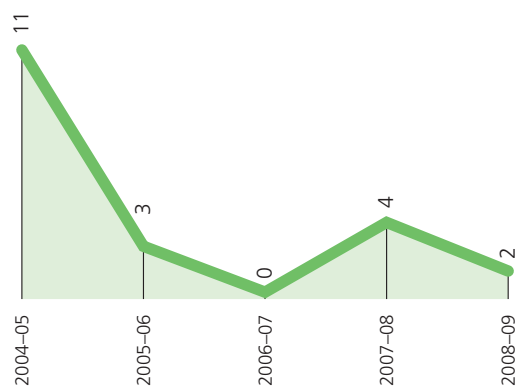
Waste management and recycling

- Total waste disposed increased by 21% compared with 2007–08, reflecting the success of the waste data capture which has improved data accuracy and completeness.

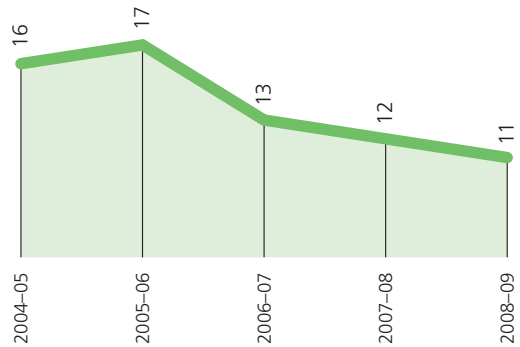
Water consumption

- Water consumption per full time equivalent employee decreased by one kilolitre per year, reflecting the use of water-saving devices, installation of rain water tanks and behavioural change programs.

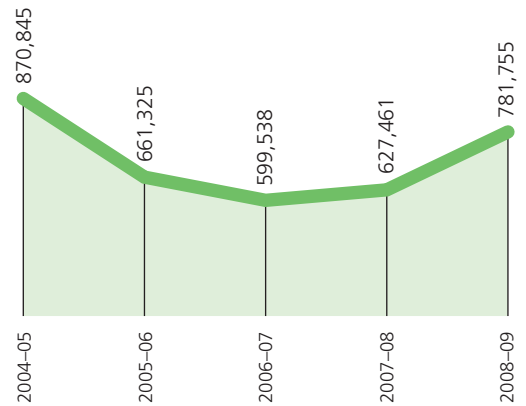
Number of notifiable environmental incidents



Water consumption per full time equivalent employee (kilolitres)

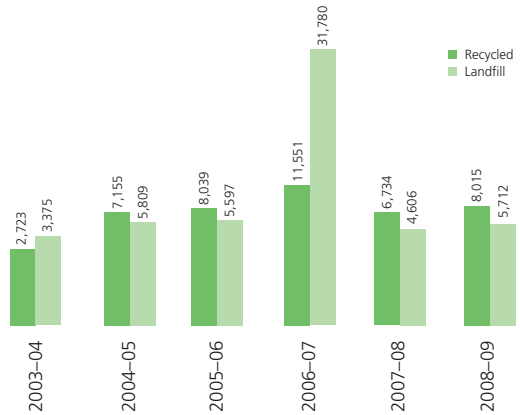


Distribution network line losses (TCO_2e)



Note: Changes in National Greenhouse Gas Reporting methodologies from 2008-09 mean that emission levels have increased compared with previous years.

Waste (tonnes)



Note: 2006-07 result reflects a focus on the remediation of contaminated land and improved data capture methods during the reporting period.

Connecting to the needs of future generations

Integral Energy's environment policy is based on respect for the environment and community in which we operate and defence of the needs of future generations. We appreciate that this will require a culture of environmental excellence to be embedded throughout the organisation as we build new connections to a more sustainable future.

Our environment strategy has been developed to achieve performance improvements while driving cultural change. It embodies four initiatives:

- Responding to climate change
- Improving our performance
- Continuing to learn and driving cultural change
- Engaging with stakeholders.

Responding to climate change

As a socially responsible business, Integral Energy is mindful of its obligation to achieve sustained reductions in direct and indirect greenhouse gas emissions. We also recognise that customers expect energy companies to demonstrate leadership in this area. A key component of our environmental strategy therefore is to drive an organisational response to our own carbon footprint. We have developed action plans focused on achieving carbon neutrality for our direct emissions by 2020 and achieving sustained reductions in network losses.

As a socially responsible business, Integral Energy is mindful of its obligation to achieve sustained reductions in direct and indirect greenhouse gas emissions.

Climate change is expected to result in more erratic weather conditions. Analysis by the CSIRO predicts that NSW is likely to become warmer, with more hot days and fewer cold nights. For Integral Energy, this means increased peak summer energy demand for cooling is likely, with reduced demand in winter for heating. In managing a network that spans urban centres, rural areas and coastal regions, we expect to face significant asset management challenges across our supply area.

Wherever possible, we have taken account of these scenarios in developing our network strategy, which incorporates capital and operating programs planned over the next decade as well as specific asset management strategies.

Government climate change policies can be grouped into four types: those designed to reduce high emissions generation, those promoting investment in low emissions generation, those targeting improved energy efficiency and those offering targeted assistance to affected stakeholders.

Integral Energy's response to these and other developments is focused in three key areas:

- Reducing our direct carbon footprint to zero by 2020
- Preparing our network assets for the impacts of climate change
- Helping customers to manage their energy consumption better.

Reducing our direct carbon footprint to zero by 2020

Including emissions from electricity consumption, petroleum products, waste, sulphur hexafluoride (SF_6) and hydrofluorocarbons (HFCs), our zero-emissions target, established in 2008, will result in over 180,000 tonnes of CO_2e being abated or offset by 2020.

Initiatives to reduce greenhouse gas were investigated across the business this year: in fleet, facilities management, infrastructure construction and information technology. Implementing them will be a priority in the coming year.

Preparing our network assets for the impacts of climate change

An employee sustainability program, Eco Depots, was implemented at five of our 16 field support centres. Energy audits were conducted in partnership with employees to identify energy efficiency improvements without compromising site operations. Recommendations from the audits were implemented and we expect to see resulting improvements over the coming year.

We also monitored and adjusted the energy efficiency program at our Kings Park field support centre. This successful trial reduced the building's energy consumption by 26% – or the equivalent of 133 tonnes of carbon dioxide. We plan to roll out the program to other high consuming buildings in a bid to achieve our target of being carbon neutral for direct emissions by 2020.

Our vehicle fleet travelled approximately 25 million kilometres in 2008–09, consuming 4,100 kilolitres of fuel (diesel, petrol and LPG) and generating 11,988 tonnes of CO_2e. Greenhouse emissions attributed to the use of petroleum products accounted for 38% of our direct emissions. We have investigated a range of initiatives to reduce fleet emissions, including leasing of light vehicles and replacing six-cylinder vehicles with four-cylinder versions that will reduce direct emissions by an estimated 22%. Recommendations will be implemented as part of the 2009–10 fleet improvement plan.

Changes in National Greenhouse Gas Reporting methodologies

Since 1996, we have participated in the Greenhouse Challenge Plus program, adopting its emissions reporting boundaries and methodologies. In 2009, greenhouse gas emissions reporting will change for many organisations including Integral Energy with the introduction of the National Greenhouse and Energy Reporting Scheme.

The scheme requires companies to report scope-one and scope-two emissions. Scope-one emissions include direct emissions from sources that are owned or controlled by the company. Scope-two emissions are those generated as a result of an organisation's operations, such as emissions from electricity purchased and consumed by customers. They include network losses.

Starting this year, we have reported our emissions using the National Greenhouse and Energy Reporting Scheme methodologies where available, and using the National Greenhouse Accounts where such methodologies are unavailable. Changes in reporting methodologies mean that our emission levels, as reported in this annual report, have increased significantly compared with previous years.

Making meaningful customer connections

The Blacktown Solar City project is an innovative example of how to influence customer behaviour and reduce energy demand.

The project has resulted in the abatement of 24,000 tonnes of greenhouse gas emissions and savings of $3 million to customers in their electricity bills. Launched on 28 July 2007 by Integral Energy and its consortium partners, Blacktown Solar City is an Australian Government initiative.

Our role in the project has been to deliver energy efficiency packs, consult on home energy and run energy saver trials. During the project Integral Energy:

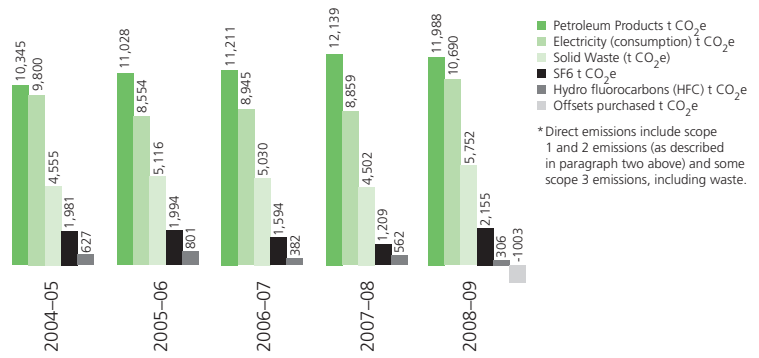
- Distributed over 77,000 compact fluorescent light bulbs and 500 water-saving showerheads to Blacktown residents
- Completed over 1,500 home energy consultations. The program has resulted in an estimated average annual cost saving per household of $176 and emissions savings of 1.2 tonnes of CO_2
- Conducted four energy saver trials, two pricing trials and two load control trials to encourage change in the way householders use electricity during periods of higher demand:
  - *Dynamic peak pricing.* A premium tariff applies during selected peak demand periods. Most participants changed their energy use behaviour and saved money on bills.
  - *Seasonal time of use.* Participants paid higher tariffs during the warmer months when demand was higher and a reduced rate at other times. Results indicated customers respond positively to price signals.
  - *Pool pump control.* Some pool pumps were remotely switched off between peak hours on ten hot days and timers on some pools were adjusted to operate out of peak hours to achieve a similar reduction in peak demand.
  - *Air conditioning cycling.* Air conditioners were remotely switched off for up to 20 minutes each hour on ten hot days. See page 37.

Education about peak demand was an important component of these trials. Seventy-one per cent of residents surveyed in 2009 said they would be likely to change the way they use electricity if it cost more during times of heavy demand.

Western Sydney pricing trial

For the third year running, our western Sydney pricing trial tested customer responses to dynamic peak pricing (when energy is most expensive) and seasonal peak pricing. More than 1,200 customers participated, including a control group of 340 customers. The energy consumed by dynamic peak pricing participants decreased by over 25% during peak events and remained responsive even when peak pricing events occurred on consecutive days. The findings will help us develop new generation tariffs which will contribute to more sustainable energy delivery and consumption.

Figure5: Direct* greenhouse gas emissions



Our greenhouse reduction target was higher in 2008–09 compared to 2007–08 to allow for planned emission increases in 2008–09 as a result of the changes in reporting methodologies, significant buildings being commissioned and our growing workforce.

North West Sector Demand Management Fund

This fund was established in accordance with the conditions of approval for the Vineyard to Rouse Hill electricity upgrade in September 2006. It provides $500,000 to support a program of demand management and energy minimising activities targeting customers in the sector.

Projects currently being delivered to connect meaningfully with customers include:

- Home energy consultations. Free home sustainability assessments are provided to residents, with more than 350 completed this year. These assessments made use of a community based initiative, the 'Y Green program,' where young people are trained and employed to conduct home sustainability assessments in their local communities. The program is a collaboration between the Hills Shire Council, TAFE NSW – Western Sydney Institute, the University of Western Sydney, Lend Lease/GPT the New Rouse Hill, Steplight and Dusseldorp Skills Forum
- Energy efficiency schools program. The project aims to reduce energy use in schools by educating staff and students
- Energy efficiency awareness campaign. Currently under development, this campaign will include an online energy reporting tool, mobile educational displays and a discount voucher booklet.

Business energy efficiency

Seven demand-side management programs operated through 2008–09. These aim to reduce large energy consumers' peak demand to allow the deferral of major network upgrades. Current programs include Parramatta, Blacktown, Campbelltown, Liverpool, Unanderra, Minto and Chipping Norton. To date the programs have achieved a demand reduction of 23.96 MVA.

Adrian Woodford, Manager Construction Program, and Chris Buscall, Regional Environmental Specialist, inspect the Kings Park FSC rainwater tank supplying a vehicle washbay. Integral Energy is progressively introducing a range of energy, water and recycling initiatives at our depot sites to improve our overall resource efficiency.

Improving our performance

The strategic direction of our environmental performance and opportunities presented by an integrated strategy remained the focus of the Executive environmental steering committee. Chaired by the CEO, the committee tracks our performance in reducing environmental risks.

Our environmental management system and environment strategy are key tools to guide our performance improvements. Developed in accordance with the ISO 14001 international standard, the environmental management system continues to evolve.

Compliance

Despite two environmental incidents reported under the *Protection of the Environment Operations Act 1997,* our performance was a significant improvement on the previous year.

The two incidents involved:

- An Integral Energy civil contractor inappropriately storing spoil on a Sydney Water Corporation site, which resulted in localised damage to Cumberland Plain woodland
- A padmount transformer catching fire, causing the burning or release of approximately 300 litres of oil to the adjacent stormwater system. The incident was investigated by the Parramatta Police and vandalism was determined as being the cause of the incident. The cause of the fire was determined as having been started by unknown persons.

Site investigation and remediation

Our proactive approach is evident in the completion of the third year of our contaminated land program. We are modifying the program with a view to investigating contamination that may pose a risk to workers excavating in substation sites. A program of supplementary investigations will be conducted at selected field support centres in the coming year.

Waste management

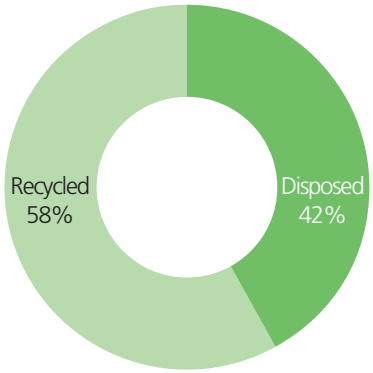
In addition to maintaining our focus on diverting waste from landfill, we improved the accuracy of our waste data and increased waste awareness through employee education programs this year.

We conducted a review of all major external waste and recycling facilities used by staff. Procedures are in place to capture and report on the amount of waste coming from these facilities, allowing us to set more informed waste reduction and recycling targets.

Key targets of the waste minimisation plan for 2008–2009 were achieved, including:

- A 10% increase in timber pole recycling
- A 10% increase in timber pallet recycling
- 5,000 litres of waste oil diverted from landfill through a capture and recycling program in all major depots.

Figure 6: Waste, by type



Integral Energy's focus on regulatory compliance resulted in us having no fines or prosecutions in 2008–09.

Water resources

In the year under review Integral Energy continued to participate in Sydney Water's Every Drop Counts business program which aims to promote and drive sustainable improvements in water efficiency and reduce costs.

Rainwater tanks with a combined capacity of 158,000 litres were installed in early 2008. Our water use decreased by 9% compared with last year. This reflects facility improvements and the development of a conservation culture.

Continuing to learn and driving cultural change

Staff engagement and cultural change remain a key focus for Integral Energy. The roll-out of the Eco Depots program to our field support centres continued this year. The program's launch site, Kings Park field support centre, showcased how innovative control systems and cultural change can deliver exceptional efficiencies. Kings Park electricity consumption has decreased by an average of 26% a month since the program was introduced.

We revised our approach to environmental learning and awareness and developed an environmental guidelines handbook. More than 1,000 employees were trained in the environmental principles outlined in the handbook.

Creating new connections with stakeholders

Stakeholder engagement to improve understanding of expectations and recognise potential opportunities in the wider business remains a key element of the network capital program. As part of this process, Integral Energy prepares environmental assessments, which are conducted in consultation with the community and key stakeholders. (See page 48 for additional information on stakeholder engagement.)

Our customer consultative committee also continues to provide a forum for presenting key initiatives and communicating our environmental performance to a wider audience.

Heritage management

Achievements this year included further research to confirm the heritage significance and preparation of conservation management strategies for sites identified in the draft Heritage & Conservation (s170) Register. Work continued on the development of a movable heritage policy (covering portable items of heritage significance) and the collection and cataloguing of potentially significant items. See page 115 for more detail.

Future challenges

In 2009–10 we will:

- Undertake a review of the environment strategy to accommodate changes in the external environment
- Complete the Blacktown Solar City energy saver trials with our consortium partners and the community
- Work towards our target of carbon neutrality of direct emissions by 2020
- Capitalise on the organisation's emerging environmental culture through programs such as Eco Depots and Sustainable Huntingwood
- Establish an annual environmental compliance training program that will be reinforced through communication initiatives.

Case study

Air conditioner saver trial cuts power usage by 30%

Peak demand in Integral Energy's network area has grown significantly over the past decade, reflecting the transformation of rural and semi-rural land into new urban developments and a sharp increase in the use of air conditioners, most notably in Western Sydney.

Contributing to the steep demand is the fact that peak temperatures in the Integral Energy franchise area are typically higher and more sustained than those of coastal areas. This results in a significant probability of extreme weather events in any given year.

The rapid growth in the use of air conditioners poses a potentially intractable problem because it means peak demand has been growing at a faster rate than overall energy consumption.

Integral Energy is investing significantly to ensure our energy infrastructure has high levels of reliability and sustainability. However we know that if we do nothing to limit growth in demand the investment we'll need to make in network capacity will continue to increase along with the associated ongoing environmental impacts.

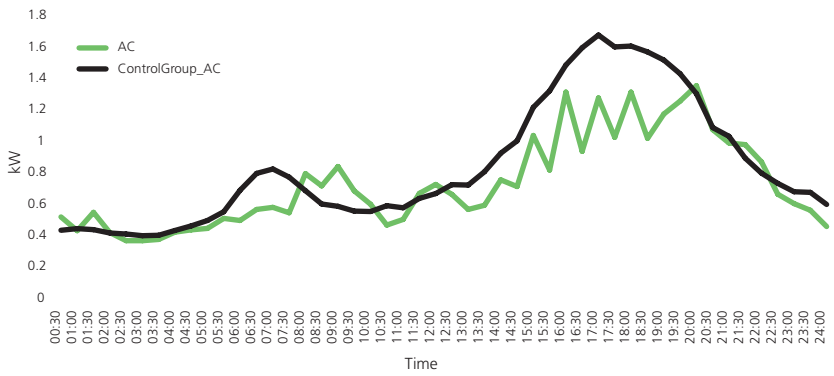
In response, Integral Energy promoted a voluntary Air Conditioner Saver Trial under the flagship Blacktown Solar City program which encouraged the use of solar power, energy efficiency and new approaches to electricity pricing and financing.

The trial offered a financial incentive to home owners who took part in return for allowing their air conditioners to be cycled off for 20 minutes each hour during selected occasions of high electrical demand.

The two-year trial had over 500 participants and resulted in a reduction of over 30% in energy use during the peak consumption period – with very little impact on residential comfort or air conditioner cooling performance.

This important exercise has not only given Integral Energy valuable insights into new and residential demand management, it has created an increased awareness among consumers of the network's demand limits and the environmental impact of energy consumption.

Figure 7: Average Load Profiles on 14 March 2008 with temperature 29.4°C



The rapid growth in the use of air conditioners poses a potentially intractable problem because it means peak demand has been growing at a faster rate than overall energy consumption.

4 Social Performance

connecting

with people and communities

Russell Walsh, Mass Market Manager, and Jill Bynon, Marketing Campaign Manager, who were responsible for the successful win-back campaign for Integral Energy customers. The value proposition was 'come home to Integral and save'.

Social indicators – did we meet our objectives?

2008–09 OBJECTIVE	PROGRESS TO DATE	STATUS	2009–10 OBJECTIVE
Drive Integral Energy's safety performance to best-practice benchmarks.	17 lost time incidents for 2008–09, an 11% reduction. Best-practice organisations in our industry show we can significantly improve our performance towards our target of zero harm.	▲	Restructure and benchmark performance to deliver further improvements in the year ahead.
Increase value for customers by identifying opportunities to improve productivity and enhance efficiencies at an industry level by working more closely with other NSW distributors.	Negotiated the new Integral Energy Award 2008 in line with NSW Government's Wages Policy to deliver improvements in safety for employees and increased value for our customers.	✓	Initiate a customer value improvement program to improve efficiency
	Developed a joint public awareness safety program with Energy Australia.	▲	Continue to identify opportunities to work with other NSW distributors. Implement the public safety awareness campaign.
Promote Integral Energy as an employer of choice.	Achieved an engagement score of 63 in the Hewitt's employee survey – a 3% improvement from the previous survey conducted in 2006. This score was higher than the average engagement score for the utilities industry in Australia.	✓	Incorporate learnings and drivers of employee engagement into our Human Resources Strategic Plan.
	Launched a staff wellness program to encourage employees to make safe and healthy lifestyle choices.	▲	Implement phase two of the wellness program – planning for change.
Develop a high-performance culture.	More than 200 senior employees have been coached to facilitate development planning and career discussions with their direct employees.	✓	Introduce new reporting structure for individual key performance indicators, which is aligned to our corporate strategy and strategic priorities.
Deliver better outcomes for customers experiencing financial hardship.	6,421 new customers were enrolled in the *INpower* customer assistance program. Disconnection rates were further reduced by 27% from the previous year.	✓✓	Design a program of initiatives to provide customers with increased options to use electricity more efficiently and help reduce energy costs.
Improve stakeholder engagement to support the delivery of our network capital program.	Community engagement principles agreed and all plans delivered on time.	▼	Support project managers to deliver effective community engagement through training programs.
Review our community partnership program	Updated the community partnerships strategy to align with the organisations corporate objectives.	✓	Further align our partnership strategies to support our network capital program.
Align Integral Energy's organisational structure to business and succession strategies.	New structure approved by the Board in February 2009 and progressively implemented through to 1 July 2009.	▲	Implement the approved succession plan and workforce plan to deliver the network capital program.

Key

✓✓ Objective exceeded
✓ Objective achieved
× Objective not achieved
▲ Ongoing objective with targets met to date or positive progress shown
▼ Ongoing objective with targets not met to date

4 Social Performance

Performance indicators

Employees

- Integral Energy's workforce grew by 4% to 2,871 full time equivalents.
- Integral Energy welcomed a record intake of first year apprentices. We plan to recruit a further 300 apprentices over the next five years.

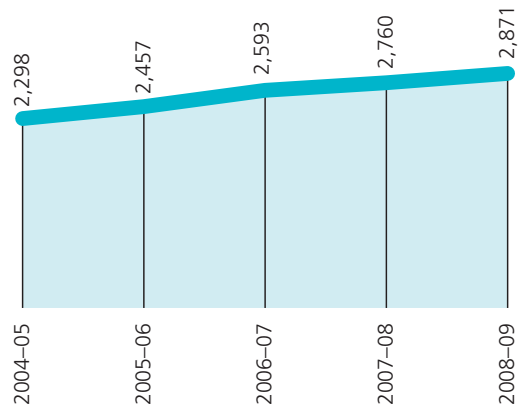
Customer relations

Integral Energy continued to work with New South Wales customers experiencing financial hardship and as a result reduced disconnection rates by 27% over the past year from 3,794 in 2007–08 to 2,778 in 2008–09. We achieved the best results for a NSW distributor in the recent electricity retail businesses' performance against customer service indicators in a report produced by IPART, the independent economic regulator for NSW.

This improvement in disconnections is a result of culture change driven by management, improved processes and IT systems to benefit customers. Payment plans and strong partnerships with welfare groups have increased referrals to the *INpower* program.

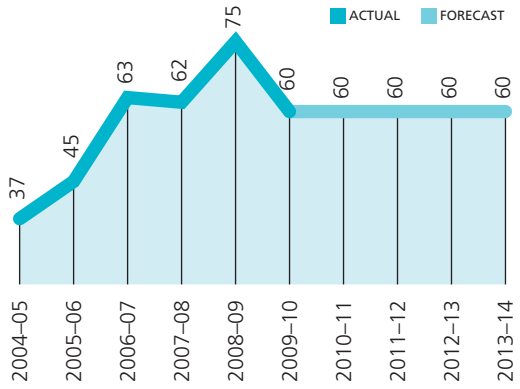
- Integral Energy's *INpower* program offered 6,421 new customers long-term payment plans and by year-end 4,379 customers were enrolled in the program.

Total Staff[a]

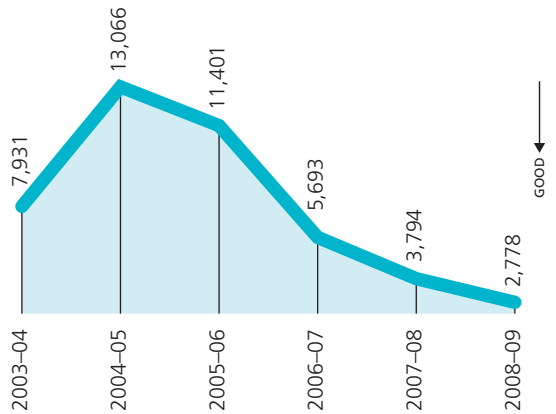


a – staff numbers are based on full time equivalents

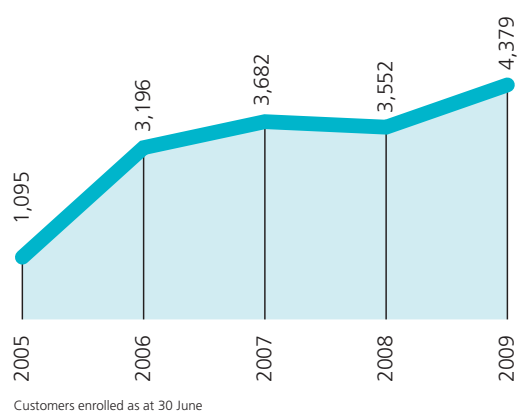
Number of new apprentices employed



Disconnections for non payment



***INpower* customers**



Customers enrolled as at 30 June

Connecting with our people

We aim to build a capable, innovative and motivated workforce to enable us to achieve our business outcomes. To this end, our strategic Human Resources plan focused on three areas: engaging employees, building capability and aligning culture. These guide the development of all initiatives and projects.

To engage and motivate employees, we introduced initiatives that create a greater level of understanding of our business and improve leadership capabilities and senior managers' communication with employees.

The development of leadership capability is particularly important. Central to our success in this area is a clear articulation of the leadership competencies required at all levels of the business to improve performance management and identify and develop high potential employees.

To deliver this new Human Resources (HR) plan and support existing key areas of training and safety, we restructured the HR division into three new teams: employee relations, HR strategy and HR services.

We developed a workforce plan to support the delivery of our strategic asset management program.

Our workforce

Our workforce grew from 2,760 to 2,871 full-time equivalent staff. Accounting for growth and attrition, over the next five years we expect to recruit approximately 600 new employees, including 300 new apprenticeships to support our $2.7 billion electricity network investment.

We ran successful development programs to ensure adequately trained staff are available to meet future needs. An additional 75 apprentices and 10 engineering graduates joined Integral Energy this year and a trainee engineering officer program was reintroduced. As part of the two-year engineering program, six trainees will rotate through the network business. Recruitment into these development programs is set to continue in coming years.

Table 8: Employee numbers

EMPLOYEES	2004–05	2005–06	2006–07	2007–08	2008–09
Total staff[a]	2,298	2,457	2,593	2,760	2,871
Increase (%)	5.3	6.9	5.5	6.4	4.0
Cumulative reduction (%)[b]	26.5	21.4	17.1	11.7	8.2

a staff numbers are based on full time equivalents

b base in 1995 was 3,127

Integral Energy employed another 75 apprentices in 2009. Among them was this first-year trio from Baulkham Hills – Nathaniel Brew, Morgan Evans and Gavin Nixon.

Over the next five years we expect to recruit approximately 600 new employees, including 300 new apprenticeships to support our $2.7 billion electricity network investment.

4 Social Performance

The next generation

In 2008-2009 we employed another 75 apprentices – 45 in the system electrician trade (including for the first time 15 transmission electricians) and 30 in the distribution powerline trade. These apprentices were the first group to start their training at our new Hoxton Park training centre. See page 46.

Among recruits this year were the first graduates of the adult apprenticeship support program. This program, run for the first time in 2008, is designed to help existing staff transition to an apprenticeship. It gives them an insight into electrical theory and provides literacy and numeracy support to those who have been away from formal studies for some time.

This year's intake brings the total number of apprentices at Integral Energy to 230.

Our apprenticeships are keenly sought and so attract the best and brightest. Daren McMurray claimed best distribution powerline apprentice in the 2009 Western Sydney Apprentice of the Year program.

Learning on the job

To build organisational capability, we recognised that we needed to improve access to employee development programs. To this end, we introduced an individual development planning process and coaching for managers. More than 200 senior staff members have now been coached. The plans give individuals specific, measurable development goals. The information will also help us to analyse organisational development needs and plan for succession.

Twenty-eight new and aspiring field-based team leaders attended our Leading Hands Leadership development program this year. This brings the total number of people who have attended the program to 276. It focuses on the people side of managing field work, helping us ensure field staff and apprentices are effectively coached and mentored.

Thirty-nine transmission technologists attended our in-house leadership and business program which started in February 2008.

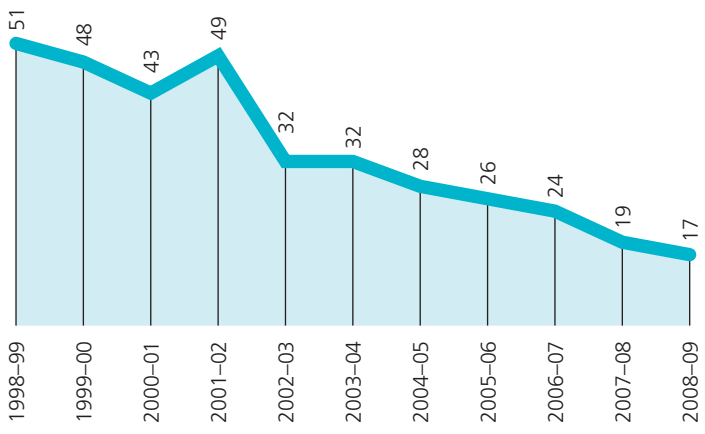
Health and safety

Our Integral Energy Health and Safety Policy Statement commits us to providing a safe workplace and network for our employees and the public. Safety excellence is a leading organisational value. We integrate safety policies and procedures into all our business and management processes.

Our commitment is to zero incidents, injuries and occupational illnesses. This is supported by a set of safety principles: making safety our first priority, a belief that all incidents are preventable and ensuring that employees understand that working safely is a condition of employment, that we take no shortcuts, do not accept unsafe behaviour and expect personal accountability for safety from everyone.

Integral Energy's safety performance has improved significantly over the last decade as demonstrated by the graph below. However, current performance does not represent industry best practice and falls short of our target of zero incidents.

Figure 8: Number of lost time incidents



Safety excellence is a leading organisational value. Our commitment is to zero incidents, injuries and occupational illnesses.

Our safety plan encompasses three approaches. These are:

- Improving safety culture so all employees willingly take responsibility for safe behaviours
- Integrating safety into our business by ensuring safety is fundamental in all policies and processes, supported by clear accountabilities, and systematically assessed
- Providing safety training, development and education to employees, contractors and general public workers to maintain improvements already underway through established programs.

Public safety awareness

Integral Energy's 2008-2009 Public Electrical Safety Awareness Plan identifies the key safety issues, target markets and communication strategy to be implemented over the next 12 months to increase awareness of safety hazards associated with electricity.

The plan has been developed in accordance with the requirements of the *Electrical Supply (Safety and Network Management) Regulation 2002*. However it extends beyond these requirements to demonstrate our commitment to public safety, position us as experts in the safe use of electricity and build a positive association for our brand.

The plan targets:

1. General public safety
2. General public workers safety
3. Asset management safety
4. Agricultural safety.

The main messages to be communicated to target audiences are:

- Look up and live
- Dial before you dig
- Safety in and around the home – specifically electric shocks from taps/appliances
- Vandalism and unauthorised entry
- Farm safety – look up and live.

For the first time, a joint annual public awareness safety program was developed at an industry level in collaboration with EnergyAustralia. This program will be implemented in the coming year. Further information can be found on our website: www.integral.com.au.

Workers compensation

Workers compensation claims lodged during the year increased by 40% from an average of 10 a month in 2007–08 to 14 a month in 2008–09. This reflects a greater level of reporting. Changing attitudes to safety are also reflected in our workers compensation statistics, which show a measurable reduction in the total cost of claims from $1,413,815 in 2007–08 to $1,130,664 in 2008–09, as a result of earlier and more effective intervention.

A new service delivery case management model has enabled our team of case managers to help individuals return to pre-injury function with early interventions and rehabilitation. Increased and early reporting of claims has also seen a significant reduction in the rehabilitation employees have required.

Safety training

Safety excellence has been supported throughout the year through workplace safety training programs. One example is a tool – the Incident Cause Analysis Method – that enables users to conduct a thorough, systematic analysis of an incident and more accurately identify its cause. Another tool, safety observations, involves staff identifying potential incidents and finding and implementing solutions.

Safety days

The Safety Day program has provided Integral Energy with a great opportunity to grow and reinforce our safety culture. Presentations by staff and external providers are delivered at all field support centres twice a year. The Safety Day program includes a trade show, operational training and inspection and testing of equipment for compliance purposes.

Energy Industry field days

Energy Industry field days are an opportunity for people in the industry to share knowledge, best practice and experiences. They include trade displays, seminars and competitions between energy providers around first aid, hazard and risk assessments and fire management.

The 2009 field days were hosted by EnergyAustralia at Sydney Showground, Homebush, attracting over 3,000 electricity workers.

Over 50 Integral Energy staff, including 30 apprentices, competed in 10 competitions. Our teams won eight awards in the first aid, hazard and risk assessment, cable jointing, manual handling and fire fighting contests.

Safe Work Awards

Integral Energy entered the 2008 WorkCover NSW SafeWork Awards for the first time and was a finalist in Category 2 – best solution to an identified workplace health and safety issue. Our submission focused on our Safety Day program which evolved from the incorporation by some transmission work groups of mandatory safety checks into regular team meetings, to an entire day dedicated to safety, equipment testing, health, training and education for field support centre staff.

Protecting the health of our workforce

To protect the health and safety of employees during the swine flu outbreak, we established an incident management team to monitor developments and evaluate impacts, coordinate any necessary action and support the NSW Government's plan. As a precaution, employees were given regular updates promoting appropriate personal hygiene procedures.

4 Social Performance

Employee engagement

Wellness program

Integral Energy's *Energise4Life* program aims to encourage employees to make safe, healthy lifestyle choices through wellness initiatives, education and self-help opportunities.

Phase One was designed to provide a platform for change and support healthy choices. Activities during February-June 2009 included offsite skin cancer checks (attended by 446 employees), onsite personal health checks (1,214 employees) and personalised health and lifestyle questionnaires, completed by 881 employees.

Set against Australian norms, data collected indicates that 25% of employees are categorised at high risk of developing health issues. The main contributing factors are excess body weight, poor nutritional balance, lack of regular physical activity, poor stress management and below normal levels of high density lipoprotein levels (HDL or good cholesterol).

Reward and recognition program

We reviewed our reward and recognition program 'Leading Lights Rewards' and devolved decision-making from General Managers to Branch Managers. As a result the turnaround time from nomination to acknowledgement and reward has been significantly improved.

The Leading Lights Rewards program seeks to formally recognise and acknowledge employees who strive to achieve outstanding results by exerting extra effort and engaging in work that contributes significantly to business success. Over the year 151 employees were nominated for rewards and 109 received a branch level reward (gift vouchers to the value of $100 for an individual or $50 for a team member).

Staff support

Integral Energy is conscious of the challenges facing employees today and provides different forms of support. We have continued our partnership with Davidson Trahaire Corpsych, as our Employee Assistance Program provider, to give employees and their families professional counselling on general lifestyle management and issues that impact on work. Family friendly policies include carers' leave, paid maternity and paternity leave and study assistance.

Our fully accredited childcare centre at our Huntingwood office has been in operation for 15 years and caters for up to 39 children a day, aged from six weeks to five years, who attend in a full-time or part-time capacity. All enrolled are children of Integral Energy employees.

Integral Energy's employee engagement survey results are discussed on page 39. The survey provided valuable information on the drivers of employee engagement which has been used to help develop the Human Resource Strategic Plan.

The focus on safety was extended to encouragement and support for employees to make safe, healthy lifestyle choices through the launch of *Energise4Life*, Integral Energy's wellness program. Champions of the program from left, Joel Manning, Gayle Wilson, Amanda Azzopardi, Tracey Simmons and Michael Johansen.

EEO (statistics)

Table 9: Trends in the representation of equal employment opportunity groups (% of total staff, excluding casual staff)

REPRESENTATION	BENCHMARK OR TARGET[a]	2004–05	2005–06	2006–07	2007–08	2008–09
Women	50	22	22	22	22	21
Aboriginal people & Torres Strait Islanders	2	0.9	1	0.9	1	0.9
People whose language first spoken as a child was not English	20	7	8	8	8	8
People with a disability	12	5	5	4	4	4
People with a disability requiring work-related adjustment	7	0.6	0.5	0.5	0.3	0.3

Note: Staff numbers are as at 30 June

a Set by NSW Government

Table 10: Trends in the distribution of equal employment opportunity groups (Distribution Index)

DISTRIBUTION INDEX	BENCHMARK	2004–05	2005–06	2006–07	2007–08	2008–09
Women	100	97	98	100	103	105
Aboriginal people & Torres Strait Islanders	100	91	96	96	97	100
People whose language first spoken as a child was not English	100	109	110	112	115	116
People with a disability	100	96	97	99	101	103
People with a disability requiring work-related adjustment	100	32	n/a[a]	n/a[a]	n/a[a]	n/a

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

a The Distribution index is not calculated where the EEO group or non-EEO group numbers are less than 20.

Employee relations

On 24 December 2008 the Integral Energy Enterprise Agreement expired. After 12 months of negotiations, the new Integral Energy Award 2008 was certified on 30 June 2009. The two-year award provides for wage increases totalling 7% plus 2% in employer-sponsored superannuation.

The award represents the first negotiation between Integral Energy and the unions under the NSW Government's Wages Policy. It also establishes the consultation processes needed to achieve targeted savings totalling $7.5 million in 2009–10 that are important to our customers and required under the policy.

Another award outcome is a new and stronger safety standard established through policies around occupational health and safety, fatigue management and drug and alcohol testing.

The new award outlines the obligations we and our employees have to provide customers with a high standard of service in the most efficient way through more cooperative work arrangements, improvements in competitiveness, efficiency, flexibility and productivity.

In the past year total hours lost due to industrial action were 114 hours and 56 minutes.

4 Social Performance

Case study

Hoxton Park centre training the next generation of power workers

When Integral Energy's $14.3 million state-of-the-art Technical Training Centre opened at Hoxton Park in Sydney's west in March 2009, it represented a major commitment to developing the next generation of New South Wales electricity workers.

Even more importantly it provided graphic evidence of Integral Energy's determination to invest in the safety of its people.

"Safety is our number-one priority in delivering an efficient, reliable supply of electricity to customers," explains Chief Executive Officer Vince Graham. "This facility will help our technical training group to reinforce the importance of safety to all who enter its doors while delivering up-to-date training techniques."

Over the next five years the Hoxton Park centre will train more than 300 new apprentices while delivering training in technical skills to many experienced staff as well.

Simulated substation

What makes this centre special? Among other features it showcases a simulated substation with electrical boards and switch gear as well as 30 outdoor electrical poles that can be safely energised to give apprentices an understanding of working on live equipment.

Covered all-weather cable jointing pits allow trainers to simulate work in underground ducts, while four poles are in a covered area with a high-level balcony integrated into the building to allow trainers to instruct on working safely at heights. There are four workshops and seven lecture rooms with interactive visual teaching systems.

Apprentices have easy access to the nearby Hoxton Park field support centre and Miller TAFE, giving them additional opportunities to apply classroom learnings in an on-the-job situation, and to learn from those in the field.

Energy-efficient design

The building itself incorporates energy and water-efficient design, with a 180,000-litre tank to store rain water for use in bathrooms and gardens and sensor-controlled air conditioning and lighting.

The opening by Chairman Michael McLeod coincided with a formal welcome for 75 apprentices who joined the organisation this year, taking the total number of apprentices to 230. Many are fresh out of school though some signed up for the program to change their career direction and learn new skills. (One member of the 2009 class is 47 years old.)

"The Hoxton Park centre will equip electrical workers with the skills to think safely, work safely and deliver reliable electricity to our customers," says Michael McLeod.

"Nowhere is the need for committed and hard-working young people greater than in the electricity sector, and this will give them the skills they need for life-long employment. It will also give them jobs close to home in a hands-on training environment to complement their TAFE studies – preparing them for a rewarding career at Integral Energy."

There was a big turn-out at the official opening of the state-of-the-art Hoxton Park technical training centre in 2009. Pictured at the event are Chairman Michael McLeod, Board Members Paul Sinclair and John Fahey, Chief Executive Officer Vince Graham and former Chief Executive Officer Richard Powis with the first-year apprentices.

Connecting with customers

Quick responses, satisfied customers

Our customer interaction centres at Huntingwood and Coniston manage retail and network customer calls. This year our centre staff took 1,054,862 inbound calls. The average call answer time was 48 seconds for retail-related calls and 20 seconds for network contacts. In Queensland, call centre staff took 175,484 calls with an average answer time of 53 seconds.

The outage management system implemented last year continues to benefit the centres by allowing them to manage major network outage situations and ensure customers are well informed and their expectations managed.

The Customer Satisfaction Index for the year showed 83% of customers were 'satisfied or very satisfied' with the service they received.

Customer issues

We received 16,242 comments, compliments and complaints, an increase of 11% over last year. The increase primarily related to comments, particularly in the area of energy audits, which were up by 20%, and more complaints from Queensland. Seventy-one percent of complaints received across New South Wales and Queensland were resolved within 10 days.

In NSW, the top issues were billing and marketing while in Queensland they were predominantly marketing related. Most billing-related complaints were from customers disputing bills or complaining about high consumption. In response, our customer care group conducted 1,128 home energy audits and 163 phone audits. These included advice for customers experiencing financial hardship on how to reduce their electricity usage.

In NSW and Queensland we received 292 and 209 compliments respectively, generally about staff in the field and in our Western Sydney, Wollongong and Brisbane call centres.

The Energy and Water Ombudsman NSW and the Energy Ombudsman QLD provide independent advice to resolve customers' concerns. During the year our customer care group managed 682 matters forwarded by the New South Wales ombudsman and 359 matters forwarded by the Queensland ombudsman.

Customer consultative committee

Integral Energy's customer consultative committee comprises important stakeholder groups: business customers, general consumers, senior citizens, community organisations and multicultural groups. It provides us with valuable information and insights into issues that impact customers and the wider community.

The committee's work is jointly determined at the beginning of each calendar year and documented in an annual work plan. In 2008–2009, it contributed to important discussions including our capital program, our greenhouse action plan, Blacktown Solar City and smart metering, the 2009 network determination submission and pricing and customer hardship and disconnections.

To help develop the committee's understanding of the industry and support its work, we make available senior managers and industry experts at various meetings and organise an annual field trip. In September 2008 the committee travelled to Narellan for a field support centre Safety Day. It also toured the new $64 million Springhill transmission zone substation.

Managing hardship

We continued to work with New South Wales customers in financial difficulties and by doing so reduced our disconnection rates by 27% compared with last year. This followed a 33% reduction in the previous financial year. Our disconnection rates represent 0.35% of small retail customers.

Our hardship program, *INpower*, works with NSW and Queensland customers in longer-term financial hardship by offering them affordable payment plans and individual case management. The program offered 6,421 new customers long-term payment plans during the year and by year end 4,379 customers were enrolled.

Integral Energy also provided customers with $26.1 million in rebates and payment assistance under the Pensioner Rebates Scheme and the Energy Accounts Payment Assistance Scheme, a 12.7% increase over the previous year. The New South Wales Government reimburses this cost.

Engaging the community and other stakeholders in open, honest dialogue is critical to the success of Integral Energy's operations.

4 Social Performance

Connecting with communities

Integral Energy has a complex and diverse stakeholder base, including government, regulators, shareholders, customers, employees and suppliers.

We conduct an independent survey of critical stakeholders every two years to identify issues of most concern and to assist in identifying reputational risks. This survey helps to prioritise stakeholder engagement programs. In 2008–09, we focused our efforts on those stakeholders impacted by Integral Energy's $4.2 billion capital and operating program. These stakeholders included local media, regional chambers of commerce, state and local government representatives, regulators, community interest groups and residents.

Public consultation on key projects

Engaging the community and other stakeholders in open, honest dialogue is critical to the success of Integral Energy's operations. To this end, when planning major capital works we undertake comprehensive stakeholder impact assessments. In 2008–09 we engaged with local communities on the following projects:

Liverpool transmission substation and 132kV line

To inform the local community about the new Liverpool transmission substation and associated line works, we briefed local parliamentary representatives, council and media and delivered more than 300 newsletters to local residents and businesses.

Doonside zone substation

Integral Energy is investing $55 million to provide a safe and reliable electricity supply to the residents and businesses of Doonside. We plan to establish a new indoor Doonside zone substation to replace the existing substation built in 1961. Apart from local media, we briefed the nearby school, Member of Parliament, council, local environment group and wrote to residents.

Parramatta West zone substation

In June 2009 Integral Energy hosted a public open day at 15 Macquarie Street, the site of the new Parramatta West zone substation. Archaeological excavations at this site are uncovering evidence of Aboriginal and colonial occupation before it is redeveloped.

Community engagement plans

Integral Energy developed and implemented community engagement plans for Wetherill Park, Holroyd, Windsor, Guildford, Kemps Creek substations and Cheriton Avenue, Blaxland and Oran Park line works.

Community partnerships

Integral Energy builds strong, valuable partnerships with local communities by engaging with and investing in them through sponsorship initiatives.

In 2008–09 we undertook a review of our sponsorship framework to ensure it reflected our obligations as a state-owned corporation and was aligned to our revised corporate plan.

As a result of this review, a community partnership framework was developed which comprises new criteria across six categories – health and safety, community, youth and education, environmental responsibility, business excellence and regional investment, and innovation and technology.

Highlights during 2008–09 included:

Discovering history with Integral Energy families

Integral Energy has been a principal sponsor of the Powerhouse Discovery Centre at Castle Hill since 2006. The centre offers public access to a variety of items that have never or rarely been exhibited by the Powerhouse Museum.

We held our inaugural family day at the centre in early 2009, attended by 600 people. A number of activities were scheduled throughout the day for people of all ages to explore and find out more about Australian history. Family days give staff and their families a unique opportunity to interact with colleagues in an informal setting and, importantly, see first-hand the benefits of Integral Energy's community support.

Helping cities meet energy needs

Integral Energy was the principal partner and the exclusive energy partner of the Metropolis Congress 2008, held on 22-25 October 2008 at the Sydney Convention and Exhibition Centre.

Metropolis is an association comprising 100 cities around the world, including Sydney, each with populations greater than one million people. The congress is held every three years in a different city. Over 800 delegates from some of the world's biggest cities along with local and global organisations from a range of industry sectors attended.

Integral Energy hosted the energy workshop which centres on best-practice case studies showcasing how cities can sustainably meet basic energy needs from diminishing resources.

Supporting visual arts students

Integral Energy has sponsored the NSW Department of Education and Training's ARTEXPRESS for twelve years. ARTEXPRESS is a popular annual exhibition with a high public profile featuring outstanding works selected from thousands of pieces submitted by NSW Higher School Certificate visual arts students. For the first time, a new digital art exhibition, on display at the Wollongong City Gallery, was developed: ARTEXPRESS 4D. It featured works in video, animation and documented expressive forms by 21 students from across the state.

Promoting industry research into power quality

To support and promote industry research into power quality and its impact on customers, the Integral Energy Power Quality and Reliability Centre at the University of Wollongong hosted the 13th IEEE International Conference on Harmonics and Quality of Power.

A non-profit organisation, IEEE is the world's leading professional association for the advancement of technology. The IEEE name was originally an acronym for the Institute of Electrical and Electronics Engineers. Today, its scope of interest has expanded into many related fields.

There is a recognised shortage of qualified power engineers. Integral Energy's involvement in the conference is one of a number of initiatives to promote the education of trained engineers for our industry.

Further information on Integral Energy's community partnership program can be found on the website www.integral.com.au.

Investment in the community

Workplace giving

Since its launch in July 2004, our workplace giving program *Integral's concerned and responsive employees* (*I care!*), has donated more than $800,000 to 11 staff-selected charities. Staff donations are matched dollar–for-dollar by Integral Energy up to a total of $100,000 per year. Currently 9% of our staff participate in *I care!*

Bushfire appeal

To support families and communities affected by the Victorian bushfires Integral Energy set up a pre-tax payroll deduction for staff to make a one-off donation to The Salvation Army's Victoria Bushfire Relief Appeal. (The Salvation Army is one of our workplace giving charity partners.)

Through the generosity of 726 employees and an agreed dollar-for-dollar corporate matching fund, $148,226, was donated to the Salvos' appeal.

Learn to stop burns CD – The Children's Hospital at Westmead

Integral Energy has been a long-term supporter of The Children's Hospital at Westmead and was the inaugural founder of its Kids Health Unit.

Donations through the program support the work of Kids Health, which promotes and protects the health and safety of children and young people in New South Wales. Most recently funds from our workplace giving program were used to fund its 'Learn to Stop Burns' program, an interactive project for students and parents.

In 2009 Integral Energy was presented with The Children's Hospital at Westmead Benefactors Award, one of the highest levels of recognition the hospital has to thank supporters.

Integral Energy Staff Corporate Volunteering event

Fifty employees along with staff from the Nepean Youth Accommodation Service (NYAS) took part in the inaugural *I care!* staff volunteering event in November 2008. NYAS helps at-risk youth by providing safe, secure accommodation options, restoring family relationships and promoting self reliance. The volunteering event involved a make-over for two homes: Penrith Youth Refuge and Dulkara House in Emu Plains.

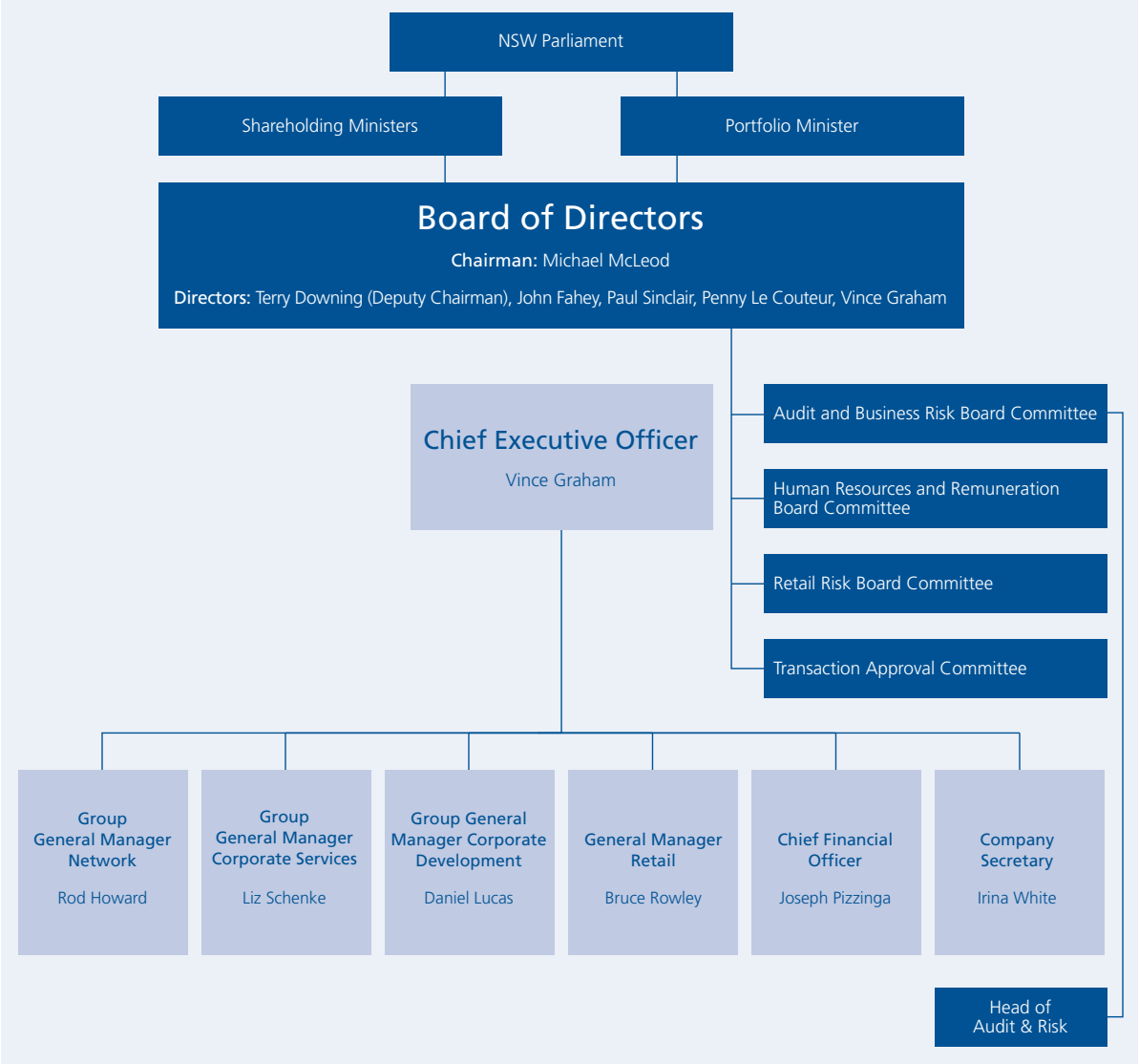
Future challenges

- Reduce employee lost-time injuries and reportable electrical incidents by 20% on last year
- Implement initiatives to provide further assistance to customers who are experiencing financial hardship
- Improve community engagement programs
- Deliver employee savings to fund employee wage increases in accordance with the NSW Government's wages policy
- Develop a performance management culture
- Prepare the next generation of electrical workers through excellent induction and training programs.

A fire-fighting team at an energy industry field day at the Sydney Showground. The field days provide an opportunity for people in the industry to share knowledge, best practice and experiences.

5 Corporate Governance

Governance and operational structure



Integrated suite of ethical principles

Board Code of Conduct

Outlines the unique obligations and responsibilities of the Board and expectations as to the conduct of Directors.

Code of Ethics

Sets out the principles and values by which employees of Integral Energy are expected to act.

Statement of Business Ethics

Outlines Integral Energy's expectations of private sector service providers in conducting business with Integral Energy.

5 Corporate Governance

Board of Directors

Michael **McLeod**

FAICD

Chairman
Non-Executive Director

Michael McLeod was appointed a non-executive director in March 2000, and Chairman in March 2002. Michael was previously the Chief Executive Officer of Australian Health Management, Australia's seventh largest private health insurance company. He was previously Chief Executive Officer of Australia's largest medical indemnity insurance company and the Chief Executive Officer of an Australian-owned risk management consultancy with operations in five countries. He is a Fellow of the Australian Institute of Company Directors, Director of the Australian Health Insurance Association, Member of the Commerce Faculty Advisory Board, University of Wollongong, a past director of the National Insurance Brokers Association of Australia and a founding Board member of the Medical Indemnity Insurers Association of Australia.

Term (including re-appointments):
1 March 2000 – 31 August 2010

- Chairman of the Board from 1 March 2002
- Member, Audit and Business Risk Board Committee
- Member, Retail Risk Board Committee
- Invitee, Human Resources and Remuneration Board Committee

Terry **Downing**

BComm, MMgmt, DipBusStudies (Insurance), FAICD

Deputy Chairman
Non-Executive Director

Terry Downing was appointed a non-executive director in March 2000, and Deputy Chairman in March 2002. Terry is a Certified Practising Accountant, a Fellow of the Australian Institute of Company Directors and holds a number of non-executive director roles across a range of organisations. Previously, Terry held a number of senior executive positions in the financial services sector.

Term (including re-appointments):
1 March 2000 – 31 August 2010

- Deputy Chairman of the Board from 1 March 2002
- Chair, Human Resources and Remuneration Board Committee
- Member, Retail Risk Board Committee
- Member, Audit and Business Risk Board Committee

John **Fahey AC**

DipL

Non-Executive Director

John Fahey was appointed a non-executive director in March 2002. A former Premier of NSW and member of the NSW Parliament for 12 years (1984–96), John was elected to the Commonwealth Parliament in 1996, serving as Minister for Finance and Administration from 1996 until 2001. He brings a commercial focus to the Board and a close insight into the needs and interests of Integral Energy's customers gained from his experience representing residents in our franchise area during his state and federal parliamentary career. John holds the position of chairman and director on a number of commercial boards as well as being an advisor in the financial services sector. In 2007, John was elected President of the World Anti-Doping Agency. John was made a Companion of the Order of Australia in January 2002 and awarded the Federation Medal in 2003.

Term (including re-appointments):
1 March 2002 – 29 February 2012

- Chair, Audit and Business Risk Board Committee
- Re-appointed 1 March 2009

Penny **Le Couteur**

BSc (Hon), AICD

Non-Executive Director

Penny Le Couteur was appointed a non-executive director in May 2008. Penny has over ten years' experience as a non-executive director on a range of boards and her positions currently include Chair, Employers Mutual Limited; Director, WorkCover Tasmania, and Uniting Financial Services; and a member of the Fair Trading Advisory Council. Previously Penny has held a number of senior executive positions in the financial services, insurance and banking sectors as well as various positions with the Commonwealth Public Service. She is a member of the Australian Institute of Company Directors and Women Chiefs of Enterprise International.

Term: 14 May 2008 – 30 May 2011

- Chair, Retail Risk Board Committee
- Member, Human Resources and Remuneration Board Committee

Paul **Sinclair**

DipIR, DipHRM

Non-Executive Director Unions NSW Nominee

Paul Sinclair was appointed a non-executive director in January 1999. Paul is the Assistant Secretary of the Electrical Trades Union (NSW Branch) and is also a director on the boards of the National Electricity Superannuation Scheme, Electrotech Skill Centre, and Electro Group Training. Paul is the Unions NSW nominee to the TAFE NSW Consultation Committee.

Term (including re-appointments): 1 January 1999 – 15 October 2010

- Member, Audit and Business Risk Board Committee
- Member, Human Resources and Remuneration Board Committee
- Reappointed 13 October 2008

Vince **Graham**

BE(Civil), Grad Dip Mgmt, FAICD

Chief Executive Officer and Executive Director

Vince Graham was appointed Chief Executive Officer and Executive Director on 7 April 2008 for a term of three years. Vince's biographical details are given in the Executive group section on page 58.

- Member, Human Resources and Remuneration Board Committee
- Member, Retail Risk Board Committee
- Member, Transaction Approval Committee
- Invitee, Audit and Business Risk Board Committee

5 Corporate Governance

Corporate governance

Integral Energy is a statutory state-owned corporation, established under the *Energy Services Corporations Act 1995 (NSW)* and the *State Owned Corporations Act 1989 (NSW)*. It is governed, principally, by the two statutes mentioned and its constitution. Integral Energy's Board and Executive believe that good governance is a critical prerequisite for a high-performance organisation with a sustainable future and share a commitment to high standards of business integrity, ethics and professionalism across all activities. Our *Code of Ethics* sets out the expectations for the staff behaviour that is fundamental to our business success and encourages a culture of responsibility and accountability that promotes ethical and responsible decision making.

Good governance ensures the delivery of outcomes sought by our shareholders, supports our people and business operations and ensures sound ethical, financial and risk management practices and effective compliance and auditing programs.

Integral Energy has complied with the NSW Treasury Guidelines for Boards of Government businesses which provide a platform for good corporate governance practices.

Shareholders

The Board is accountable to the voting shareholders for the performance of Integral Energy. The voting shareholders each hold one share carrying the same rights, for and on behalf of the New South Wales Government.

There are two voting shareholders at any one time each holding the same number of shares and the same rights. The shareholders hold their shares on behalf of the state. As at 30 June 2009, the shareholders were the Treasurer and the Minister for Finance. The Portfolio Minister is the Minister for Energy.

Role and responsibilities of the Board

The Board of Directors operates at all times in accordance with its charter which is designed to complement the Constitution of Integral Energy Australia, the Director's Manual, and the Board's *Code of Conduct*.

The Board is responsible for the corporate governance of Integral Energy including setting the strategic direction, establishing performance targets as set out in the Statement of Corporate Intent, and monitoring the achievement of those targets. In carrying out its responsibilities, the Board undertakes to serve the interests of the voting shareholders as well as its employees, suppliers and customers and the broader community, honestly, fairly, diligently and in accordance with all applicable laws.

The Board delegates to the Chief Executive Officer responsibility for implementing the strategic direction and for managing the day-to-day operations of Integral Energy.

Board Code of Conduct

The Board adopts a 'lead-by-example' approach to promoting the practice of high ethical standards, including compliance with the directors' own Code of Conduct as well as Integral Energy's *Code of Ethics*. The Board *Code of Conduct* is provided on page 105.

Conflicts of interest

In order to ensure their independent status, all directors of Integral Energy are subject to the statutory duties and prohibitions regarding conflicts of interest. Integral Energy relies on the integrity of the Board of Directors to identify and disclose any issues which may give rise to a conflict of interest. The Company Secretary maintains the Register of Disclosures.

Each director is required to complete a Director's Disclosure of Interest form on appointment to the Board and to review that form, as a minimum, every six months to ensure the information held by the organisation is up to date. The complete register is provided to the full Board every six months for review. This was undertaken in 2008–09.

Further to the declarations contained in the Register of Disclosures, directors are required to declare any real or perceived conflicts of interest in relation to the matters before the Board or Board committee that would interfere with their exercise of independent judgment as a director. Any such declarations will be added to the register.

Non-executive directors are entitled to accept positions with other companies. However, directors must observe their duties as set out in the *Energy Services Corporations Act 1995*, the *State Owned Corporations Act 1989*, the Board *Code of Conduct*, the *Code of Ethics* and general law, in accepting any position with another company and in particular, those duties relating to conflicts of interest.

Board Charter

The Board Charter has been adopted by the Board of Directors to assist the Board and its committees in the exercise of their responsibilities. The Board reviews its charter on an annual basis and such other time as considered necessary. The Board has incorporated the requirements of the NSW Treasury Guidelines for Boards of Government Businesses in its charter.

Membership of the Board

In accordance with the *Energy Services Corporations Act 1995 (NSW)*, the *State Owned Corporations Act 1989 (NSW)*, and the Constitution of Integral Energy Australia, the Board of Integral Energy consists of:

- The Chief Executive Officer (Executive Director)
- One Unions NSW nominee

- At least two and not more than five other directors.

Appointment and office of Board members

All members of Integral Energy's Board of Directors, with the exception of the Chief Executive Officer, are appointed by the voting shareholders for terms of up to five years. Appointments may be renewed by the voting shareholders. A vacancy in the office of director (with the exception of the Chief Executive Officer and Unions NSW nominee) is filled by a nominee of the voting shareholders.

The voting shareholders are to appoint the Unions NSW nominee on the recommendation of a selection committee comprising:

- Two persons nominated by the Portfolio Minister
- Two persons nominated by Unions NSW.

The Unions NSW nominee must be selected by the committee from a panel of three persons nominated by Unions NSW.

The voting shareholders may appoint the other directors at their discretion.

Each non-executive director's remuneration is determined by the voting shareholders and is paid out of Integral Energy's funds. The Chief Executive Officer is not entitled to additional remuneration for being an executive director.

See page 101 for further details about remuneration.

Board meetings

Board meetings will normally be held 11 times per year at venues, dates and times agreed in advance. Additional meetings may be scheduled as required. Urgent matters requiring the approval of the Board that arise between scheduled meetings can be dealt with by way of circulating resolution or by the Transaction Approval Committee in accordance with its Charter. The table below provides details of director attendance at those meetings.

Table 11: Directors' meetings, 2008–09

	INTEGRAL ENERGY AUSTRALIA BOARD OF DIRECTORS		AUDIT AND BUSINESS RISK BOARD COMMITTEE		HUMAN RESOURCES AND REMUNERATION BOARD COMMITTEE		RETAIL RISK BOARD COMMITTEE[b]		TRANSACTION APPROVAL COMMITTEE	
NAME	ELIGIBLE[a]	MEETINGS ATTENDED	ELIGIBLE[a]	MEETINGS ATTENDED	ELIGIBLE[a]	MEETINGS ATTENDED	ELIGIBLE[a]	MEETINGS ATTENDED	ELIGIBLE[a]	MEETINGS ATTENDED
Michael McLeod	12	12	4	4	6	6	9	9	2	2
Terry Downing	12	12	4	4	6	6	9	8	1	1
John Fahey	12	12	4	4	3	3	–	–	–	–
Penny Le Couteur	12	12	2	2	6	6	9	8	1	1
Paul Sinclair	12	11[c]	4	4[c]	6	6	–	–	–	–
Vince Graham	12	12	4	4	6	6	9	6	2	2

a Reflects the number of meetings the directors were eligible to attend during the director's term of office in 2008–09.

b The July and August 2008 meetings of the Retail Risk Board Committee were not held due to Retail separation.

c Paul Sinclair attended the Board and Audit and Business Risk Board Committee meetings held in September and October 2008 as an invitee pending his reappointment as a director in October 2008.

5 Corporate Governance

The Board undertakes a review of its performance annually, with particular attention being paid to the extent to which it has met its responsibilities in terms of its charter.

Board performance and evaluation

The Board undertakes a review of its performance annually, with particular attention being paid to the extent to which it has met its responsibilities in terms of its charter. The Board will approve a framework and process to assess the effectiveness of the Board, its committees and directors, with a view to ensuring that performance accords with best practice.

The Board undertook a self-assessment of its performance in October 2008 with the findings of the review of performance, and outcomes, discussed at the Board planning workshop in November 2008.

Board planning workshops

The Board meets at least once per year without senior management present to discuss Board and management performance, as well as strategic themes and the corporate planning process. The Board participated in a planning workshop in November 2008 and a combined Board and Executive workshop in June 2009.

The Board visiting the Springhill Transmission Zone Substation.

Director induction and education

Board members are assisted by Integral Energy to fulfil their roles and responsibilities in ways which include:

- The provision of induction materials for new directors in order to gain an understanding of Integral Energy's financial, strategic, operational and risk position, their rights, duties and responsibilities, the roles and responsibility of senior management and the role of Board committees
- Professional development opportunities to update and enhance their skills and knowledge. In 2008–09, a number of sessions were provided to the Board on a range of issues concerning key developments in Integral Energy and in the industry and environment within which Integral Energy operates
- The opportunity to visit Integral Energy's facilities and meet with management to gain a better understanding of business operations. In 2008–09, the Board held three off-site meetings and conducted site inspections.

Access to management

The Board has access to the Chief Executive Officer and/or the Executive as needed. The Board encourages, where appropriate, the involvement of senior management or other employees who can provide expertise on and insight into the matters being considered by the Board. Directors regularly contact the Company Secretary prior to Board meetings regarding any matters that require clarification.

Access to independent professional advice

The Board may retain such outside counsel, experts and other advisors, at the expense of Integral Energy, as it determines appropriate to assist it in the performance of its functions, subject to the prior approval of the Chairman. No such advice was sought in 2008–09.

Board committees

The role of Integral Energy's Board is to provide overall strategic guidance for the organisation and effective oversight of its management. In undertaking this role, the Board may establish committees to assist it and may delegate responsibility to those committees to consider certain issues in further detail and to report back to and advise the Board.

The Board committees in 2008–09 were as follows:

- Audit and Business Risk Board Committee
- Human Resources and Remuneration Board Committee
- Retail Risk Board Committee
- Transaction Approval Committee.

The Board may establish other committees from time to time to consider matters of special importance. No other committees were established in 2008–09.

The duties and responsibilities of the Board committees are more fully set out in their charters (approved by the Board and reviewed annually) and include matters relevant to the composition, responsibilities, authorities, reporting, review and such other matters as the Board considers appropriate. As part of an annual process of review, each Board committee reviewed its charter in 2008–09.

The committees meet at least four times a year, except for the Transaction Approval Committee, which meets when required. These committees assist in the good governance of Integral Energy by allowing for detailed consideration of major issues, and providing advice to the Board on sensitive matters. All directors receive a copy of the agenda and minutes of Board committee meetings, as well as copies of papers for all committee meetings.

Audit and Business Risk Board Committee

The Audit and Business Risk Board Committee meets four times per year and ensures that audit and business risk matters, including compliance, are dealt with in an independent manner. The Head of Audit and Risk retains a direct reporting line to the Audit and Business Risk Board Committee and the Chief Executive Officer for audit matters. The committee's responsibilities cover matters relating to the financial affairs and business risks of Integral Energy, internal and external audits, risk management, compliance and fraud prevention. In addition, the committee examines any other matters referred to it by the Board.

Human Resources and Remuneration Board Committee

The Human Resources and Remuneration Board Committee meets, as a minimum, four times per year, and reviews the development, implementation and effectiveness of Board policy in relation to human resources, OHS and safety. The committee considers remuneration policies, principles and guidelines applicable to contract staff (including senior executives), and award-based staff. In addition, the Committee examines any other matters referred to it by the Board.

Retail Risk Board Committee

The Retail Risk Board Committee meets monthly, with a minimum of 11 meetings per year. It:

- Reviews the financial performance of Retail and recommends policy and strategy changes to the Board
- Considers any policy modifications or implications and monitors compliance
- Reviews a summary of previous month's trades and sales as they occurred, notes the future month's trades and sales strategy and reviews the monthly report from the Financial Services Governance Committee. In addition, the committee examines any other matters referred to it by the Board.

Transaction Approval Committee

The Transaction Approval Committee has a rotating membership consisting of at least two and no more than three non-executive directors and includes the Chief Executive Officer or his delegate. The committee is authorised by the Board to approve urgent business expenditure or revenue up to $10 million that might be required between meetings of the Board and that is outside the standing delegations to the Chief Executive Officer under Board policy. The Board may also authorise the Transaction Approval Committee to approve urgent business expenditure or revenue above $10 million. In 2008–09 the committee met on two occasions.

Senior management committees

Senior management committees integrate organisational initiatives and provide specialist advice. The committees operate according to charters set out by the Chief Executive Officer. They include: the Executive Occupational Health and Safety Committee, the Contract Review Committee, the Executive Environmental Steering Committee, the Enterprise Information Technology Committee, the Capital Governance Committee, the Executive Audit, Risk and Compliance Committee, the Business Risk and Compliance Committee and the Executive Network Asset Management Committee.

The Financial Services Governance Committee operates under a charter approved by the Board with a mandate to oversee matters relating to the organisation's Australian financial services licence obligations, and Anti-Money Laundering and Counter Terrorism Financing obligations.

5 Corporate Governance

Executive Group

Vince Graham
BE (Civil), Grad Dip Management, FAICD

Vince Graham was appointed Chief Executive Officer of Integral Energy in April 2008. Prior to joining Integral Energy, Vince has had over 20 years' experience in chief executive roles in large organisations both at a federal and state level across a number of industries, including the Grain Handling Authority, National Rail Corporation and RailCorp.

Vince has extensive experience in developing and leading reform and in the management of major infrastructure maintenance and capital programs. Consistent elements of these reform programs have been improving safety and risk management, customer service quality and organisation productivity, targeted capital investment, cultural change and work practice reform.

Liz Schenke
B.Ed, Grad.Dip.Com

Liz Schenke was appointed Group General Manager Corporate Services in June 2009. Before joining Integral Energy, Liz held the roles of Group General Manager Human Resources and Human Resources Executive Pacific National with Asciano Limited. Prior to joining Asciano, Liz held senior line management, marketing and human resources roles within Citigroup Australia. The balance of Liz's professional experience has been in local and global organisations and extends across the education, retail, transport, logistics and financial services industries.

Daniel Lucas
BBus, CA

Daniel Lucas was appointed Group General Manager Corporate Development in March 2009. Prior to this role, Daniel held the position of Chief Financial Officer from December 2006. Daniel is a Chartered Accountant with more than 25 years' experience as a finance executive with a number of major organisations, including Westpac, Deloitte, Foster's Brewing Group, Unilever, National Foods and Australian Pharmaceutical Industries. He has worked in Australia and overseas and his senior management career has covered a broad range of areas such as financial management, IT, supply chain, investor relations, strategy development and mergers and acquisitions.

Joseph Pizzinga
BCom, AssocDipAcc, CPA

Joseph Pizzinga was appointed Chief Financial Officer in February 2009, after acting in this position for 12 months. During Joe's 15-year tenure at Integral Energy, he has held a number of senior finance positions both in the business operations area as a key business adviser and in the financial control areas responsible for the overall financial governance of a number of key finance functions. Prior to joining Integral Energy, Joseph worked at a number of accounting firms.

Rod Howard PSM
BE (Hons), MEngSc, BBus, MBA, GAICD

Rod Howard was appointed Group General Manager Network in July 2009. Rod is responsible for overall management of the electrical network, including the delivery of the associated capital program to ensure its capacity, sustained integrity and long-term value. Rod's previous responsibilities at Integral Energy have been diverse and have included general management roles in Network Development and Control, Capital Solutions, Full Retail Contestability, Corporate Development, Company Secretary, Business Development and Integral Energy Contracting. He is also Deputy Chairperson of Energy and Water Ombudsman NSW (EWON).

Irina White
DipT, GradDipCommMan, MAdmin, MAICD

Irina White was appointed Company Secretary in February 2006. Before joining Integral Energy, Irina was employed in a number of the state's largest agencies. She has served as Company Secretary to the Boards of Rail Services Australia, Rail Infrastructure Corporation, the State Rail Authority and RailCorp and as General Manager Corporate Services in Rail Services Australia and Rail Infrastructure Corporation. Her past experience has also included senior policy and management positions in the NSW Department of Education and Training.

Bruce Rowley
BBus, AssDipLG

Bruce Rowley was appointed General Manager Retail in September 2008. Bruce's previous responsibilities at Integral Energy have included General Manager Retail and Customer Services and General Manager Sales and Marketing. Bruce also has had wide experience in a number of senior management roles in marketing, corporate communication, strategic planning and customer service. He is a director of the Energy Retailers Association of Australia and is a member of the Council of the Energy and Water Ombudsman of NSW.

Integral Energy's Executive team was restructured following Board approval of an organisation restructure in February 2009 which was progressively implemented through to 1 July 2009. Changes included:

- Joseph Pizzinga was appointed Chief Financial Officer in February 2009, after acting in this position for 12 months
- Liz Schenke was appointed Group General Manager Corporate Services in June 2009
- Alan Flett concluded employment as General Manager Network Asset Operations on 31 March 2009. From this period until 30 June 2009, Scott Ryan, Manager Northern Region acted in this capacity. On 1 July 2009 the Network was consolidated into a single division
- Karen Waldman concluded employment as General Manager Regulatory and Corporate Affairs on 6 March 2009
- Drew Ferguson was the acting General Manager Human Resources until 22 June 2009. He is now General Manager Network Operations responsible for the day-to-day operations of the network.

5 Corporate Governance

Ethics, risk management and compliance

Integral Energy's governance requirements are supported by strategies that encourage an ethical and values-based culture and a comprehensive risk management, compliance and assurance systems. Transparent and well-communicated governance mechanisms like the *Code of Ethics*, risk management plans and compliance programs exist. Similarly, internal and external audits are important tools for identifying risks and monitoring the organisation's risk management, internal control framework and compliance responsibilities. A range of senior Executive committees oversee the effective implementation and monitoring of the organisation-wide risk management and compliance programs.

Ethics and conduct

Integral Energy's *Code of Ethics* is pivotal throughout the organisation in setting out the corporate values and principles required by staff in performing their duties and responsibilities. Supporting the *Code* is the *Statement of Business Ethics* that outlines our values, business principles and behaviours with suppliers and contractors.

We developed a new integrated Ethics Communication and Engagement Strategy promoting awareness and understanding of the organisation's ethical framework amongst all employees and to instil in employees a personal responsibility for acting with integrity at all times.

All new employees attend orientation programs where the importance of the *Code of Ethics* and ethical behaviour is reinforced by the Chief Executive Officer. In addition, employees receive regular information on the standards and principles outlined in the *Code of Ethics*.

The *Code of Ethics* and the *Statement of Business Ethics* are both available to the public on our website. Both documents provide information on how to report inappropriate behaviour. In addition, Integral Energy provides a number of well-publicised methods, including a confidential ethics line, where fraud or corrupt conduct can be reported by staff. Integral Energy's website also provides an avenue for the public to report fraud or corrupt conduct.

During 2008–09, fraud and corruption prevention continued to be a priority across the organisation. The Audit and Business Risk Board Committee endorsed Integral Energy's updated Fraud and Corruption Control Plan 2009-2011. Strategically, the plan's direction is to maintain systematic review of controls, consultation with key stakeholders, and to develop and implement revised control measures. The Audit and Business Risk Board Committee was provided with regular status reports against initiatives in the Fraud and Corruption Control Plan.

A major activity across Integral Energy was the update and strengthening of the organisation's Fraud Risk Register. This involved workshops and discussions with the business unit representatives to identify, assess and validate relevant fraud risks. In addition, assessment of the relevance of ICAC recommendations from recent inquiries has been undertaken and, where applicable, incorporated as fraud risks in specific business unit registers as well as the development of appropriate treatment plans.

Other initiatives have included the introduction of the E-Learning Tool for educating staff about Integral Energy's purchasing procedures, strengthening the Gifts and Benefits Policy to be clearer and more relevant to the operations of the organisation, and the provision of 'once removed' requirements for purchase requisitions and approvals.

Risk management

Integral Energy is committed to implementing a risk management framework that facilitates the identification and management of risks that could affect our people, the community, the environment, our customers, our assets and our financial and legal status. The management of risks is a fundamental component of business management. All planning and subsequent decisions must take account of the factors that may inhibit the achievement of the organisation's objectives.

Integral Energy's risk management methodology utilises the Australian standard AS/NZS 4360–Risk Management as the basis of its risk management approach. Business risks were identified and assessed across eight broad risk categories which include safety, network, retail, financial, compliance, reputation, environment and business strategy.

Integral Energy maintains a risk management strategy covering a three-year period and a business risk plan covering the current financial year. The risk management strategy (2009–2012) focuses on strengthening the elements of the risk management framework. The business risk plan (2009–2010) provides a summary of the results of the risk assessment process, analysis of key risk indicators and a summary of the treatment action plans that the organisation is working towards. The risk management strategy and business risk plan are reviewed and approved by the Audit and Business Risk Board Committee.

Middle Office manages the monitoring and reporting of financial risk undertaken daily by Integral Energy's trading unit. Financial risk is measured using various risk metrics generated from the Middle Office risk system such as cash flow at risk, earnings at risk, potential credit exposure and mark to market.

Integral Energy recognises that we have a responsibility to the community we serve to have in place a comprehensive incident management plan and business continuity plans and to review and test those plans regularly.

The Audit and Business Risk Board Committee monitors the progress of mitigating actions in place to manage the business risks through bi-monthly reports. The operational risk around trading activities is monitored by monthly reports from Middle Office to the Retail Risk Board Committee.

Insurance

Integral Energy reviews the adequacy of insurance policy coverage and limits during each annual insurance renewal process and ensures all participating markets meet acceptable insurer security requirements.

Business continuity management

Integral Energy is committed to being adequately prepared for incidents to ensure that there is an effective response during business interruptions and crises. A framework and an incident management plan is maintained for the mobilisation of resources and processes to manage operational incidents, communicate with stakeholders and instigate actions for recovery of business processes.

In addition, business continuity plans and disaster recovery plans for all critical business processes and systems are maintained. These plans are regularly reviewed and exercised in line with the annual exercise program.

Compliance

Integral Energy is committed to the development and implementation of a fully integrated compliance management framework using Australian Standard AS 3806–2006: Compliance Programs as its foundation. In 2008–09, the following significant compliance activities were undertaken to build and implement this framework:

- Implementation and completion of initiatives in the strategic compliance program 2008–2010
- Workplace safety and the electricity licensing compliance plans
- Implementation of an Internet-based compliance monitoring and reporting system to facilitate the rollout of compliance plans into the business
- Development of a program to improve the compliance knowledge of business risk and compliance committee representatives
- Awareness, training and education of employees in their legal obligations, including privacy, freedom of information, trade practices, occupational health and safety, ISDAs and anti-discrimination legislation
- Reviewed and updated the organisation's trade practices manual, privacy manual and privacy statement
- Continuous management of the Australian Financial Services Licence compliance obligations
- Maintained corporate membership of the Australasian Compliance Institute.

Internal audit

The Board and the Executive are committed to supporting the operation of an objective and independent internal audit function. The Internal Audit charter, which outlines the objectives, roles, responsibilities and standards of the internal audit function, is reviewed annually. The objective of the internal audit function is to add value to the organisation and improve its control environment and operations. Internal Audit supports management in achieving Integral Energy's statutory and business objectives by bringing a disciplined approach to evaluating and improving risk management, control and governance processes.

The appointment or termination of the Head of Audit and Risk must be endorsed by the Audit and Business Risk Board Committee.

In 2008–09, a number of internal audit projects were carried out across a range of operations and activities in line with the annual audit plan approved by the Audit and Business Risk Board Committee. In addition, a number of special reviews requested by management and the Board were also completed.

To encourage continuous improvement of the internal audit function, an annual client satisfaction survey is conducted. The independent external quality assurance review of the internal audit function conducted in May 2009 concluded that Internal Audit at Integral Energy conforms with the standards of the Institute of Internal Auditors.

External audit

The Auditor-General of New South Wales provides independent external audit services through the Audit Office of New South Wales, and provides no other services to Integral Energy.

The objective of the internal audit function is to add value to the organisation and improve its control environment and operations.

6 Management Discussion and Analysis

Management discussion and analysis

Overview

Our obligations as a state-owned corporation require Integral Energy to submit an annual Statement of Corporate Intent (SCI) to NSW Treasury, as financial agent for the Government. The SCI represents an agreement with the Government which documents the objectives, strategies and obligations by which the business will operate over the next 12 months and following years. In particular, the SCI sets financial targets and clear limits on the scope of activities the business may undertake.

Summary

For the 2008–09 financial year, Integral Energy maintained a strong performance, achieved through continued focus on business fundamentals, appropriate discipline and corporate governance.

Integral Energy's 2008–09 SCI was prepared assuming a network-only structure effective 1 August 2008, on the assumption that Integral Energy's retail business would be transitioned by this date. Integral Energy's retail operations did not transition and the financial results are a reflection of business-as-usual activities, including the purchase, distribution and sale of electricity, meter data provision and maintenance, and the construction and management of electricity distribution assets.

Table 12: Financial results

	2008–09 RESULT	2008–09 SCI	VARIATION TO SCI	2007–08 RESULT
Earnings before interest, tax, depreciation & amortisation (EBITDA) ($m)	492.8	454.2	38.6	496.8
Earnings before interest and tax (EBIT) ($m)	355.7	314.8	40.9	367.3
Operating profit before tax ($m)	205.6	151.6	54.0	239.1
Operating profit after tax ($m)	142.2	106.1	36.1	172.4
Dividend ($m)	103.6	74.3	29.3	125.0
Total distribution (Dividend + income tax expense) ($m)	167.1	119.8	47.3	191.7
Return on assets (%)	8.7	7.9	0.8	9.2
Return on equity (%)	14.6	10.9	3.7	14.6
Capital expenditure	442.9	542.7	99.8	373.5

Total revenue and other income increased by $150.3 million, primarily due to an increase in electricity sales and network use of system income driven by tariff increases in line with regulatory allowances.

Profit results

Integral Energy's profit before tax result was $205.6 million, exceeding the 2008–09 SCI target of $151.6 million. Gross margin and other revenue from retail operations contributed to the favourable profit before tax result compared to the SCI target, together with favourable results from network operations and savings in finance costs.

Total revenue and other income increased by $150.3 million, primarily due to an increase in electricity sales and network use of system income driven by tariff increases in line with regulatory allowances. Retail sales volumes increased marginally by 2.7% noting a 5.6% growth in retail customer numbers. Network volumes were in line with the prior year with network customer numbers increasing by less than 1%, a reflection of the current economic environment. Expenses from operating activities increased by $161.8 million, in line with increased electricity sales and network use of system income, plus additional costs as noted below. Finance costs increased by $21.8 million with rate reductions offset by increased borrowings to fund the capital program.

Like many organisations, Integral Energy felt the impacts of the global financial crisis. Included in the result are increased employee benefit costs of $15.9 million resulting from increased headcount and the impact of the decrease in the discount rate on the employee benefits actuarial assessment, and land and building revaluation decrements totalling $10.4 million, A defined benefits superannuation actuarial loss of $70.9 million was recognised directly in equity in accordance with NSW Treasury policy which requires defined benefits superannuation actuarial gains and losses to be recognised outside of profit or loss as opposed to through profit or loss.

In addition, impairments relating to NSW Greenhouse Gas Abatement Certificates and Emission Rights (recorded at the lower of cost and net realisable value) totalling $10.5 million, and losses on derivative financial instruments in the amount of $8.3 million, were recorded in the financial statements.

Operating profit after tax was $142.2 million, a 17.5% reduction compared to the 2007–08 result of $172.4 million, but $36.1 million or 34.0% favourable to the SCI target (with contributions from the retail business a major contributor to the favourable result compared with the SCI target). Total distribution, consisting of income tax expense and dividends, totalled $167.1 million and was $47.3 million higher than the SCI target of $119.8 million.

Balance sheet

Total assets increased by $387 million compared to the previous year. Contributing factors include an increase of $323.2 million in the written-down value of property, plant and equipment and intangible assets, an increase of $30.4 million in trade and other receivables, an increase in emission rights of $25.1 million, an increase in cash and cash equivalents of $11.8 million, and an increase in inventories of $10.2 million. This movement was partly offset by a decrease in the fair value of derivative financial assets of $20.3 million. Return on assets, calculated as EBIT divided by the average asset base, decreased slightly from 9.2% in 2007–08 to 8.7% at 30 June 2009. EBIT decreased by 3.2% as outlined above, whilst average assets increased by 3.0%.

Total liabilities increased by $514.3 million compared with the previous year, driven by an increase in borrowings (inclusive of discounts/premiums) of $363.9 million primarily due to the need to fund the capital expenditure program. Provisions increased by $83.5 million with the defined benefits superannuation fund moving from an asset of $7.1 million to a liability of $61.5 million, and employee benefits increasing by $24.8 million.

Trade/other payables and derivative financial liabilities increased by $104.3 million and $42.4 million respectively compared with the prior year, in part driven by a change in accounting for option premiums payable. These movements were partly offset by a decrease in deferred tax liabilities of $49.3 million driven by the reduction in the fair value of net derivate assets and liabilities and the defined benefits superannuation fund, and a reduction in the provision for dividend of $21.4 million.

Return on equity, calculated as profit after tax divided by average equity, was 14.4%. This result is consistent with the 2007–08 outcome, with the reduction in profit after tax being offset by an increase in average equity.

Integral Energy's profit before tax result was $205.6 million, exceeding the 2008–09 SCI target of $151.6 million.

6 Management Discussion and Analysis

Cash flows

Cash and cash equivalents at the end of the financial year increased by $17.8 million over the prior year.

CASH FLOW STATEMENT SUMMARY	2008–09 $M	2007–08 $M	VARIANCE $M
Net cash provided by/(used in) operating activities	228.4	62.0	166.4
Net cash provided by/(used in) investing activities	(438.6)	(363.9)	(74.7)
Net cash flows from/(used in) financing activities	228.0	250.4	(22.4)
Net increase/(decrease) in cash and cash equivalents	**17.8**	**(51.5)**	**69.3**
Cash and cash equivalents at beginning of the financial year	(6.0)	45.5	(51.5)
Cash and cash equivalents at end of the financial year	**11.8**	**(6.0)**	**17.8**

Net cash flows provided by operating activities for the year were $228.4 million, an increase of $166.4 million on 2007–08. This increase was primarily driven by future margin hedge payments in 2007–08 which were significantly higher than in the current year, and lower income tax payments in the current year. Offsetting these reductions were higher net interest payments due to additional borrowings during the year to fund the capital expenditure program.

Net cash flows used in investing activities for the year were $438.6 million, an increase of $74.7 million, driven by the increased capital expenditure program. Net cash flows provided by financing activities for the year were $228.0 million, a slight decrease of $22.4 million compared with the 2007–08 result, mostly due to the payment of higher dividends in 2008–09 compared to the previous year.

Unused credit facilities as at 30 June 2009 were $479.0 million.

Debt

Balance sheet debt increased by $363.9 million compared with the prior year, primarily due to the need to fund the capital expenditure program. The gearing ratio, calculated as debt divided by debt plus equity, increased from 64.7% at 30 June 2008 to 71.3% at 30 June 2009. This result was driven by a 19.1% increase in debt compared with a 8.1% increase in debt plus equity, noting a reduction in equity driven by the hedge reserve.

Integral Energy's weighted average cost of debt (excluding the Government Guarantee fee) for 2008–09 was 0.3% favourable compared with the prior year. The impact of the global financial crisis forced a reduction in interest rates. Integral Energy took advantage of lower interest rates by locking in long-term debt requirements. This, coupled with a strategy of temporarily increasing short-term borrowings, yielded a reduction in the weighted average cost of debt.

Shareholder return

Integral Energy is committed to delivering sustainable and attractive returns to its shareholder, the NSW Government. The directors declared a first and final dividend of $103.6 million, representing an increase of $29.3 million or 39.4% compared with the 2008–09 SCI target. Dividend distribution is based on 70% of profit after tax, adjusted for non-cash movements relating to fair value movements in financial instruments. Defined benefits superannuation actuarial gains/losses are now recognised outside of profit or loss as opposed to through profit or loss, and no longer require adjustment in calculating the dividend distribution.

Net cash flows provided by operating activities for the year were $228.4 million, an increase of $166.4 million on 2007–08.

Capital expenditure

Capital expenditure for the 2008–09 financial year was $442.9 million. While capital expenditure was $99.8 million less than the SCI target it represents a record level of expenditure and was $69.4 million higher than the previous year. The underspend compared with the SCI target was driven by network spend of $380.7 million which was $67.7 million below target. Contributing factors to this variance were continued pressure on suppliers in meeting increased demand from the NSW electricity industry generally.

The capital program continues to target asset renewals as well as growth-related projects. The capital program is underpinned by Integral Energy's Strategic Asset Management Plan (SAMP). The SAMP reflects plans and strategies which are aligned to customer and technical drivers, improve long-term network asset values and produce optimal returns to shareholders. The plan sets priorities and summarises the investment in the network required to maintain ongoing network capability, consistent with a 'best-in-class' network asset manager.

Credit rating

Fitch Ratings affirmed Integral Energy's long-term foreign currency Issuer Default Rating of 'AA' and short-term foreign currency rating of 'F1+'.

Definitions of these ratings are as follows:

- **AA:** Very high credit quality. AA ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
- **F1+:** Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments; may have an added '+' to denote any exceptionally strong credit feature.

These ratings reflect NSW Government ownership of Integral Energy.

The directors declared a first and final dividend of $103.6 million, representing an increase of $29.3 million or 39.4% compared with the 2008–09 SCI target.

The Board and Executive team take a tour of the Hoxton Park Technical Training Centre.

7 Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

Annual Performance Report 2008–09

CONTENTS

The Board of Directors of Integral Energy (the Corporation) have pleasure in submitting the accounts of the economic entity for the period 1 July 2008 to 30 June 2009, and the independent audit report thereon.

1. General information

(a) Directors

The names of Directors in office at any time during the year are shown on page 52–53.

Details of meetings and attendance by Directors are shown in the Corporate governance section on page 55.

(b) Principal Activities

The principal activities of the Corporation during the course of the period ended 30 June 2009 were the purchase, distribution and sale of electricity, meter data provision and maintenance, and the construction and management of electricity distribution assets.

2. Business review

(a) Operating Results

The after tax profit of the Corporation for the year was $142.2m.

3. Other items

(a) State of Affairs

The Corporation operates in the New South Wales, Victoria, ACT, Queensland, South Australia and Tasmanian electricity industry in its own right under the provisions of the *Electricity Supply Act 1995*, and in the national electricity market.

The financial statements for the Corporation for the period ending 30 June 2009 are presented on pages 69 to 101 inclusive.

(b) Events Subsequent to Balance Date

There has not arisen, in the interval between the end of the financial period and the date of this report, an event of a material and unusual nature likely, in the opinion of the Directors of the Corporation, to affect significantly the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity, in subsequent financial years.

(c) Likely Developments

The Corporation's mission is to provide a safe, reliable and sustainable network. Our vision is to be a best practice electricity network business. While considerable changes are likely in the operating environment during 2009–10, particularly in relation to the Retail operation, Integral Energy remains focussed on its key strategic objectives, namely to operate profitably by maintaining a strong commercial focus, balance commercial outcomes whilst managing stakeholder and community expectations, excel within the core business processes that drive the business, and fully harness the skills and capabilities of our people through a clear focus on organisational alignment underpinned by the values of the Corporation.

Further information about likely developments in the operations of the Corporation and the expected results of those operations in subsequent financial years has not been included in this report as the Directors believe, on reasonable grounds, that to include such information would be likely to result in unreasonable prejudice to the Corporation.

(d) Directors' Benefits

During the period no Director of the Corporation has received, or become entitled to receive, any benefits by reason of a contract made by the Corporation or a related body corporate with a Director, or with a firm of which a Director is a member, or with an entity in which a Director has a substantial interest.

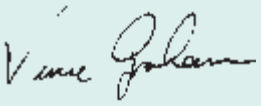
(e) Environmental Regulation Performance

The Corporation's environmental and waste discharge obligations are regulated under both State and Federal Law. All environmental performance obligations are monitored by the Environmental Steering Committee and subjected, from time to time, to Government agency audits and site inspections. The Corporation has a policy of at least complying, but in most cases exceeding, its environment performance obligations.

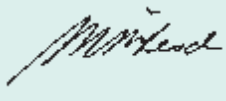
(f) Rounding of amounts

Amounts in the financial statements have been rounded to the nearest thousand dollars unless specifically stated to be otherwise.

Signed in accordance with a resolution of the Directors:



Vince Graham
Director
2 September 2009



Michael McLeod
Director
2 September 2009

Independent Audit Report

FOR THE YEAR ENDED 30 JUNE 2009

GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

INTEGRAL ENERGY AUSTRALIA

To Members of the New South Wales Parliament

I have audited the accompanying financial report of Integral Energy Australia (the Corporation), which comprises the balance sheet as at 30 June 2009, and the income statement, statement of recognised income and expense and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes.

Auditor's Opinion

In my opinion, the financial report:

- presents fairly, in all material respects, the financial position of Integral Energy Australia as of 30 June 2009, and its financial performance for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- is in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005
- also complies with International Financial Reporting Standards as disclosed in Note 2b.

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

Directors' Responsibility for the Financial Report

The directors are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) the State Owned Corporations Act 1989 and the PF&A Act. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2b, the directors also state, in accordance with Accounting Standard AASB 101 'Presentation of Financial Statements', that the financial report complies with International Financial Reporting Standards.'

Auditor's Responsibility

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

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

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

My opinion does not provide assurance:

- about the future viability of the Corporation,
- that it has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

Independence

In conducting this audit, the Audit Office of New South Wales has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A Act further promotes independence by:

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

Peter Achterstraat
Auditor-General

7 September 2009
SYDNEY

Income Statement

FOR THE YEAR ENDED 30 JUNE 2009

	Notes	**2009 $'000**	2008 $'000
Revenue	4	**1,875,964**	1,727,009
Other income	4	**122,410**	121,112
Expenses excluding finance costs	5	**(1,642,664)**	(1,480,816)
Finance costs	5	**(150,075)**	(128,233)
Profit before income tax		**205,635**	239,072
Income tax expense	6	**(63,445)**	(66,695)
Profit for the year		**142,190**	172,377

The above statement should be read in conjunction with the accompanying notes.

7 Statement of Recognised Income and Expense

FOR THE YEAR ENDED 30 JUNE 2009

	Notes	**2009 $'000**	2008 $'000
Asset revaluation reserve		**(21,202)**	(5,478)
Swap hedge revaluation		**(144,826)**	(454,228)
Superannuation actuarial gains/(losses)		**(70,901)**	(27,065)
Income tax on items taken directly to equity		**71,080**	146,033
Net income/(loss) recognised directly in equity	23	**(165,849)**	(340,738)
Profit for the year		**142,190**	172,377
Total recognised income and expense for the year		**(23,659)**	(168,361)
Effect of change in accounting policy			
Profit for the year as reported in 2007–08		**–**	150,538
Change of policy – defined benefits superannuation actuarial loss		**–**	18,945
Change of policy – deferred income		**–**	2,894
Restated profit for the year		**–**	172,377

The above statement should be read in conjunction with the accompanying notes.

Balance Sheet

AS AT 30 JUNE 2009

	Notes	2009 $'000	2008 $'000
ASSETS			
Current assets			
Cash and cash equivalents	9	**11,825**	32
Trade and other receivables	10	**259,938**	229,563
Inventories	11	**41,843**	31,648
Derivative financial assets	22	**95,169**	68,895
Current tax receivable		**4,481**	3,291
Estimated revenue from unread meters	2(k)	**121,674**	114,130
Emission rights	2(ab)	**39,283**	14,228
		574,213	461,787
Non-current assets classified as held for sale	12	**9,183**	11,180
Total current assets		**583,396**	472,967
Non-current assets			
Property, plant and equipment	13	**3,669,490**	3,355,096
Intangible assets	14	**49,098**	40,319
Derivative financial assets	22	**3,731**	50,331
Total non-current assets		**3,722,319**	3,445,746
TOTAL ASSETS		**4,305,715**	3,918,713
LIABILITIES			
Current liabilities			
Bank overdraft		**–**	6,037
Trade and other payables	16	**290,803**	233,119
Borrowings	18	**566,561**	406,510
Provisions	19	**127,802**	111,236
Provision for dividend	2(aa)	**103,619**	124,992
Derivative financial liabilities	22	**42,828**	10,508
Other	17	**28,281**	30,015
Total current liabilities		**1,159,894**	922,417
Non-current liabilities			
Trade and other payables	16	**46,627**	–
Borrowings	18	**1,697,865**	1,494,008
Deferred tax liabilities	7	**306,056**	355,353
Derivative financial liabilities	22	**25,739**	15,624
Provisions	19	**154,286**	87,394
Other	20	**4,268**	5,659
Total non-current liabilities		**2,234,841**	1,958,038
TOTAL LIABILITIES		**3,394,735**	2,880,455
NET ASSETS		**910,980**	1,038,258
EQUITY			
Contributed equity		**335,046**	335,046
Reserves		**407,572**	523,795
Retained earnings		**168,362**	179,417
TOTAL EQUITY		**910,980**	1,038,258

The above statement should be read in conjunction with the accompanying notes.

7 Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2009

	Notes	2009 $'000	2008 $'000
Cash flows from operating activities:			
Receipts from customers		**2,085,689**	1,950,980
Payments to suppliers and employees		**(1,684,530)**	(1,727,000)
Interest received		**537**	753
Interest paid		**(130,404)**	(111,203)
Income taxes paid		**(42,853)**	(51,525)
Net cash provided by/(used in) operating activities	8(a)	**228,439**	62,005
Cash flows from investing activities:			
Proceeds from sale of plant and equipment		**4,086**	9,605
Purchase of property, plant and equipment		**(442,670)**	(373,499)
Net cash provided by/(used in) investing activities		**(438,584)**	(363,894)
Cash flows from financing activities:			
Proceeds from borrowings		**353,986**	368,962
Repayment of borrowings		**(1,019)**	(11,505)
Dividends paid		**(124,992)**	(107,033)
Net cash flows from/(used in) financing activities		**227,975**	250,424
Net increase/(decrease) in cash and cash equivalents		**17,830**	(51,465)
Cash and cash equivalents at beginning of the financial year		**(6,005)**	45,460
Cash and cash equivalents at end of the financial year	9	**11,825**	(6,005)

The above statement should be read in conjunction with the accompanying notes.

1 Corporate Information

The financial report of Integral Energy Australia for the year ended 30 June 2009 was authorised for issue in accordance with a resolution of the Directors on 2 September 2009.

Integral Energy Australia is a state-owned energy Corporation, incorporated in New South Wales under the *Energy Services Corporations Act 1995*. Integral Energy Australia's registered office is 51 Huntingwood Drive, Huntingwood NSW 2148.

The nature of the operations and principal activities of the Corporation are described in the Directors' Report.

2 Statement of Significant Accounting Policies

(a) Basis of preparation

The financial report is a general-purpose financial report which has been prepared in accordance with the requirements of applicable Australian Accounting Standards, the *State Owned Corporations Act 1989*, the *Public Finance and Audit Act 1983* and the *Regulation 2005* and Accounting Interpretations.

This report has been prepared on a going concern basis which assumes that Integral Energy will be able to pay its debts as and when they fall due, and continue operation without any intention or necessity to liquidate or otherwise wind up its operation.

The Corporation is classified as a for-profit entity for the purposes of the application of Australian Accounting Standards and after consideration of all factors contained in New South Wales Treasury Policy TPP 05-4 *Distinguishing For-Profit from Not-For-Profit Entities*.

The financial report has been prepared on a historical cost basis with the exception of property, plant and equipment, derivative financial instruments and provisions which have been measured at fair value and, except where stated, does not take into account changing money values.

Amounts in the financial report are rounded to the nearest thousand dollars. The financial report is presented in Australian dollars.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

Integral Energy has assessed new Australian Accounting Standards that have recently been issued or amended but are not yet effective or applied. It has been determined that these new accounting standards will have no material impact on the financial statements in the period of initial application.

(c) Comparative Figures

When the presentation or classification of items in the financial report are amended, comparative amounts are reclassified unless the reclassification is impracticable. No material amounts have been reclassified.

(d) Change in accounting policy

Superannuation actuarial gains and losses

According with NSW Treasury policy, the entity has changed its policy on the recognition of superannuation actuarial gains and losses. Such actuarial gains and losses are now recognised outside of profit or loss in the Statement of Recognised Income and Expense. Previously, actuarial gains and losses were recognised through profit or loss. Both options are permissible under AASB 119 *Employee Benefits*.

The change in policy has been adopted on the basis that recognition outside profit or loss provides reliable and more relevant information as it better reflects the nature of actuarial gains and losses. This is because actuarial gains/losses are re-measurements, based on assumptions that do not necessarily reflect the ultimate cost of providing superannuation.

Recognition outside profit or loss also harmonises better with the Government Finance Statistics/GAAP comprehensive income presentation for the whole of government and general government sector, required under AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. A comprehensive income presentation will also be available at the entity level from 2009–10 under AASB101 *Presentation of Financial Statements*.

The change in accounting policy increases 2008–09 'profit for the year' from $92.6m to $142.2m (2007–08 from $153.4m to $172.4m), by excluding from profit the superannuation (defined benefits) actuarial loss line item (2008–09 $70.9m, 2007–08 $27.1m), along with the associated and offsetting income tax revenue (2008–09 $21.3m, 2007–08 $8.1m). Both these items are now recognised in the Statement of Recognised Income and Expense rather than the Income Statement.

Revenue recognition from rendering of services

The entity has changed its policy on revenue from Retail electricity supply contracts which is now recognised upon delivery of energy to customers as a sale of goods in accordance with AASB 118 *Revenue*. Previously, revenue from Retail electricity supply contracts was recognised by reference to the stage of completion of the contract, measured by reference to the proportion that costs incurred to date bear to the estimated total costs of the contract, except where this would not be representative of the stage of completion.

The change in policy has resulted from a review of recognition criteria under AASB 118 *Revenue* with respect to the various revenue streams, and a review of industry interpretation and application of the standard. When electricity is purchased from wholesale electricity providers it is considered by all parties to be a commodity.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

2 Statement of Significant Accounting Policies continued

Energy is purchased with the intention that it will be on sold to a customer base. The fact that electricity is not purchased and stored in a similar manner to inventory for example is due to the physical nature of the commodity, however this does not preclude it from being considered a good in the context of AASB 118 *Revenue*. Based on current industry views, recognising revenue from Retail electricity supply contracts based on delivery of energy to customers as a sale of goods is the most relevant and reliable way of recognising and bringing revenue to account.

The change in accounting policy increases 2008–09 'profit for the year' from an estimated $133.5m to $142.2m (2007–08 increases from $169.5m to $172.4m), by excluding from profit the deferred revenue previously included within metered sales of electricity (2008–09 estimate $12.4m, 2007–08 $4.1m), along with the associated and offsetting income tax expense (2008–09 $3.7m, 2007–08 $1.2m). Other current liabilities decrease accordingly from $55.8m to $28.3m (2007–08 $45.1m to $30.0m).

(e) Significant judgements

In the process of applying accounting policies, the Corporation has made certain judgements that significantly impact on the amounts recognised in the financial report. On 1 August 2008 Integral Energy's retail business was transferred to a new subsidiary of Eraring Energy following receipt of a Ministerial Direction issued under section 20P of the *State Owned Corporations Act 1989* (NSW) and the approval of the voting shareholders under section 20Y of the *State Owned Corporations Act 1989* (NSW). On 1 September 2008 Integration Agreements were terminated with Eraring Energy with effect from 1 August 2008, thereby placing each party in the position they would have been in had the Agreements not been executed.

Whilst there was a legal transfer of Integral Energy's retail business on 1 August 2008, in substance control of the retail business was not passed from Integral Energy to the Eraring Energy subsidiary. Accounting for a business transfer on 1 August 2008 has not been effected as to do so would not result in a true representation of the transaction and events that actually occurred.

(f) Contributed equity

The *State Owned Corporations Act 1989* (as amended) required Integral Energy to have two voting shareholders. Current shareholders are the New South Wales Treasurer and the Minister for Finance who hold the shares on behalf of the NSW Government. Each shareholder holds one $1 share.

(g) Foreign currency translation

Both the functional and presentation currency of Integral Energy Australia is Australian dollars (A$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates at the date of the transaction. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Any foreign currency income or expense items are translated at exchange rates as at the date of the transaction, with resulting exchange differences recognised as income or expense in the Income Statement. Any foreign currency assets or liabilities are translated at exchange rates prevailing on the balance sheet date, with resulting exchange differences classified as equity and transferred to the foreign currency translation reserve.

(h) Cash and cash equivalents

Cash and cash equivalents in the Balance Sheet comprise cash at bank and in hand, short-term deposits readily convertible to cash, investments for a fixed term where the maturity date is three months or less from year end balance date, and readily tradeable investments which are likely to be converted to cash within three months of year end balance date even though the maturity date may be greater than three months from year end balance date.

Cash and cash equivalents exclude the outstanding bank overdraft which is classified as a current liability within the Balance Sheet. However, for the purposes of the Cash Flow Statement, cash includes cash on hand and cash equivalents including the bank overdraft. Bank overdrafts are carried at the principal amount and interest is charged as an expense as it accrues.

(i) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. Allowance for impairment is based on an estimate of probable non-payment. Bad debts are written off when identified.

(j) Inventories

Inventories are valued at the lower of cost or net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

(i) Raw materials – purchase cost on weighted average cost; and

(ii) Finished goods and work-in-progress – cost of direct material, labour and a proportion of manufacturing overheads based on normal operating capacity.

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

(k) Unread meters

At reporting date, Integral Energy accrues an estimate of electricity consumed where the meter has not been read. The accounting estimating methodology for calculating the unbilled revenue accrual calculates unbilled revenue volume where energy imports relating to basic meters are phased over the current month and future months in order to estimate the likely billing pattern relating to consumption. This calculation is recognised as revenue on unread meters in the Income Statement.

2 Statement of Significant Accounting Policies
continued

(l) Recoverable amount of assets

At each reporting date, Integral Energy assess assets for an indication of impairment. Where an indicator of impairment exists, the Corporation makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the assets' value in use cannot be estimated to be close to its fair value less costs to sell, and it does not generate cash inflows that are largely independent of those from other assets or corporations of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(m) Property, plant and equipment

System assets have been valued at the lower of the Optimised Depreciated Replacement Cost (ODRC) or recoverable amount in accordance with Australian Accounting Standard AASB 116 *Property, Plant and Equipment* and NSW Treasury Policy and Guidelines Paper TPP 07-1 *Valuation of Physical Non-Current Assets at Fair Value*. The ODRC valuation approach assumes an altered electrical distribution system configuration. This is achieved by valuing the network distribution system assets on the basis that the system is built to assumed engineering standards above that required to support the maximum possible electrical load. If excess capacity remains within this optimised system configuration, such capacity is valued at zero.

System land and non-system land and building assets are valued at the latest market valuation based on fair value of the asset. Other property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

Capital assets in the course of construction are carried at cost, less any recognised impairment loss. Depreciation of these assets commences when the assets are ready for their intended use.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. Depreciation is charged on a pro-rata basis for assets purchased or sold during the year. Depreciation rates are shown below.

Fair value

Property, plant and equipment are valued at fair value in accordance with NSW Treasury Policy and Guidelines Paper TPP 07-1 *Valuation of Physical Non-Current Assets at Fair Value*, and reviewed annually for impairment in accordance with AASB 136 *Impairment of Assets*.

Land and buildings are revalued at least every three years and network assets are revalued at least every five years. The frequency of revaluations is considered appropriate given the nature, size and geographical spread of property, plant and equipment held.

Previously recognised impairment losses have not been reversed as the change in the value in use cannot be specifically attributed to changes in the estimates used to determine the value in use on which the impairment was based. It is noted that the previous impairment represents approximately 3.5% of the current electricity network and is not considered material.

Impairment

The carrying values of plant and equipment are reviewed for impairment annually or when events or changes in circumstances indicate the carrying value may not be recoverable. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

Impairment losses are recognised in the Income Statement, where there is no corresponding entry in the Asset Revaluation Reserve.

Revaluation

Following initial recognition at cost, system and non-system land and buildings are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses.

In respect of classes of assets for which there exists an active market, fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. In respect of classes for which there is no active market due to the specialised nature of the assets, fair value is determined as the lower of the estimated written down current replacement cost of the assets and their recoverable amount as determined using the cash generating unit test, being the discounted present value of the net cash inflows that the corporation expects to be generated from those assets, operating as a single cash generating operation over their expected useful lives.

Any revaluation increment is credited to the asset revaluation reserve included in the equity section of the Balance Sheet, unless it reverses a revaluation decrement of the same asset previously recognised in the Income Statement. Any revaluation decrement is recognised in the Income Statement unless it directly offsets a previous increment of the same asset in the asset revaluation reserve.

2 Statement of Significant Accounting Policies continued

Valuations are undertaken in accordance with NSW Treasury Policy and Guidelines Paper TPP 07-1 *Valuation of Physical Non-Current Assets at Fair Value*.

Disposal of assets

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Income Statement in the year the item is derecognised.

Independent valuations

Between independent valuations, the Directors review the carrying amount of assets at each reporting date to ensure they do not differ materially from the asset's fair value at that date.

In June 2002, Sinclair Knight Mertz (SKM) carried out a valuation of system property, plant and equipment, which was adopted as of 1 July 2005. An impairment test was then applied as per AASB 136 *Impairment of Assets*, and the impaired value was adopted as of 1 July 2005, with necessary entries made to asset values.

The impairment decrement resulting from the recognition of the new values has been recognised in the revaluation reserve.

System land and non-system land and buildings are subject to independent valuation on a cyclical basis over a three year period. The valuation of system land and non-system land and buildings in 2008–09 was conducted by Edward Rushton Australia Pty Ltd. In addition to the cyclical valuation, Edward Rushton Australia Pty Ltd also performed a desktop review of properties valued over the previous two years in light of the current depressed property market.

Capitalisation threshold

Property, plant and equipment assets purchased below $1,000 are expensed in the year of acquisition. The $1,000 capitalisation threshold became effective 1 July 2008, and compares to a previous capitalisation threshold of $500.

Depreciation rates

	%
Buildings	2.50% – 6.67%
System plant and equipment	1.67% – 14.29%
EDP equipment	10.00% – 25.00%
Motor vehicles, mobile plant, unregistered plant	10.00%
Radio communication equipment	14.29%
Other non-system plant and equipment	10.00% – 14.29%

The system asset revaluation carried out at 1 July 2005 resulted in an impairment of assets and a significant increase in the average effective lives of assets.

(n) Non current assets held for sale

Non current assets held for sale are measured at the lower of carrying amount or fair value less costs to sell.

(o) Intangible assets

Intangible assets acquired separately are capitalised at cost. Following initial recognition, the cost model is applied to the class of intangible assets. The useful lives of these intangible assets are assessed to be either finite or indefinite. Where amortisation is charged on assets with finite lives, this expense is taken to the Income Statement. Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists, and in the case of indefinite lived intangibles annually, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

A summary of the policies applied to the Corporation's intangible assets is as follows:

	Software	Easements
Useful lives	Finite	Indefinite
Amortisation method used	4 to 9 years – straight line	Not depreciated or revalued
Internally generated/acquired	Internally generated/acquired	Acquired
Impairment test/recoverable amount testing	Annually and where an indicator of impairment exists	Annually and where an indicator of impairment exists

2 Statement of Significant Accounting Policies continued

Easements are an interest in land allowing access for transmission lines. As no time period is attached to the easements, they are considered to have an indefinite life and are not amortised.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Income Statement when the asset is derecognised.

(p) Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the Income Statement on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which the economic benefits from lease assets are consumed.

(q) Finance costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings and Government guarantee fee. Borrowing costs are recognised in the income statement in the period in which they are incurred.

(r) Borrowing costs

All borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the Income Statement when the liabilities are derecognised, or through the amortisation process.

(s) Provisions

Provisions are recognised when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

(t) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Revenue from ordinary activities

Revenue from ordinary activities comprises revenue earned from the provision of energy products and other ancillary services to entities outside the Corporation. Revenue is recognised when energy products and services are provided to the consumer. Metered energy supply is recognised when the meters are read, and an estimate is brought to account where meters have not been read (refer note 2(k)). Network use of system charges are invoiced to out-of-area retailers following the reading of meters of customers within the franchise area who are contracted to external retailers. Network use of system income is recognised on an accrual basis, as revenue is accrued for consumption which is not invoiced at month end.

Interest receivable and other revenue from operating activities is brought to account as it is earned, and is recognised when goods and services are provided.

Developer or customer contributions of non-current assets are recognised as revenue and an asset when Integral Energy gains control of such contributions. The amount recognised is the fair value of the contributed asset at the date on which control of such assets is gained.

Other revenue, outside the provision of energy products, is recognised on an accrual basis and in accordance with the substance of the agreement covering such transactions.

(ii) Other income outside ordinary activities

Revenue arising from the sale of assets is recognised when the entity has passed control of the goods, and the amount of revenue can be measured reliably.

(u) Income tax

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

Deferred tax liabilities are recognised for all taxable temporary differences except where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised, except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

2 Statement of Significant Accounting Policies continued

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Current and deferred tax is recognised as an expense or income in the Income Statement, except when it relates to items recognised directly in equity, in which case the related tax effect is recognised directly in equity.

Since 1 July 2001, Integral Energy has been subject to the National Taxation Equivalent Regime (NTER) based on the *Income Tax Assessment Act 1936* and the *Income Tax Assessment Act 1997*. Tax equivalents are payable to the Office of State Revenue.

(v) Other taxes

FBT, payroll tax and land tax are recognised in accordance with relevant legislation. In relation to GST, revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(w) Employee benefits

(i) General

Provision is made for employee benefits accruing to employees up to reporting date in respect of wages and salaries, annual leave, maturing allowance and long service leave, when it is probable that settlement will be required and they are capable of being measured reliably. Long service leave and maturing allowance provisions have been based on an actuarial assessment undertaken by Cumpston Sarjeant Pty Limited as at 28 February 2009.

Cumpston Sarjeant Pty Limited has based their assessment on the following assumptions:

(a) Rate of investment return (after tax and investment related expenses) 5.5%; and

(b) Rate of general salary increase 3.5%.

Liability for employee benefits (long service leave and maturing allowance) which are not expected to be settled within twelve months are discounted at 5.5% per annum, based on 10 year Government bond rates.

All other provisions have been calculated at nominal amounts based on expected settlement rates.

(ii) Superannuation

The Corporation's contributions to employee superannuation are expensed at the time of payment. An actuarial assessment of funds held by the Energy Industries Superannuation Scheme on behalf of Integral Energy Australia was performed during the year by the scheme's actuary.

The actuary adopted the following assumptions:

	2007/08 %	**2008/09 %**	Thereafter %
Rate of investment return	(9.3)	**(17.8)**	7.5
Rate of salary escalation	6.0	**4.0**	4.0
Rate of CPI increase	2.5	**2.5**	2.5

(x) Derecognition of financial instruments

The derecognition of a financial instrument takes place when the Corporation no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

(y) Derivative financial instruments

Integral Energy uses derivative financial instruments to hedge its exposure to electricity price risk, interest rate risk and foreign exchange risk. Such derivative financial instruments are initially recognised at fair value on the date the derivative is entered into and any gains or losses on subsequent remeasurement are recognised in the Income Statement unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the ongoing effectiveness of the hedge or maturity of the hedging instrument. The fair value of any forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Hedge accounting

For the purposes of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability, or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

2 Statement of Significant Accounting Policies
continued

(i) Fair value hedges

In relation to fair value hedges that are designated and meet the conditions for special hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the Income Statement. Any gain or loss attributable to the hedged risk on remeasurement of the hedged item is adjusted against the carrying amount of the hedged item and recognised in the Income Statement. Where the adjustment is to the carrying amount of a hedged interest-bearing financial instrument, the adjustment is amortised to the Income Statement such that it is fully amortised by maturity. As at 30 June 2009 (and the prior year), there were no fair value hedges designated and, as a result, no gain or loss has been recognised in the Income Statement.

(ii) Cash flow hedges

In relation to cash flow hedges to hedge firm commitments which meet the conditions for special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the Income Statement. When the hedged firm commitment results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the Income Statement in the same period in which the hedged firm commitment affects the net profit and loss, for example when the future sale of electricity actually occurs. Fair value has been determined at year end by performing mark to market calculations on the cash flow hedges using financial market rates available.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

Derivatives that do not qualify for hedge accounting

Derivatives that do not qualify for hedge accounting are designated as held for trading. Gains or losses on financial assets held for trading are recognised in the Income Statement and the related assets or liabilities are classified as Derivative Financial Assets in the Balance Sheet.

(z) Workers compensation insurance

Integral Energy is a self-insurer through its insurance provision for workers compensation and meets all liabilities under the *Workers Compensation Act 1987.*

During 2008–09 a consulting actuary, David A Zaman Pty Limited, undertook the annual investigation of Integral Energy's estimated liability for workers compensation as at 30 June 2009. The liability is measured as the present value of future payments and as at 30 June 2009 was estimated to be $9.1m ($7.7m in 2007–08), including the liability for dust related diseases.

(aa) Dividend

The dividend is calculated in accordance with TPP 02-3 *Financial Distribution Policy for Government Businesses*. The dividend payable of $103.6m (2007–08 $125.0m) is calculated based on profit adjusted for certain non-cash items. In the Income Statement, this is based on 70% of the line item 'profit for the year', adjusted for non-cash adjustments relating to fair value movements in financial instruments. As a result of the changed treatment of superannuation actuarial gains and losses (refer note 2(d)), there is no longer a need to adjust profit to exclude these gains/losses in calculating the dividend, as they are now recognised outside profit/loss.

(ab) Greenhouse legislation

The *Commonwealth Renewable Energy (Electricity) Act 2000* imposes on electricity retailers the obligation to "surrender" sufficient certificates each year to meet the Commonwealth Government's strategy to lift Australia's use of electricity generated from renewable sources. This imposes an obligation on Integral Energy to purchase Renewable Energy Certificates (RECs) and surrender them to the Office of the Renewable Energy Regulator in discharge of Integral Energy's renewable energy obligations. These certificates are accounted for as "other assets" and, as such, are reviewed for impairment and carried at the lower of cost or net realisable value at the close of the reporting period.

The *NSW Electricity Supply Amendment (Greenhouse Gas Emission Reduction) Act 2000* imposes on electricity retailers the obligation to "surrender" sufficient certificates each year to satisfy the State Government's strategy to reduce greenhouse gas per capita emissions from electricity purchases. This imposes an obligation on Integral Energy to purchase or produce NSW Greenhouse Abatement Certificates (NGACs) and surrender them to the Independent Pricing and Regulatory Tribunal (IPART) in discharge of Integral Energy's greenhouse gas emission reduction obligations.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

2 Statement of Significant Accounting Policies continued

Integral Energy accounts for NGAC certificates under AASB 102 *Inventories*. Certificates which are created and held for sale are recognised initially at the point of registration and measured at the registration fee paid. Certificates which are purchased and held for sale are recognised initially at the point of acquisition and measured at cost, being the fair value of the consideration paid. They are subsequently measured at the lower of cost and net realisable value. The profit on sale is recognised when the entity delivers the certificates under an agreement or sells them. The surrender of these certificates will be recognised in the underlying purchase commitment as an element of electricity purchase costs.

3 Segment information

Business segments:

The Corporation has one reportable business segment, that being the distribution and retail of energy. Revenue from sales to external customers with respect to the distribution of energy (network use of system income) as disclosed at note 4 *Revenue* totalled $381.9m for the 2008–09 financial year (2007–08: $341.6m), and was 19.0% of total entity revenue. Internal sales by distribution to retail totalled $413.5m (2007–08: $396.8m).

Geographical segments:

The Corporation operates within a single geographical sector, Australia.

4 Revenue

	2009 $'000	2008 $'000
Revenues		
Metered sales of electricity	**1,345,279**	1,247,244
Estimated revenue on unread meters	**121,673**	114,130
Street lighting	**3,110**	3,012
Total electricity sales	**1,470,062**	1,364,386
Network use of system income	**381,940**	341,567
Reimbursement of community service obligations	**23,962**	21,056
Sales revenue	**1,875,964**	1,727,009
Net gain arising from ineffectiveness on cash flow hedges	**–**	1,563
Interest income	**537**	753
Capital contributions	**57,441**	56,725
Other income	**64,432**	62,071
Other income	**122,410**	121,112
Total revenue and other income	**1,998,374**	1,848,121

5 Expenses

	2009 $'000	2008 $'000
Amount set aside to provisions		
Allowance for impairment	**6,392**	6,345
Employee benefits	**89,124**	81,217
Other provisions	**5,532**	10,430
Total amount set aside to provisions	**101,048**	97,992
Other expenses relating to operating activities		
Bad debts written off	**6,463**	6,356
Consultants	**1,556**	2,317
Contractors	**47,670**	51,620
Employee benefits	**125,969**	117,983
Superannuation contributions	**29,918**	26,573
Superannuation (defined benefits) expense excluding actuarial gains or losses*	**7,953**	10,808
Operating lease rentals	**184**	627
Net loss on disposal of property, plant and equipment	**1,670**	2,378
Unrealised loss on held for trading assets	**7,567**	14,530
Net loss arising from ineffectiveness on cash flow hedges	**770**	–
Retailing and distribution of electricity and other services	**1,174,789**	1,020,176
Total other expenses relating to operating activities	**1,404,509**	1,253,368
Depreciation of non-current assets		
Buildings	**2,963**	2,806
Electricity network assets	**97,739**	90,605
EDP equipment	**7,173**	7,062
Motor vehicle, mobile plant, unregistered plant	**9,772**	8,826
Radio communication equipment	**281**	226
Other non system equipment	**4,553**	4,285
Total depreciation of non-current assets	**122,481**	113,810
Amortisation of intangible assets		
Software	**14,626**	15,646
Total depreciation and amortisation expense	**137,107**	129,456
Total expenses from operating activities	**1,642,664**	1,480,816
Finance costs		
Gross interest expense	**121,332**	106,405
Net amortisation of discounts/premiums on loans	**10,941**	11,604
Other interest expense	**17,802**	10,224
Total finance costs	**150,075**	128,233

* Refer Note 15. Superannuation (defined benefits) actuarial losses of $70.9m (2007–08 $27.1m) are recognised in the Statement of Recognised Income and Expense. Total superannuation (defined benefits) expense, including actuarial losses recognised in the Statement of Recognised Income and Expense, is $78.854m (2007–08 $37.873m).

Maintenance expenses included within other expenses relating to operating activities are as follows:

(i) Employee related costs included in employee benefits expense $62.8m (2007–08 $64.1m)

(ii) Contracted labour and other (non-employee related) expenses $41.1m (2007–08 $41.9m)

6 Income Tax

(a) Income tax expense recognised in the Income Statement

	2009 $'000	2008 $'000
Current tax expense		
Current year	**41,333**	48,601
Adjustments for prior years	**329**	(1,405)
	41,662	47,196
Deferred tax expense		
Origination and reversal of temporary differences	**20,858**	22,072
Under/(over) provided in prior years	**925**	(2,573)
	21,783	19,499
Total income tax expense in Income Statement	**63,445**	66,695

(b) Numerical reconciliation between tax expense and pre-tax net profit

Profit before tax	**205,635**	239,072
Income tax using the domestic Corporation tax rate of 30% (2007–08: 30%)	**61,691**	71,722
Increase in income tax expense due to:		
Tax concessions/non-deductible expenses	**501**	(1,049)
Under/(over) provided in prior years	**1,253**	(3,978)
Income tax expense on pre-tax net profit	**63,445**	66,695

(c) Deferred tax recognised directly in equity

Relating to hedge revaluation reserve	**(43,448)**	(136,268)
Relating to revaluation of property, plant and equipment and assets held for sale	**(6,361)**	(2,460)
Relating to superannuation (defined benefits) actuarial gains/(losses)	**(21,271)**	(8,120)
Adjustments for prior years	**–**	815
	(71,080)	(146,033)

7 Deferred Tax (Assets)/Liabilities

Deferred tax (assets)/liabilities are attributable to the following:

	2009 $'000	2008 $'000
Assets subject to depreciation/amortisation/capital allowances	**365,106**	351,773
Assets held for sale	**2,230**	2,829
Deferred income and interest	**1,592**	2,413
EISS superannuation	**(18,445)**	2,116
Unread meters	**36,502**	34,239
Provisions and accruals	**(71,953)**	(66,048)
Emission rights and deductible prepayments	**12,049**	4,619
Derivatives	**(21,025)**	23,412
Gross deferred tax (assets)/liabilities	**306,056**	355,353

Movement in temporary differences	Balance 1 July 2008 $'000	Recognised in income $'000	Recognised in equity $'000	Balance 30 June 2009 $'000
Assets subject to depreciation/amortisation/capital allowances	351,773	19,095	(5,762)	365,106
Assets held for sale	2,829	–	(599)	2,230
Deferred income & interest	2,413	(821)	–	1,592
EISS superannuation	2,116	710	(21,271)	(18,445)
Unread meters	34,239	2,263	–	36,502
Provisions and accruals	(66,048)	(5,905)	–	(71,953)
Emission rights and deductible prepayments	4,619	7,430	–	12,049
Derivatives	23,412	(989)	(43,448)	(21,025)
Tax (assets)/liabilities	355,353	21,783	(71,080)	306,056

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

8 Cash Flow Information

(a) Reconciliation of Cash Flows from Operating Activities with Profit After Tax

	2009 $'000	2008 $'000
Profit after tax	**142,190**	172,377
Adjustments for:		
Depreciation non-current assets	**122,481**	113,810
Amortisation non-current assets	**14,626**	15,646
Amortisation of discounts/premiums	**10,941**	11,604
Non cash capital contributions	**(56,032)**	(55,164)
Net loss on disposal of property, plant and equipment	**4,193**	2,378
Provision for obsolete transformers	**–**	(19)
Defined benefit superannuation adjustment	**7,953**	10,808
Asset revaluation reserve movements	**10,377**	789
Financial instruments fair value movements	**8,336**	12,966
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	**(37,427)**	42,295
(Increase)/decrease in unread meters	**(7,544)**	(52,507)
(Increase)/decrease in derivative financial assets	**(132,836)**	(100,075)
(Increase)/decrease in inventories	**(10,195)**	(10,994)
(Increase)/decrease in other assets	**(25,055)**	1,219
Increase/(decrease) in trade and other payables	**104,312**	(97,480)
Increase/(decrease) in provisions	**12,216**	9,001
Increase/(decrease) in current tax balances	**(1,191)**	(3,510)
Increase/(decrease) in deferred tax liabilities	**21,784**	18,681
Increase/(decrease) in derivative financial liabilities	**42,435**	(30,812)
Increase/(decrease) in other liabilities	**(3,125)**	992
Net cash flows from operating activities	**228,439**	62,005

8 Cash Flow Information continued

(b) Financing Facilities

	2009 $'000	2008 $'000
Total facilities available		
The Corporation has access to the following lines of credit:		
Bank overdraft	**2,000**	2,000
T-Corp short term accommodation	**150,000**	150,000
T-Corp loans	**2,590,000**	2,175,000
Inscribed stock	**1,417**	2,436
Total facilities available	**2,743,417**	2,329,436
Facilities utilised at reporting date*		
Bank overdraft	**–**	2,000
T-Corp short term accommodation	**–**	3,500
T-Corp loans	**2,263,009**	1,894,582
Inscribed stock	**1,417**	2,436
Total facilities utilised at reporting date	**2,264,426**	1,902,518
Facilities unused at reporting date		
Bank overdraft	**2,000**	–
T-Corp short term accommodation	**150,000**	146,500
T-Corp loans	**326,991**	280,418
Inscribed stock	**–**	–
Total facilities unused at reporting date	**478,991**	426,918

* Facilities utilised at reporting date reflect actual balances and do not account for unpresented cheques.

Bank overdrafts

Interest on bank overdrafts is charged at prevailing market rates on any balance in excess of the approved overdraft on the Limit Facility of $2.0m. The total bank overdraft of the Corporation is unsecured. The bank overdraft is payable on demand and subject to annual review.

T-Corp short term accommodation

Integral Energy has approval from the *Public Authorities (Financial Arrangements) Act 1987* ("PAFA Act") to obtain a $150 million short term accommodation (Come-and-Go facility) from NSW Treasury Corporation (T-Corp).

T-Corp loans

Integral Energy has approval from the "PAFA Act" to obtain $2,590m loan funding from T-Corp. The loans are secured by a guarantee from the NSW Government and a government guarantee fee is payable by Integral Energy to NSW Treasury. The guarantee fee payable is calculated in accordance with NSW Treasury Accounting Policy TPP04-2 *Government Guarantee Fee Policy for Government Businesses*.

The loan amounts in current liabilities include the portion of the Corporation's T-Corp loans payable within one year of $566.6m (2007–08: $406.5m). Non-current T-Corp loans payable on or before 15 April 2039 total $1,697.9m (2007–08: $1,494.0m), with maturity dates ranging between one and thirty years from reporting date. All T-Corp debt is fully payable on maturity with the majority being fixed rate loans.

Inscribed stock

Integral Energy has borrowings by the issue of inscribed stock to private individuals, companies and various government bodies. There have been no new debt issues for this type of borrowing since November 1994.

The loan amount in current liabilities includes the Corporation's inscribed stock principal repayments to be made within one year of $7 thousand (2007–08: $1.0m). The non current inscribed stock comprises principal repayments to be made on or before 14 February 2012, with repayment dates ranging between one and three years from reporting date. All inscribed stock are fixed rate loans and fully payable on maturity, with the exception of two loans which require half yearly principal repayments.

9 Cash and Cash Equivalents

	2009 $'000	2008 $'000
Cash on hand	**32**	**32**
Cash in bank	**11,793**	–
Total cash and cash equivalents	**11,825**	32

Bank overdraft is classified as a current liability within the Balance Sheet. For the purposes of the Cash Flow Statement, cash includes cash on hand and cash equivalents including bank overdraft (2008–09: nil 2007–08: $6.037m).

10 Trade and Other Receivables

	2009 $'000	2008 $'000
Trade receivables	**144,767**	124,615
Allowance for impairment	**(13,813)**	(13,885)
	130,954	110,730
Other debtors	**122,001**	104,657
Prepayments – superannuation	**–**	7,052
Prepayments – other	**6,983**	7,124
Total trade and other receivables	**259,938**	229,563

Trade receivables are non-interest bearing. The Days Sales Outstanding (DSO) as at 30 June 2009 is 21.4 (2007–08: 22.5).

Movements in the allowance for impairment loss were as follows:

Opening balance	**13,885**	13,896
Charge for the year	**6,151**	6,159
Amounts written off	**(6,463)**	(6,356)
Amounts recovered during the year	**240**	186
Closing balance	**13,813**	13,885

	Total $'000	Past due but not impaired $'000	Considered impaired $'000
2009			
< 3 months overdue	**21,835**	**21,835**	**–**
3 months – 6 months overdue	**9,308**	**2,514**	**6,794**
> 6 months overdue	**7,019**	**–**	**7,019**
2008			
< 3 months overdue	20,036	18,015	2,021
3 months – 6 months overdue	6,872	1,088	5,784
> 6 months overdue	6,080	–	6,080

All trade debtors are recognised as amounts receivable at balance date. Collectibility of trade debtors is reviewed on an ongoing basis. Procedures as established in company policies and procedures are followed to recover outstanding amounts. Debts which are known to be uncollectible are written off. An allowance for impairment is raised when there is objective evidence that the entity will not be able to collect all amounts due. This evidence includes past experience, and current and expected changes in economic conditions, debtor credit ratings and company policy. No interest is earned on trade debtors. Sales are made on 21–30 day terms.

Integral Energy is not materially exposed to concentrations of credit risk to a single trade debtor or group of debtors.

11 Inventories

	2009 $'000	2008 $'000
Stores and materials	**30,249**	26,138
NSW Greenhouse Gas Abatement Certificates	**11,594**	5,510
Total inventories	**41,843**	31,648

12 Assets Classified as Held for Sale

	2009 $'000	2008 $'000
Non-current assets held for sale	**9,183**	11,180
Total assets classified as held for sale	**9,183**	11,180

Non-current assets held for sale relate to under-utilised non-infrastructure land located at Schofields. A valuation of the site was performed by HillPDA in November 2007, and the asset is currently carried at the valued amount.

An exchange of contracts with Landcom for the sale of Schofields is expected early in the 2009–10 financial year.

13 Property Plant and Equipment

	Electricity Network $'000	Non-System Assets $'000	Total $'000
Year ended 30 June 2009			
Net carrying amount at 1 July 2008	**3,018,032**	**337,064**	**3,355,096**
Additions	**431,928**	**42,213**	**474,141**
Disposals	**(1,969)**	**(5,715)**	**(7,684)**
Transfers	**(9,926)**	**9,926**	**–**
Revaluation	**(7,531)**	**(22,051)**	**(29,582)**
Depreciation charge for the period	**(97,739)**	**(24,742)**	**(122,481)**
Net carrying amount at 30 June 2009	**3,332,795**	**336,695**	**3,669,490**
Year ended 30 June 2008			
Net carrying amount at 1 July 2007	2,760,824	305,293	3,066,117
Additions	355,636	65,577	421,213
Disposals	(2,809)	(9,349)	(12,158)
Revaluation	(5,014)	(1,252)	(6,266)
Depreciation charge for the period	(90,605)	(23,205)	(113,810)
Net carrying amount at 30 June 2008	3,018,032	337,064	3,355,096
At 30 June 2009			
Fair value	**3,700,410**	**457,486**	**4,157,896**
Accumulated depreciation and impairment	**(367,615)**	**(120,791)**	**(488,406)**
Net carrying amount at 30 June 2009	**3,332,795**	**336,695**	**3,669,490**
At 30 June 2008			
Fair value	3,288,246	456,286	3,744,532
Accumulated depreciation and impairment	(270,214)	(119,222)	(389,436)
Net carrying amount at 30 June 2008	3,018,032	337,064	3,355,096

13 Property Plant and Equipment continued

Assets under construction

At balance sheet date, expenditures recognised in the carrying amount of property, plant and equipment in the course of construction totalled:

Electricity network assets	$334.4m (2007–08: $271.1m)
Non-system assets	$42.5m (2007–08: $53.1m)

Historic cost of revalued assets

If assets were measured using the cost model, the carrying amounts would be as follows:

	2009 $'000	2008 $'000
Electricity network assets		
At cost	**3,880,272**	3,460,578
Less accumulated depreciation	**(940,671)**	(843,270)
Total electricity network assets	**2,939,601**	2,617,308
Non-system assets		
At cost	**440,989**	412,219
Less accumulated depreciation	**(144,469)**	(137,382)
Total non-system assets	**296,520**	274,837
Total property, plant and equipment	**3,236,121**	2,892,145

14 Intangible Assets

	Software $'000	Easements $'000	Total $'000
Year ended 30 June 2009			
Net carrying amount at 1 July 2008	**30,327**	**9,992**	**40,319**
Additions	**22,758**	**653**	**23,411**
Disposals	**(6)**	**–**	**(6)**
Amortisation	**(14,626)**	**–**	**(14,626)**
Net carrying amount at 30 June 2009	**38,453**	**10,645**	**49,098**
Year ended 30 June 2008			
Net carrying amount at 1 July 2007	38,729	9,180	47,909
Additions	7,244	812	8,056
Amortisation	(15,646)	–	(15,646)
Net carrying amount at 30 June 2008	30,327	9,992	40,319
At 30 June 2009			
Cost (gross carrying amount)	**139,876**	**10,645**	**150,521**
Accumulated amortisation and impairment	**(101,423)**	**–**	**(101,423)**
Net carrying amount at 30 June 2009	**38,453**	**10,645**	**49,098**
At 30 June 2008			
Cost (gross carrying amount)	139,693	9,992	149,685
Accumulated amortisation and impairment	(109,366)	–	(109,366)
Net carrying amount at 30 June 2008	30,327	9,992	40,319

15 Employee Benefits – Superannuation

(a) Superannuation plans

Integral Energy has a defined benefit superannuation plan covering a significant number of employees, which requires contributions to be made to a separately administered fund.

The superannuation plan provides for defined benefits based on years of service and final average salary. Employees contribute to the plan at various percentages of their wages and salaries. Integral Energy also contributes to the plan, generally at the rate of twice the employees' contributions. Contributions by Integral Energy of up to 9% of employees' wages and salaries are legally enforceable in Australia.

The following tables summarise the components of net benefit expense recognised in the Income Statement and the funded status and amounts recognised in the Balance Sheet for the plan.

Accounting policy for recognising actuarial gains/losses

Actuarial gains and losses are recognised in profit or loss in the year they occur.

General description of the type of plan

The Energy Industries Superannuation Scheme

Division B

Division C

Division D

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

All divisions are closed to new members.

(b) Amounts recognised in the Income Statement

	2009 $'000	2008 $'000
Amounts recognised in the Income Statement are as follows:		
Net superannuation expense	**(7,953)**	(10,808)
Total included in employee benefits revenue/(expense)	**(7,953)**	(10,808)

Assets invested in entity or in property occupied by the entity

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

(c) Amounts recognised in the Balance Sheet

Amounts recognised in the Balance Sheet are as follows:		
Present value of defined benefit obligation	**(294,602)**	(283,014)
Fair value of plan assets	**233,120**	290,066
Net superannuation asset/(liability)	**(61,482)**	7,052

(d) Reconciliation of the present value of defined benefit obligation

Changes in the present value of the defined benefit obligation are as follows:		
Opening present value of defined benefit obligation	**283,014**	287,875
Current service cost	**11,522**	16,405
Interest cost	**18,765**	18,486
Contributions by scheme participants	**4,502**	4,456
Actuarial (gains)/losses	**(3,467)**	(26,323)
Benefits paid	**(19,734)**	(17,885)
Closing present value of defined benefit obligation	**294,602**	283,014

15 Employee Benefits – Superannuation continued

(e) Reconciliation of the fair value of scheme assets

	2009 $'000	2008 $'000
Changes in the fair value of plan assets are as follows:		
Opening fair value of plan assets	**290,066**	322,730
Expected return on fund assets	**22,334**	24,083
Actuarial gains/(losses)	**(74,369)**	(53,389)
Employer contributions	**10,320**	10,071
Contributions by fund participants	**4,502**	4,456
Benefits paid	**(19,733)**	(17,885)
Closing fair value of plan assets	**233,120**	290,066

(f) Amounts recognised in Income Statement

Amounts recognised in profit or loss are as follows:		
Current service cost	**11,522**	16,405
Interest cost	**18,765**	18,486
Expected return on plan assets	**(22,334)**	(24,083)
Expense/(income) recognised in profit or loss	**7,953**	10,808

The superannuation expense recognised in the Income Statement is included in the line item 'total other expenses relating to operating activities'. Superannuation actuarial losses of $70.9m (2007–08 $27.1m) are separately identified in the Statement of Recognised Income and Expense.

The cumulative amount of actuarial gains and losses recognised in the Statement of Recognised Income and Expense since 1 July 2004 is a net loss totalling $80.0m. Prior to 1 July 2004 and the adoption of AEIFRS, it is not practical to determine the cumulative actuarial gain/loss as if the new policy had always been applied, given that actuarial gains and losses were not separately identified and accumulated, and the superannuation expense was calculated on a different basis.

(g) Actual return on plan assets

	2009 $'000	2008 $'000
Actual return on plan assets	**(50,439)**	(29,802)
	(50,439)	(29,802)

(h) Valuation method and principal economic assumptions

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

The principal actuarial assumptions used in determining pension and post-employment benefit obligations for the Corporation's plans are shown below (expressed as weighted average):

	2009 %	2008 %
Discount rate	**5.35**	6.19
Anticipated return on plan assets	**7.78**	7.00
Expected future salary increases	**4.00**	6.00
Future CPI increases	**2.50**	2.50

15 Employee Benefits – Superannuation continued

(i) Arrangements for employer contributions for funding

The following is a summary of the 30 June 2009 financial position of the Scheme, calculated in accordance with AAS25 *Financial Reporting by Superannuation Plans*.

	2009 $'000	2008 $'000
Accrued benefits	**253,178**	269,770
Net market value of Scheme assets	**(233,120)**	(290,066)
Net (surplus)/deficit	**20,058**	(20,296)

Recommended contribution rates for the entity are:

Div B = 1.90 x member contributions

Div C = 2.5% x salaries

Div D = 1.64 x member contributions

The method used to determine the employer contribution recommendations at the last actuarial review was the *Aggregate Funding* method. The method adopted affects the timing of the cost to the employer.

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

(j) Nature of asset/liability

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

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

(k) Percentage contribution of each major class of total plan assets

The percentage contribution of each major class of total plan assets comprises:

	2009 %	2008 %
Australian equities	**34.30**	37.60
Property	**6.10**	3.20
Australian fixed-interest securities	**9.00**	10.70
Overseas equities	**33.10**	34.00
Overseas fixed-interest securities	**6.90**	6.30
Cash	**6.10**	6.00
Other	**4.50**	2.20
	100.00	100.00

All scheme assets are invested by the Trustees at arm's length through independent managers. The expected return on assets assumption is determined by weighting the expected long term return for each asset class by the target allocation of assets to each class. The returns used for each class are net of investment tax and investment fees.

In addition to normal contributions, Integral Energy expects to contribute an amount of $5.7m to the defined benefits plan for the year ended 30 June 2010, as advised by the Scheme's actuary.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

16 Trade and Other Payables

	2009 $'000	2008 $'000
Trade payables	**29,343**	26,151
Accruals	**249,921**	196,946
Other payables	**11,539**	10,022
Total current trade and other payables	**290,803**	233,119
Trade payables	**46,627**	–
Total non-current trade payables	**46,627**	–

Trade and other payables are non-interest bearing and are normally settled within 35.0 days. The net of GST payable and GST receivable is remitted to the appropriate tax body on a monthly basis.

17 Other Current Liabilities

	2009 $'000	2008 $'000
Deposits and retentions	**24,654**	26,081
Unearned income	**3,627**	3,934
Total other current liabilities	**28,281**	30,015

18 Borrowings

	Effective interest rate	2009 $'000	2008 $'000
Current			
Unsecured bank loans			
Floating rate loans	3.2%	**382,000**	360,500
Fixed rate loans	6.3%	**184,561**	46,010
Total current borrowings		**566,561**	406,510
Non-current			
Unsecured bank loans			
Fixed rate loans	6.3%	**1,697,865**	1,494,008
Total non-current borrowings		**1,697,865**	1,494,008

Bank loans are unsecured and repayable in full on various maturity dates. Interest rates are based on weighted average effective rates on the entire debt.

19 Provisions

(a) Movement in carrying amounts

	Employee Benefits $'000	Self Insurance $'000	Other $'000	Total $'000
Opening balance at 1 July 2008	**179,066**	**7,680**	**11,884**	**198,630**
Additional provisions	**89,124**	**2,608**	**64,406**	**156,138**
Utilised during the period	**(64,359)**	**(1,174)**	**(6,697)**	**(72,230)**
Reversed during the period	**–**	**(45)**	**(405)**	**(450)**
At 30 June 2009	**203,831**	**9,069**	**69,188**	**282,088**

(b) Analysis of Total Provisions

	2009 $'000	2008 $'000
Current	**127,802**	111,236
Non-current	**154,286**	87,394
Total provisions	**282,088**	198,630

Included within the current provision for employee benefits are amounts totalling $75.7m that are expected to be settled after more than 12 months.

Self insurance provisions include workers compensation.

Other provisions include $61.5m relating to the Defined Benefits Superannuation liability. The balance is not detailed due to commercial and legal sensitivity.

20 Other Non-Current Liabilities

	2009 $'000	2008 $'000
Deposits and retentions	**4,268**	4,905
Deferred income	**–**	754
Total other non-current liabilities	**4,268**	5,659

21 Reserves

(a) Asset Revaluation Reserve

The asset revaluation reserve is used to record increments and decrements in the fair value of property, plant and equipment to the extent that they offset one another. The reserve can only be used to pay dividends in limited circumstances. Refer to the Statement of Changes in Equity for movements in the asset revaluation reserve during the period.

(b) Hedge Reserve

The hedge reserve records revaluations of items designated as hedges. Refer to the Statement of Changes in Equity for movements in the hedge reserve during the period.

22 Financial Instruments

(a) Financial risk management objectives and policies

Integral Energy's principal financial instruments comprise cash, trade debtors, trade creditors, short term deposits, bank loans and derivatives. The main purpose of these financial instruments is to raise finance or invest surplus cash for the Corporation's operations, and to manage exposure to price movements.

Integral Energy's Treasury function, Financial Risk function, Treasury Committee and Board manage the Corporation's exposure to key financial risks including interest rate risk, liquidity risk, electricity price risk and credit risk, in accordance with the Board's financial risk management policies. The Board reviews and agrees policies for managing each of the key financial risks by approving an annual Debt Funding Strategy paper and receiving regular updates with respect to the management of the debt portfolio, and a monthly energy risk management paper providing updates of the management of the electricity trading portfolio.

(b) Credit risk

Credit risk is the risk of financial loss arising from another party to a contract, or financial position failing to discharge a financial obligation thereunder. Integral Energy's maximum exposure to credit risk is represented by the carrying amounts of the financial assets included in the Balance Sheet. Integral Energy's Treasury and Financial Risk function control risk through the use of external credit ratings which are used to derive risk limits as approved by the Board of Directors, and monitoring procedures. On occasion Integral Energy may require collateral or other security to support financial instruments with credit risk. Integral Energy does not have any significant exposure to any individual customer or counterparty outside Board approved counterparty limits.

Credit risks from derivative contracts recognised in the Balance Sheet is minimised due to Integral Energy having policies in place which prevent excessive counterparty concentration, and limit individual counterparty exposure based on an assessment of individual counterparties credit worthiness.

Financial assets which are neither past due nor impaired have been transacted with approved creditworthy counterparties in accordance with Board approved financial risk management policies, and are assessed on a continual basis.

(c) Electricity price risk

Price risk is the risk that Integral Energy's cash flows will be adversely affected by the movements in commodity prices that will increase the Australian dollar value of commodity payables.

Integral Energy is exposed to price risk through electricity purchasing within the National Electricity Market (NEM) pool.

Integral Energy purchases electricity from the NEM pool to meet customer load requirements. Price risk arises from the purchase of electricity at variable pool prices in the NEM. It is the responsibility of the Board to use a combination of risk management tools such as swaps, options and futures contracts transacted with market participants and energy trading operators to hedge the customer load and control exposure to NEM pool prices. Trading is performed under Board approved mandates which permit active portfolio management within regularly monitored risk limits. The limits consider measurements of Cashflow at Risk and Earnings at Risk, accompanied by Volumetrics Position Analysis.

The following table summarises the impact of changes in commodity prices on the Corporation's post-tax profit and equity. A 6% movement in electricity prices has been assumed, based on an average of market price movements over the preceding twelve months. All variables other than the commodity price are held constant in the summary below.

Price risk – impact of changes in prices

	2009		2008	
	Profit $'000	**Equity $'000**	Profit $'000	Equity $'000
Change in electricity price				
6% increase in electricity price	**3,084**	**37,903**	3,889	42,803
6% decrease in electricity price	**(3,084)**	**(37,903)**	(3,889)	(42,803)

Sensitivity to reasonably possible price movements in the above table reflect Integral Energy's use of electricity derivatives within a portfolio to manage risk. Profit would be impacted as stated due to the use of contracts that, while representing viable hedges, cannot be designated in hedging relationships in accordance with the rules of AASB139 *Financial Instruments: Recognition and Measurement*. Equity movements are a reflection of the impact of changes in prices on derivatives that have been designated in cashflow hedging relationships.

22 Financial Instruments continued

(d) Interest rate risk

Interest rate risk is the risk of a reduction in earnings and/or the net present value of the Corporation as a consequence of adverse movements in interest rates. Interest rate risk is managed by the Treasury function within Integral Energy. The Corporation's exposure to market risk for changes in interest rates relates primarily to interest bearing liabilities as Integral Energy borrows funds at both fixed and floating interest rates. The Corporation's policy is to manage its interest cost using a mix of fixed and variable rate debt, and by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring optimal strategies are applied by either positioning the balance sheet or protecting interest expense through different interest rate cycles.

The table below summarises the interest rate maturity profile of Integral Energy's financial assets and liabilities.

	<1 year $'000	1–5 years $'000	>5 years $'000	Total $'000
2009				
Floating rate				
Financial assets				
Cash and cash equivalents	**11,825**	**–**	**–**	**11,825**
Financial liabilities				
Borrowings	**382,000**	**–**	**–**	**382,000**
Derivative financial liabilities – interest rate swaps	**(60,000)**	**60,000**	**–**	**–**
Fixed rate				
Financial liabilities				
Borrowings	**184,561**	**713,504**	**984,361**	**1,882,426**
Derivative financial liabilities – interest rate swaps	**60,000**	**(60,000)**	**–**	**–**
2008				
Floating rate				
Financial assets				
Cash and cash equivalents	32	–	–	32
Financial liabilities				
Bank overdraft	6,037	–	–	6,037
Borrowings	360,500	–	–	360,500
Derivative financial liabilities – interest rate swaps	(65,000)	–	–	(65,000)
Fixed rate				
Financial liabilities				
Borrowings	46,010	625,603	868,405	1,540,018
Derivative financial liabilities – interest rate swaps	–	65,000	–	65,000

Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument. Other financial instruments of the Corporation not included in the above tables are non-interest bearing and therefore not subject to interest rate risk.

Exposure to interest rate risk arises primarily through the Corporation's interest bearing liabilities. This risk is minimised by undertaking mainly fixed rate borrowings, primarily with NSW T-Corp. The Corporation does not account for any fixed rate financial instruments at fair value through profit or loss or as available for sale. These are accounted for at amortised cost. The only impact on profit or loss would be the change in interest rates on floating rate borrowings. A reasonably possible change of +/- 1% is used, consistent with current trends in interest rates. The basis will be reviewed annually and amended where there is a structural change in the level of interest rate volatility. The Corporation's exposure to interest rate risk is set out below.

22 Financial Instruments continued

	Carrying Amount $'000	-1%		+1%	
		Profit $'000	Equity $'000	Profit $'000	Equity $'000
2009					
Financial assets					
Cash and cash equivalents	**11,825**	**(118)**	**–**	**118**	**–**
Derivative financial assets – cash flow hedges	**2,437**	**(1,150)**	**–**	**1,150**	**–**
Financial liabilities					
Borrowings	**2,264,426**	**3,820**	**–**	**(3,820)**	**–**
Derivative financial liabilities – cash flow hedges	**1,794**	**1,150**	**–**	**(1,150)**	**–**
2008					
Financial assets					
Cash and cash equivalents	32	–	–	–	–
Derivative financial assets – cash flow hedges	5,541	(1,800)	–	1,800	–
Financial liabilities					
Bank overdraft	6,037	60	–	(60)	–
Borrowings	1,900,518	3,605	–	(3,605)	–
Derivative financial liabilities – cash flow hedges	3,687	1,150	–	(1,150)	–

The Corporation's sensitivity to interest rates has increased during the current year mainly due to the increase in the amount of variable rate borrowings and increases in interest rate contracts.

(e) Foreign exchange risk

Foreign exchange transaction risk is the risk that the Corporation's cash flows will be adversely affected by movements in the exchange rate that will increase the Australian dollar value of foreign currency payables or diminish the Australian dollar value of foreign currency receivables. Integral Energy's exposure to foreign currency risk is minimal and the Treasury department limits this risk by entering into foreign currency options and forward foreign exchange contracts. The foreign currency risk is immaterial in terms of a possible impact on profit and loss or total equity and, as such, a sensitivity analysis has not been completed.

22 Financial Instruments continued

(f) Liquidity risk

Liquidity risk is associated with ensuring the availability of sufficient funds to meet the Corporation's financial commitments in a timely manner. Liquidity risk is managed by the Treasury function. Treasury maintains a balance between continuity of funding and flexibility through the use of bank overdrafts and debt. The Corporation's funding requirements and strategy is reviewed annually and monitored on an ongoing basis. The Corporation manages debt via a duration approach. At 30 June 2009 the Corporation's debt duration was within the policy limit approved by the Board. During the current and prior year no assets have been pledged as collateral.

Liquidity risk management with regard to electricity derivatives is managed by ensuring Integral Energy has sufficient funds available to settle its commitments to counterparties.

	Contractual maturities			
	< 1 year $'000	**1–5 years $'000**	**> 5 years $'000**	**Total $'000**
2009				
Financial Liabilities				
Trade and other payables	**290,803**	**46,627**	**–**	**337,430**
Borrowings	**566,561**	**713,504**	**984,360**	**2,264,425**
Derivative financial liabilities – electricity derivatives	**35,004**	**28,571**	**–**	**63,575**
Total financial liabilities	**892,368**	**788,702**	**984,360**	**2,665,430**
2008				
Financial liabilities				
Bank overdraft	6,037	–	–	6,037
Trade and other payables	233,119	–	–	233,119
Borrowings	406,510	625,603	868,405	1,900,518
Derivative financial liabilities – interest rate swaps	(65,000)	65,000	–	–
Derivative financial liabilities – electricity derivatives	8,234	13,091	–	21,325
Total financial liabilities	588,900	703,694	868,405	2,160,999

(g) Net Fair Value

The following table sets out the fair values and carrying amounts of each financial asset and financial liability carried in the financial statements, where these amounts differ.

	2009		2008	
	Carrying amount $'000	**Net fair value $'000**	Carrying amount $'000	Net fair value $'000
Financial liabilities				
Borrowings – floating rate	**382,000**	**384,268**	360,500	363,401
Borrowings – fixed rate	**1,883,843**	**1,921,603**	1,540,018	1,504,214
Total financial liabilities	**2,265,843**	**2,305,871**	1,900,518	1,867,615

Where available, fair value is determined directly through the use of market quoted prices. Valuation techniques are used to varying degrees for financial instruments where direct market quotes are not available. Exchange traded instruments are recorded at closing market prices. Fair value is calculated on the basis of discounted cash flows at an assumed discount rate for swap transactions using published market prices as the basis for deriving a continuous forward price curve. Over the counter option instruments are valued with reference to quoted market prices.

22 Financial Instruments continued

(h) Hedge accounting – cash flow hedges

At 30 June 2009 Integral Energy held swaps, options and futures contracts to reduce the exposure of the Corporation to the NEM pool prices.

The cash flows are expected to occur, and will enter into the determination of profit and loss over forthcoming years ending 2014. Due to the variability in total usage estimates for customers, forecast purchases of electricity fluctuate. These fluctuations are reflected in the hedged item. During the period ending 30 June 2009 a reduction has been experienced in a limited number of periods due to a deferral in the roll off of the Electricity Tariff Equalisation Fund (ETEF), which has resulted in de-designation of hedging relationships during those periods since the forecast transaction is no longer expected to occur.

Movement in swaps and futures contract cash flow hedge reserve (net of tax)

	2009 $'000	2008 $'000
Opening balance	**65,464**	383,424
Amounts recognised in equity	**(99,705)**	(317,771)
Amounts removed from equity and recognised in profit & loss	**(1,673)**	(189)
Closing balance	**(35,914)**	65,464

23 Detailed Statement of Changes in Equity

	Contributed Equity		**Retained Earnings**		**Asset Revaluation Reserve**		**Hedge Reserve**		**Total**	
	2009 $'000	2008 $'000	**2009 $'000**	2008 $'000	**2009 $'000**	2008 $'000	**2009 $'000**	2008 $'000	**2009 $'000**	2008 $'000
Opening balance – 1 July	**335,046**	335,046	**179,417**	149,064	**458,331**	464,077	**65,464**	383,424	**1,038,258**	1,331,611
Profit for the year	**–**	–	**142,190**	172,377	**–**	–	**–**	–	**142,190**	172,377
Superannuation actuarial losses	**–**	–	**(70,901)**	(27,065)	**–**	–	**–**	–	**(70,901)**	(27,065)
Asset revaluation	**–**	–	**–**	–	**(21,202)**	(5,478)	**–**	–	**(21,202)**	(5,478)
Swap hedge revaluation	**–**	–	**–**	–	**–**	–	**(144,826)**	(454,228)	**(144,826)**	(454,228)
Transfers to retained earnings	**–**	–	**4**	2,728	**(4)**	(2,728)	**–**	–	**–**	–
Income tax on items taken directly to equity	**–**	–	**21,271**	7,305	**6,361**	2,460	**43,448**	136,268	**71,080**	146,033
Dividends paid or provided for	**–**	–	**(103,619)**	(124,992)	**–**	–	**–**	–	**(103,619)**	(124,992)
Closing balance – 30 June	**335,046**	335,046	**168,362**	179,417	**443,486**	458,331	**(35,914)**	65,464	**910,980**	1,038,258

24 Contingent Liabilities and Contingent Assets

(a) Contingent Assets

	2009 $'000	2008 $'000
Sundry General Claims	**1,500**	5,418
	1,500	5,418

(b) Contingent Liabilities

	2009 $'000	2008 $'000
Self Insurance	**2,320**	223
WorkCover Authority	**2,925**	3,700
Sundry General Claims	**3,540**	2,366
	8,785	6,289

The contingent asset relates to a contractual dispute and recovery of workers compensation. The contingent liabilities relate to injury claims (self insurance), possible penalties and legal costs (WorkCover Authority), and other employment related claims (sundry general claims).

The directors are not aware of any circumstances or information that would lead them to believe that the above contingent liabilities will crystallise, and consequently no provisions are included in the accounts in respect of these matters.

25 Expenditure Commitments

(a) Operating Expenditure Commitments

	2009 $'000	2008 $'000
Estimated operating expenditure contracted for at reporting date, but not provided for, payable:		
Within one year	**204,705**	143,201
After one year but not more than five years	**288,366**	338,045
More than five years	**182,124**	142,698
Total operating expenditure commitments	**675,195**	623,944

(b) Lease Expenditure Commitments

Operating leases (non-cancellable):		
Within one year	**1,367**	1,543
After one year but not more than five years	**3,442**	3,764
More than five years	**1,219**	2,264
Total lease expenditure commitments	**6,028**	7,571

(c) Capital Expenditure Commitments

Estimated capital expenditure contracted for at reporting date, but not provided for:		
Within one year	**185,232**	219,052
After one year but not more than five years	**989**	5,159
Total capital expenditure commitments	**186,221**	224,211

25 Expenditure Commitments continued

(d) Smithfield Energy Purchase Contract Operating Expenditure Commitments

	2009 $'000	2008 $'000
Estimated operating expenditure contracted for at reporting date, but not provided for:		
Within one year	**88,386**	88,240
After one year but not more than five years	**359,383**	355,615
More than five years	**1,154,868**	1,341,957
Total Smithfield energy purchase contract operating expenditure commitments	**1,602,637**	1,785,812

The Corporation leases property under operating leases expiring from one to five years. Leases generally provide the entity with a right of renewal, at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or operating criteria.

Capital expenditure commitments relate primarily to works to be performed under the Strategic Asset Management Program.

Smithfield energy purchase commitments relate to a 30 year Power Purchase Agreement (PPA) entered into in 1995 by Integral Energy's predecessor Prospect Electricity. The PPA, with the Smithfield Power Partnership, is for the purchase of electricity from a 160-megawatt natural gas-fired power plant. The plant, which began operating in 1997, produces around 1 million megawatt-hours per annum. The PPA expires in June 2027.

Total expenditure commitments include input tax credits of $223.8m (2007–08: $239.4m) which are expected to be recovered from the Australian Taxation Office.

26 Events After the Balance Sheet Date

There has not arisen, in the interval between the end of the financial period and the date of this report, an event of a material and unusual nature likely, in the opinion of the Directors of the Corporation, to affect significantly the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity, in subsequent financial years.

27 Auditor's Remuneration

	2009 $'000	2008 $'000
Amounts received or due and receivable by the Auditor-General for:		
– Auditing the Financial Report	**311**	323
Total auditor's remuneration	**311**	323

28 Key Management Personnel

(a) Directors' Appointments

The following information is provided regarding appointment of Non-Executive Directors:

Re-appointments

John Fahey (re-appointed 1 March 2009)

Paul Sinclair (re-appointed 13 October 2008)

Continuing Directors

Michael McLeod

Terry Downing

Penny Le Couteur

Vince Graham (Chief Executive Officer – Executive Director)

(b) Key Management Personnel Remuneration

	Salaries & Fees $'000	Superannuation Contribution $'000	At-risk payment $'000	Non-cash Benefits $'000	Total $'000
2009 Total remuneration	**3,416**	**359**	**463**	**125**	**4,363**
2008 Total remuneration	2,757	302	435	110	3,604

The at-risk payment for 2008–09 and 2007–08 relates to payments in relation to the 2007–08 and 2006–07 financial years respectively.

29 Prudential Requirements

An unsecured Bank Guarantee of $125.2m (2007–08: $301.5m) is given to the National Electricity Marketing Management Co. Ltd. (NEMMCO) by way of a New South Wales Treasury Corporation guarantee. The guarantee is a condition of Integral Energy Australia's trading licence.

30 Related Party Transactions

Directors

The name of each person who held or is holding the position of director of Integral Energy during the financial period is set out in Note 28 above.

Details of directors' remuneration is set out above.

There were no declared director related party transactions for the 2008–09 financial year.

31 Energy Reform

On 5 March 2009, the NSW Government released the New South Wales Energy Reform Strategy, which has the primary objective of optimising the conditions to ensure private sector investment in generation capacity in New South Wales is adequate, economic and timely. The Government's reforms include maintaining public ownership of existing power stations and electricity transmission and distribution networks; transferring the electricity retailing operations of Energy Australia, Integral Energy and Country Energy to the private sector; selling a number of potential development sites for new power stations; and contracting to the private sector the right to sell electricity produced by the State-owned generators, namely Delta Electricity, Macquarie Generation and Eraring Energy (the Gentrader model).

End of audited Financial Statements

Statement by Directors

FOR THE YEAR ENDED 30 JUNE 2009

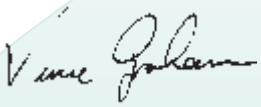
Pursuant to Section 41C of the *Public Finance and Audit Act 1983*, we state that in the opinion of the Directors of Integral Energy Australia:

(a) The accompanying financial statements and notes are a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, the *State Owned Corporations Act 1989*, the *Public Finance and Audit Act 1983* and the *Public Finance and Audit Regulation 2005*, and Accounting Interpretations, and give a true and fair view of the financial position of Integral Energy Australia as at 30 June 2008 and its financial performance for the year ended on that date.

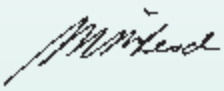
(b) At the date of this statement, there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable.

(c) We are not aware of any circumstances at the date of this statement that would render any particulars included in the financial report to be misleading or inaccurate.

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



Vince Graham
Director
2 September 2009



Michael McLeod
Director
2 September 2009

CONTENTS

8 Appendices

Five-Year Statistical Table

	(1)	2004-05	2005-06	2006-07	2007-08	**2008-09**
EFFICIENCY						
Employment	(2)	2,298	2,457	2,593	2,760	**2,871**
Output/employee (GWh)	(3)	7.5	7.2	6.9	6.5	**6.2**
Sales revenue ($'000)	(4)	1,185,429	1,259,831	1,368,075	1,705,953	**1,852,002**
Customer/employee ratio	(5)	364.2	348.1	331.7	316.8	**304.2**
Operating cost/unit sold ($/MWh)	(6)	27.2	26.5	26.2	30.3	**32.5**
Operating cost/customer	(7)	553.6	547.3	547.3	624.1	**660.3**
System loss index (%)	(8)	5.1	5.4	5.4	4.8	**4.4**
Days sick leave/employee		6.3	6.7	5.8	6.4	**6.8**
Lost time incidents		28	26	24	19	**17**
EFFECTIVENESS						
Output (GWh)	(9)	16,833	17,197	17,483	17,440	**17,426**
Supply reliability (minutes)	(10)	86.3	95.9	94.1	97.8	**89.3**
Customer service indicator	(11)					
Target		80%	80%	82%	82%	**82% – 84%**
Result		78%	81%	83%	83%	**83%**
FINANCIAL INDICATORS						
EBIT ($m)		252.2	300.2	346.8	367.3	**355.7**
Operating profit after tax ($m)		132.7	138.6	153.2	172.4	**142.2**
Revenue ($m)	(12)	1,353.8	1,434.3	1,538.9	1,848.1	**1,998.4**
Return on assets (%)	(13)	8.8	9.8	9.6	9.2	**8.7**
Return on equity (%)	(14)	13.6	15.6	13.9	14.6	**14.6**
Asset base ($m)		2,978.5	3,179.4	4,067.9	3,918.7	**4,305.7**
Asset sales ($m)	(15)	7.6	7.2	7.6	9.6	**4.1**
Financial distribution ($m)		148.3	169.1	193.0	191.7	**167.1**
Tax equivalent ($m)	(16)	34.2	65.2	86.0	66.7	**63.4**
Dividend payment ($m)		114.1	103.9	107.0	125.0	**103.6**
Gross external debt ($m)		1,196.7	1,381.6	1,531.5	1,900.5	**2,264.4**
Gearing ratio (%)	(17)	57.3	61.0	53.6	64.7	**71.3**
Times interest earned	(18)	3.0	3.1	3.2	2.9	**2.4**
Social programs ($m)	(19)	20.7	20.6	19.7	21.1	**24.0**

Prior year statistics may have changed in line with amendments to comparative financial statement disclosures and amended definitions, to ensure consistency on an annual basis.

(1) All dollar amounts are reported in real dollars.

(2) Full time equivalent staff as at 30 June.

(3) Network GWh sold per average number of FTE employees.

(4) Sales revenue includes total electricity sales and network use of system income only.

(5) Average network customers per average number of FTE employees.

(6) Operating expenditure including depreciation and amortisation but excluding finance costs, divided by number of units sold.

(7) Operating expenditure including depreciation and amortisation but excluding finance costs, divided by the average number of network customers.

(8) Energy imported less energy sold, divided by energy imported. For 2007–08 energy imported has been reduced by the impact of a one-off unread meters adjustment.

(9) Network sales (GWh) including accruals and off peak bulk transfers. For 2007–08 GWh have been reduced by the impact of the one-off unread meters adjustment.

(10) Average minutes per customer per year without supply for unplanned outages.

(11) Factors contributing to the calculation include the number of issues with EWON, the percentage of complaints closed within 30 days and the percentage of customer service guarantee breaches.

(12) Revenue includes sales revenue and other income, including capital contributions.

(13) EBIT divided by the average asset base.

(14) Operating profit after tax divided by average equity.

(15) Total proceeds from asset sales.

(16) Defined as income tax expense per NSW Treasury.

(17) Debt divided by debt plus equity.

(18) Times interest earned calculated by adding the net interest expense to the profit before income tax and dividing by the net interest expense.

(19) Based on reimbursement of Community Service Obligations (CSOs).

Australian Financial Services Licence

Integral Energy holds an Australian Financial Services Licence effective from 1 July 2005. The licence authorises Integral Energy to provide financial advice, deal and/or make a market in financial products and miscellaneous financial products to wholesale clients.

The Financial Services Governance Committee, established in 2005–06 to monitor licence compliance and good governance, reports to the Retail Risk Board Committee monthly. The Committee met eleven times in 2008–09 and reported to the Retail Risk Board Committee that obligations under the licence had been complied with as far as reasonably practical.

A number of employees have been nominated as representatives for the purpose of the Australian Financial Services Licence and have been trained extensively on the workings of the licence.

Integral Energy must comply with the licence conditions and inform the Australian Securities and Investments Commission of any reportable breaches of the licence conditions within ten working days. Potential breaches of licence conditions are fully investigated by a subcommittee of the Financial Services Governance Committee. The Financial Services Governance Committee determined that none of the potential breaches identified during 2008–09 were reportable breaches of the licence conditions.

The Financial Services Governance Committee also oversees compliance with the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006*.

Board Code of Conduct

Reviewed and approved by the Board of Directors 3 December 2008.

1. A director must act honestly, in good faith and in the best interests of Integral Energy as a whole.
2. A director has a duty to use due care and diligence in fulfilling the functions of the office and exercising the powers attached to that office.
3. A director must use the powers of office for a proper purpose, and in the best interests of Integral Energy as a whole.
4. A director must recognise that the primary responsibility is to Integral Energy's shareholders as a whole, but should, where appropriate, have regard for the interests of all stakeholders.
5. A director must not make improper use of information acquired as a director.
6. A director must not take improper advantage of the position of director.
7. A director must appropriately declare and manage any conflicts between personal interests, or the interests of any associated person, and the interests of Integral Energy.
8. A director has an obligation to be independent in judgement and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions taken by the board.
9. Confidential information received by a director in the course of the exercise of directorial duties remains the property of the organisation from which it was obtained and it is improper to disclose it, or allow it to be disclosed, unless the disclosure has been authorised by that organisation, or the person from whom the information is provided, or is required by law.
10. A director should not engage in conduct likely to bring discredit upon Integral Energy.
11. A director has an obligation, at all times, to comply with the spirit, as well as the letter, of the law and with the principles of this Code and Integral Energy's *Code of Ethics.*

Consultants

In 2008–09, consultancy projects cost a total of $1.56 million compared with $2.32 million in 2007–08. Major projects, costing a total of $1.51 million, are listed below.

Major consultancy projects, 2008–09

Consultant	Purpose
KPMG	To provide technical consulting on the strategic procurement review
Gibson Quai – AAS	Assistance with the delivery of a Smart Grid Communication strategy
Langdale Consultants	To provide IT technical consulting services for the IAIMS program
CECG	To provide support for 2009 Network Determination
Emergence Consulting	To provide technical support re AFSL compliance
Energy Network Association	To provide support for 2009 Network Determination
Charles River & Associates	To provide support for 2009 Network Determination and assistance with the 2008 "D-factor" submission
SAHA International	To provide technical services for Network Pricing Tariff Methodology and support for 2009 Network Determination
Farrier Swier Consulting	To provide support for 2009 Network Determination

Code of Ethics and corporate values

The Integral Energy *Code of Ethics* provides a set of principles and values designed to guide staff behaviour and business operations. In pursuit of Integral Energy's corporate objectives, the Board, management and staff have adopted eight key statements to describe our core values.

Safety excellence

Integral Energy's safety commitment is to zero accidents, injuries and occupational illnesses. This commitment is supported by:

- Making safety our first priority
- A belief that all accidents are preventable
- Working safely as a condition of employment
- Not taking shortcuts
- Not accepting unsafe behaviour
- Expecting personal accountability for safety from everyone.

We will live this value by learning how to work safely; maintaining awareness in all tasks; having an orderly work area; checking for and fixing hazards; coming to work free of drugs and alcohol that could impair performance; taking action to correct unsafe working practices; looking for opportunities to participate in and improve safety performance; and immediately reporting all near misses, incidents, injuries and occupational illnesses.

Integrity

At all levels of the organisation and in all its business dealings, Integral Energy aims to act with honesty and to achieve the highest level of integrity. This means setting consistent policies, and maintaining soundness of moral principle and character.

We each have a responsibility to ensure that Integral Energy's resources are used properly, and that our business dealings are free from conflicts of interest. We will take ownership and responsibility for our actions and demonstrate outstanding leadership as an example to others.

Management by fact

Management by fact forms the backbone of our approach to planning and decision making. It encompasses our use of all available information to make objective, impartial and confident business decisions and open and honest disclosure of relevant information to our shareholders and customers. We respect the confidentiality of certain business information and do not use this inappropriately.

Enterprising spirit

Integral Energy is committed to fostering an enterprising spirit in its people.

This pioneering 'can-do' attitude is core to our business growth and success. It means we are open to fresh thinking and new ideas, and encourage effort and learning in our people to stimulate creativity. We will pursue opportunities for business change while managing risks.

In order to encourage our people to find solutions creatively, support will be provided from management for teamwork and collaborative frameworks, underpinned by the recognition of the contribution of our people and their value to the business.

Customer commitment

Integral Energy's vision is to be Australia's best performing energy business by focusing on delivering superior value to our customers and our shareholders now and into the future. This means taking personal responsibility to deliver a standard of service that goes beyond our customers' expectations and exceeds the service provided by our competitors.

In providing this service we have a responsibility to deal in a fair, open and honest way with all our customers, to review challenge and improve work practices and processes which stand in the way of better standards of customer service, and to recognise that, in the end, customer loyalty depends on individual relationships with our customers.

Respect for people

At Integral Energy we respect a 'fair go for all'. This value is crucial to the personal and professional standards expected in our workplace. It means we:

- Respect the principles of equal employment opportunity
- Acknowledge and value diversity in culture and opinion
- Offer opportunities for promotion on merit
- Cultivate an environment of trust through open and honest communication
- Promote self-improvement and skills development
- Encourage effective empowerment, teamwork and participative decision making
- Continually reviewing our safety standards to ensure a healthy and safe environment for our staff, our customers and the community.

Accountability and responsibility

Complementing the value of 'Respect for people', and the personal and professional workplace standards it demands, we take responsibility and accountability for our actions, and maintain the integrity of performance within our area of responsibility. In all our business dealings, we will promote trust, openness, teamwork, professionalism and pride in what we do.

Sustainable outcomes

Integral Energy recognises the significant corporate responsibilities we carry as a leading energy business.

As a responsible corporate citizen, we strive for sustainable outcomes by balancing the 'triple bottom line' interests of financial, environmental and social responsibilities in order to ensure long-term business success. Our commercial success ensures a sustainable economic future for all stakeholders.

We operate in a way that meets the needs of the present without compromising the ability of future generations to meet their own needs.

Credit card certification

Integral Energy's corporate and purchasing card program is governed by approved policies and procedures that were developed having regard to the Treasury Circular 05/06 *Credit card Use – Best Practice Guide* published in August 2005 (originally published in 1999). A copy of the certification is below.

TREASURER'S ORDER UNDER SECTION 10(3) OF THE *PUBLIC AUTHORITIES (FINANCIAL ARRANGEMENTS) ACT 1987*

I, the Hon. Andrew Refshauge, Treasurer of the State of New South Wales, pursuant to section 10(3) of the *Public Authorities (Financial Arrangements) Act 1987*, hereby exempt Integral Energy from obtaining financial accommodation from the New South Wales Treasury Corporation in respect to the following:

a) Bank overdraft facility of $20 million;
b) Group limit set-off facility of $100 million;
c) Intra-day bank line of credit facility of $30 million;
d) Purchasing card facility of $2 million; and
e) Bank guarantees, cheque encashment, payroll and corporate credit card facilities with a commercial bank of $25 million.

The above financial facilities are to be obtained from a commercial bank.

Dated this 20 day of June 2005.

The Hon Andrew Refshauge
Deputy Premier and Treasurer

Customer service guarantees

Customer service guarantee payments for unplanned outages 2008–09

	Payments based on duration	Payments based on frequency	Claims not paid
Metropolitan	5	Nil	9
Non-metropolitan	32	Nil	4

Disclosure of approved exemptions

Reference	Requirement	Comment
s. 41B(c) PF&AA[a]	Financial statements	Exemption from preparing manufacturing, trading, and profit and loss statements. Integral Energy is required to prepare a summarised Operating Statement, summarising major categories of revenues and expenses.
Schedule 1, Part 1: PF&AA (General)		
Item 2	Notes: Income and expenditure amounts set aside for renewal or replacement of fixed assets	
Item 4	Amounts set aside to any provision for known commitments	
Item 6	Amount appropriated for repayment of loans, advances, debentures or deposits	
Item 13	Material items of income and expenditure on a program or activity basis	Integral Energy is required to summarise the items of revenue and expenses on a program or activity basis.
s. 7(1)(a)(iii) ARSBA[b]	Budgets: detailed budget for the year reported on; outline budget for next year	
cl. 6 ARSBR[c]	Particulars of material adjustments to detailed budget for the year reported on	
s. 7(1)(a)(iv) ARSBA	Summary Review of Operations	Exemption subject to the following condition: comments and information relating to the summary review of operations are to be disclosed in a summarised form.
Schedule 1 ARSBR	Management and Activities	Exemption subject to the following condition: comments and information relating to 'management and activities' are to be disclosed in a summarised form.
Schedule 1 ARSBR	Research and Development	
Schedule 1 ARSBR	Human Resources	Exemption subject to the following condition: overseas visits with the main purposes highlighted are required to be disclosed.
Schedule 1 ARSBR	Consultants	Exemption subject to the following condition: the total amount spent on consultants is to be disclosed along with a summary of the main purposes of the engagements, together with a list of single consultancies with a value exceeding $30,000.
Schedule 1 ARSBR	Land Disposal	
Schedule 1 ARSBR	Consumer Response	Exemption subject to the following condition: comments and information relating to consumer response are to be disclosed in a summarised form.
Schedule 1 ARSBR	Time for Payment of Accounts	As above.
Schedule 1 ARSBR	Report on Risk Management and Insurance Activities	Exemption subject to the following condition: comments and information are to be disclosed in a summarised form.
Schedule 1 ARSBR	Disclosure of Controlled Entities	Exemption subject to the following condition: the names of the controlled entities are to be disclosed along with a summarised disclosure of the controlled entities' objectives, operations and activities, and measures of performance.
cl. 12 ARSBR	Investment Management Performance	
cl. 13 ARSBR	Liability Management Performance	
s. 7(1)(a)(ia) ARSBA	Financial Statement of Controlled Entities	Exemption from preparing manufacturing and trading statements. Integral Energy is required to prepare a summarised Operating Statement (i.e. summarising major categories of revenues and expenses).

a *Public Finance and Audit Act 1983*;

b *Annual Reports (Statutory Bodies) Act 1984*;

c *Annual Reports (Statutory Bodies) Regulation 2005*

Electronic service delivery

Integral Energy website

Integral Energy continues to evolve the on-line customer experience of its website www.integral.com.au to ensure:

- The general public is provided with all relevant information on energy-related areas, including products, education, safety and efficiency
- All product, bill payment options and price changes are readily available and located
- Key network, safety and community documents are accessible.

Electronic tendering system

Integral Energy manages all of its tenders using an electronic tendering solution provided by TenderLink Pty Ltd. The new solution overcomes the problems experienced in managing tenders received by email and significantly enhances probity and information security. In order to be eligible to receive request for tender and request for expressions-of-interest documents, suppliers must firstly register at the e-tendering portal https://www.tenderlink.com/integral/ Registration is free and relatively simple.

Suppliers that are registered to use the solution will be notified immediately by email of all new open requests for tender in relation to categories for which they have registered. They will also have earlier access to all relevant documentation to better understand the scope and details of the request for tender.

Executive remuneration and performance

	Position	Remuneration paid to 30 June 2009	Performance payment [a]	Comments
V. Graham	Chief Executive Officer	$558,600	$19,460	Organisational leadership, delivering improved safety, customer service and financial results.
A. Flett	General Manager Network Asset Operations	$233,625	$33,190	Delivered the maintenance program.
R. Howard	Group General Manager Network	$320,800	$32,170	Improved reliability and expanded capital delivery capability.
K. Waldman	General Manager Regulatory and Corporate Affairs	$210,071	$38,390	Led Integral Energy's regulatory determination 2009–14.
B. Rowley	General Manager Retail	$305,200	$51,640	Successfully led Integral Energy's retail business in a competitive and challenging market.
I. White	Company Secretary	$280,300	$45,670	Delivered strong corporate governance and effective Board support.
D. Lucas	Group General Manager Corporate Development	$353,000	$44,250	Led Integral Energy's corporate strategy, IT services and innovation strategies.
D. Ferguson	General Manager Human Resources	$275,100	$41,380	Leadership of the Human Resources function.
J. Pizzinga	Chief Financial Officer	$372,067	$31,104	Financial stewardship of the organisation.
L. Schenke	Group General Manager Corporate Services	$23,333	$0	Commenced employment 1 June 2009.
Total		$2,932,096	$463,154	

a Performance payments are based on an assessment of actual results in relation to corporate, business unit and individual performance. Achievements against objectives are reviewed by the Board.

Notes:

Mr A. Flett concluded employment on 31 March 2009, and received an additional payment to the above of $35,306.84 for annual leave entitlements and $59,165.73 for long service leave entitlements on conclusion of appointment. He also received an additional payment of $187,453.70 as termination related payments.

Ms K. Waldman concluded employment on 6 March 2009, and received an additional payment to the above of $27,560.43 for annual leave entitlements and $75,175.05 for long service leave entitlements on conclusion of employment.

Mr. J. Pizzinga was back paid in August 2008 for commencing in the Chief Financial Officer role on 1 February 2008.

Freedom of information

Freedom of information statistics

In 2008–09 Integral Energy received nine new requests pursuant to the *Freedom of Information Act 1989* (FOI Act). The FOI requests were received from members of the public, members of Parliament, lawyers and investigators. There were no internal reviews sought during the 2008–09 financial year. The Ombudsman was not involved in any matters involving requests under the FOI Act during the financial year, nor were there any appeals to the Administrative Decisions Tribunal in relation to any requests under the FOI Act. The following tables provide a summary of the responses to requests pursuant to the *Freedom of Information Act 1989* (NSW).

Section A New FOI applications

How many FOI applications were received, discontinued or completed?	Number of FOI applications					
	Personal		Other		Total	
	(previous year)	(current year)	(previous year)	(current year)	(previous year)	(current year)
A1 New	–	1	10	8	10	9
A2 Brought forward	1	–	1	1	2	1
A3 Total to be processed	1	1	11	9	12	10
A4 Completed	1	1	10	9	11	10
A5 Discontinued	–	–	–	–	–	–
A6 Total processed	1	1	10	9	11	10
A7 Unfinished (carried forward)	–	–	1	–	1	–

Section B Discontinued applications

Why were FOI applications discontinued?	Number of discontinued FOI applications					
	Personal		Other		Total	
	(previous year)	(current year)	(previous year)	(current year)	(previous year)	(current year)
B1 Request transferred out to another agency (s.20)	–	–	–	–	–	–
B2 Applicant withdrew request	–	–	–	–	–	–
B3 Applicant failed to pay advance deposit (s.22)	–	–	–	–	–	–
B4 Applicant failed to amend a request that would have been an unreasonable diversion of resources to complete (s. 25(1)(a1))	–	–	–	–	–	–
B5 Total discontinued	–	–	–	–	–	–

Section C Completed applications

Why were FOI applications discontinued?	Number of completed FOI applications					
	Personal		Other		Total	
	(previous year)	(current year)	(previous year)	(current year)	(previous year)	(current year)
C1 Granted or otherwise available in full	–	–	9	6	9	6
C2 Granted or otherwise available in part	1	1	1	1	2	2
C3 Refused	–	–	–	–	–	–
C4 No documents held	–	–	–	2	–	2
C5 Total completed	1	1	10	9	11	10

Section D Applications granted or otherwise available in full

How were the documents made available to the applicant?	Number of FOI applications (granted or otherwise available in full)					
	Personal		Other		Total	
	(previous year)	(current year)	(previous year)	(current year)	(previous year)	(current year)
D1 Provided to the applicant	–	–	9	6	9	6
D2 Provided to the applicant's medical practitioner	–	–	–	–	–	–
D3 Available for inspection	–	–	–	–	–	–
D4 Available for purchase	–	–	–	–	–	–
D5 Library material	–	–	–	–	–	–
D6 Subject to deferred access	–	–	–	–	–	–
D7 Available by a combination of any of the reasons listed in D1–D6 above	–	–	–	–	–	–
D8 Total granted or otherwise available in full	–	–	9	6	9	6

Note: Two applications are not included in the above table as Integral Energy did not hold the requested documents.

Section E Applications granted or otherwise available in part

How were the documents made available to the applicant?	Number of FOI applications (granted or otherwise available in part)					
	Personal		Other		Total	
	(previous year)	(current year)	(previous year)	(current year)	(previous year)	(current year)
E1 Provided to the applicant	1	1	1	1	2	2
E2 Provided to the applicant's medical practitioner	–	–	–	–	–	–
E3 Available for inspection	–	–	–	–	–	–
E4 Available for purchase	–	–	–	–	–	–
E5 Library material	–	–	–	–	–	–
E6 Subject to deferred access	–	–	–	–	–	–
E7 Available by a combination of any of the reasons listed in E1–E6 above	–	–	–	–	–	–
E8 Total granted or otherwise available in part	1	1	7	1	2	2

Section F Refused FOI applications

Why was access to the documents refused?	Number of refused FOI applications					
	Personal		Other		Total	
	(previous year)	(current year)	(previous year)	(current year)	(previous year)	(current year)
F1 Exempt	–	–	–	–	–	–
F2 Deemed refused	–	–	–	–	–	–
F3 Total refused	–	–	–	–	–	–

Section G Exempt documents

Why were the documents classified as exempt? (identify one reason only)	Number of FOI applications (refused or access granted or otherwise available in part only)					
	Personal		Other		Total	
	(previous year)	(current year)	(previous year)	(current year)	(previous year)	(current year)
Restricted documents:						
G1 Cabinet documents (Clause 1)	–	–	–	–	–	–
G2 Executive Council documents (Clause 2)	–	–	–	–	–	–
G3 Documents affecting law enforcement and public safety (Clause 4)	–	–	–	–	–	–
G4 Documents affecting counter terrorism measures (Clause 4A)	–	–	–	–	–	–
Documents requiring consultation:						
G5 Documents affecting intergovernmental relations (Clause 5)	–	–	–	–	–	–
G6 Documents affecting personal affairs (Clause 6)	–	–	–	–	–	–
G7 Documents affecting business affairs (Clause 7)	–	–	1	2	1	2
G8 Documents affecting the conduct of research (Clause 8)	–	–	–	–	–	–
Documents otherwise exempt:						
G9 Schedule 2 exempt agency	–	–	–	–	–	–
G10 Documents containing information confidential to Olympic Committees (Clause 22)	–	–	–	–	–	–
G11 Documents relating to threatened species, Aboriginal objects or Aboriginal places (Clause 23)	–	–	–	–	–	–
G12 Documents relating to threatened species conservation (Clause 24)	–	–	–	–	–	–
G13 Plans of management containing information of Aboriginal significance (Clause 25)	–	–	–	–	–	–
G14 Private documents in public library collections (Clause 19)	–	–	–	–	–	–
G15 Documents relating to judicial functions (Clause 11)	–	–	–	–	–	–
G16 Documents subject to contempt (Clause 17)	–	–	–	–	–	–
G17 Documents arising out of companies and securities legislation (Clause 18)	–	–	–	–	–	–
G18 Exempt documents under interstate FOI Legislation (Clause 21)	–	–	–	–	–	–
G19 Documents subject to legal professional privilege (Clause 10)	–	–	1	–	1	–
G20 Documents containing confidential material (Clause 13)	–	–	–	–	–	–
G21 Documents subject to secrecy provisions (Clause 12)	–	–	–	–	–	–
G22 Documents affecting the economy of the State (Clause 14)	–	–	–	–	–	–
G23 Documents affecting financial or property Interests of the State or an agency (Clause 15)	–	–	–	–	–	–
G24 Documents concerning operations of agencies (Clause 16)	–	–	–	–	–	–
G25 Internal working documents (Clause 9)	–	–	–	–	–	–
G26 Other exemptions (e.g. Clauses 20, 22A and 26)	–	–	–	–	–	–
G27 Total applications including exempt documents	–	–	2	2	2	2

Section H Ministerial Certificates (s. 59)

How many Ministerial Certificates were issued?	Number of Ministerial Certificates	
	(previous year)	(current year)
H1 Ministerial Certificates issued	–	–

Section I Formal consultations

How many formal consultations were conducted?	Number	
	(previous year)	(current year)
I1 Number of applications requiring formal consultation	3	4
I2 Number of persons formally consulted	10	8

Section J Amendment of personal records

How many applications for amendment of personal records were agreed or refused?	Number of applications for amendment of personal records	
	(previous year)	(current year)
J1 Agreed in full	–	–
J2 Agreed in part	–	–
J3 Refused	–	–
J4 Total	–	–

Section K Notation of personal records

How many applications for notation of personal records were made (s. 46)?	Number of applications for notation	
	(previous year)	(current year)
K1 Applications for notation	–	–

Section L Fees and costs

What fees were assessed and received for FOI applications processed (excluding applications transferred out)?	Assessed costs		Fees received	
	(previous year)	(current year)	(previous year)	(current year)
L1 All completed applications	$Nil	$Nil	$355.00	$240.00

Note: Two applications were refunded the application fee as Integral Energy did not hold the requested documents [total $60].

Section M Fee discounts

How many fee waivers or discounts were allowed and why?	Number of FOI applications (where fees were waived or discounted)					
	Personal		Other		Total	
	(previous year)	(current year)	(previous year)	(current year)	(previous year)	(current year)
M1 Processing fees waived in full	–	–	–	–	–	–
M2 Public interest discount	–	–	1	–	1	–
M3 Financial hardship discount – pensioner or child	–	–	1	–	1	–
M4 Financial hardship discount – non-profit organisation	–	–	–	–	–	–
M5 Total	–	–	2	–	2	–

Section N Fee refunds

How many fee refunds were granted as a result of significant correction of personal records?	Number of refunds	
	(previous year)	(current year)
N1 Number of fee refunds granted as a result of significant correction of personal records	–	–

Section O Days taken to complete request

How long did it take to process completed applications? (Note: calendar days)	Number of completed FOI applications					
	Personal		Other		Total	
	(previous year)	(current year)	(previous year)	(current year)	(previous year)	(current year)
O1 0–21 days – statutory determination period	1	–	7	6	8	6
O2 22–35 days – extended statutory determination period for consultation or retrieval of archived records (S.59B)	–	1[a]	3[a]	3[a]	3[a]	4
O3 Over 21 days – deemed refusal where no extended determination period applies	–	–	–		–	–
O4 Over 35 days – deemed refusal where extended determination period applies	–	–	–		–	–
O5 Total	1	1	10	9	11	10

a As Integral Energy was required to obtain the views of third parties it was necessary to extend the 21-day response period by a further period of 14 days, pursuant to Section 59B of the FOI Act.

Section P Processing time

How long did it take to process completed applications?	Number of completed FOI applications					
	Personal		Other		Total	
	(previous year)	(current year)	(previous year)	(current year)	(previous year)	(current year)
P1 0–10 hours	1	–	7	5	8	5
P2 11–20 hours	–	1	2	4	2	5
P3 21–40 hours	–	–	1	–	1	–
P4 Over 40 hours	–	–	–	–	–	–
P5 Total	1	1	10	9	11	10

Section Q Number of reviews

How many reviews were finalised?	Number of completed reviews	
	(previous year)	(current year)
Q1 Internal reviews	2	–
Q2 Ombudsman reviews	–	–
Q3 ADT reviews	–	–

Section R Results of internal reviews

What were the results of internal reviews finalised?	Number of internal reviews					
	Personal		Other		Total	
Grounds on which the internal review was requested	Original agency decision upheld	Original agency decision varied	Original agency decision upheld	Original agency decision varied	Original agency decision upheld	Original agency decision varied
R1 Access refused	–	–	–	–	–	–
R2 Access deferred	–	–	–	–	–	–
R3 Exempt matter deleted from documents	–	–	–	–	–	–
R4 Unreasonable charges	–	–	–	–	–	–
R5 Failure to consult with third parties	–	–	–	–	–	–
R6 Third parties views disregarded	–	–	–	–	–	–
R7 Amendment of personal records refused	–	–	–	–	–	–
R8 Total	–	–	–	–	–	–

Impact of the requirements of the *Freedom of Information Act 1989* (NSW)

The impact of the requirements of the *Freedom of Information Act 1989* (NSW) on Integral Energy's activities was minor and no major issues arose in connection with Integral Energy's compliance with the requirements of the Act.

Access to documents under the Freedom of Information Act

Documents can be requested or examined by forwarding a request to Integral Energy together with the FOI fee of $30 to the Freedom of Information Officer, Integral Energy, PO Box 6366, Blacktown NSW 2148. Please note that in addition to the FOI fee, charges may be imposed for the time spent in searching for and retrieving relevant documents, decision-making time, photocopying and postage. In certain cases a 50% reduction in fees and charges may apply. Any request, as well as clearly identifying the applicant and a return address, must be in writing and must contain sufficient information to enable the requested document(s) to be located and identified.

Statement of Affairs

Section 14 of the FOI Act requires a Statement of Affairs of an agency to be published every 12 months. Integral Energy's Statement of Affairs is incorporated within this Annual Report, as is a description of Integral Energy's structure and functions.

Funds granted to non-government organisations

Integral Energy does not grant funds to non-government organisations. Rather, through a Board-approved policy and annual program of sponsorships and donations, the organisation lends support to selected community organisations that reflect Integral Energy's obligations as a State Owned Corporation and align to Integral Energy's Corporate Plan.

Details of Integral Energy's community partnership portfolio and strategy can be found on our website www.integral.com.au, under the 'Community' heading.

Heritage management

Integral Energy is continuing to work towards the delivery of its Heritage Asset Management Strategy, the original document for which an acknowledgement of acceptance from the Heritage Office was received in May 2006.

Heritage and Conservation Register

Integral Energy's draft Heritage & Conservation (s170) Register is in the process of being finalised. Further research is being undertaken on sites to confirm the level of heritage significance and to prepare conservation management strategies on each of the sites. Work has also continued on development of a moveable heritage policy and the collection and cataloguing of potentially significant items.

Heritage assets

Of the 15 potential heritage sites identified in the draft s170 Register, Integral Energy is:

- Developing a strategy for the alternative use of the cottage substation in Moss Vale which is no longer an operational network site. The strategy requires a rezoning of the site to commercial and relocation of overhead transmission lines that traverse the site
- Developing a strategy for the alternative use of the cottage substation in Crown Street, Harris Park, which is no longer an operational network site. Together with the adjacent residential cottage a development application is being prepared for possible 'professional office suites'
- Developing a design for the rebuilding of the South Granville Zone Substation site allowing for the retention of the heritage building, possibly being utilised as a meal room or for similar use once the substation is rebuilt.

Condition assessments

All sites are maintained in accordance with the organisation's civil maintenance program and/or conservation management strategies.

Heritage training

Integral Energy staff attended training events organised by the Heritage Office.

Implementation of price determinations

Network Regulatory Determination 2009–14

The Independent Pricing and Regulatory Tribunal's (IPART's) 2004 Network Determination expired on 30 June 2009. A new five-year determination, the 2009 Network Determination, took effect from 1 July 2009.

The 2009 Network Determination was conducted by the Australian Energy Regulator (AER) over the past two years, with the final decision issued on 30 April 2009. The review positions the organisation for the five years 2009–14 and determines the revenue/price path for the network business.

The three NSW Distribution Network Service Providers, Integral Energy, EnergyAustralia and Country Energy (the NSW DNSPs), as well as ActewAGL were the first electricity distribution businesses to be regulated by the AER.

National Regulatory Framework

Changes to the National Electricity Law to enable the AER to assume economic regulation for electricity distribution network services commenced on 1 January 2008. A new Chapter 6 of the National Electricity Rules (Rules) that sets out key elements of the methodology and process for such reviews also commenced on 1 January 2008.

Due to the timeframe over which the changes to the National Electricity Law were developed and in order to provide certainty to the AER and the businesses, a set of transitional arrangements that would apply to the NSW DNSPs and ActewAGL were also developed (the Transitional Rules). The Transitional Rules were gazetted by the South Australian Minister for Energy in December 2007 and commenced on 1 January 2008.

Integral Energy's 2009 Regulatory Proposal

The outcomes from the 2009 Network Determination are important to Integral Energy. A project to prepare Integral Energy's 2009 Regulatory Proposal to the AER was launched on 14 May 2007.

The 2009 Regulatory Proposal was prepared that aligned with Integral Energy's Network Strategy and Financial Plans and presented a credible case for the business requirements over the 2009 to 2014 regulatory control period. It was developed from the critical requirements to meet the key drivers on the business and was underpinned by rigorous decision making and governance processes. The 2009 Regulatory Proposal was also subjected to internal and external scrutiny.

Integral Energy's 2009 Regulatory Proposal was prepared in accordance with both the Transitional Rules and the AER's Regulatory Information Notice issued on 24 April 2008. The 2009 Regulatory Proposal related to the assets owned and operated by Integral Energy. The 2009 Regulatory Proposal was in relation to our distribution services and our public lighting services and consisted of:

- The Regulatory Proposal document and appendices
- The AER's pro-formas and supporting documents
- The completed versions of the AER's Post Tax Revenue Model and Asset Roll Forward Model
- The Chief Executive Officer's Statutory Declaration
- The Directors' Certification of the reasonableness of the key assumptions for the forecast capital and operating expenditures.

Integral Energy's 2009 Regulatory Proposal was lodged with the AER on 2 June 2008 and on 27 June 2008 the AER advised Integral Energy that its Regulatory Proposal and supporting information substantially complied with the relevant provisions of the Rules.

Integral Energy's 2009 Revised Regulatory Proposal

The AER released its Draft Distribution Determination 2009–10 to 2013–14 (the Draft Determination) on 28 November 2008. As provided for under the Rules, Integral Energy lodged a Revised Regulatory Proposal with the AER on 14 January 2009 to address any areas of concern in the Draft Determination.

Integral Energy's Revised Regulatory Proposal accepted many of the AER's draft decisions, but also incorporated a number of amendments that Integral Energy considered necessary. Where Integral Energy did not fully adopt the AER's Draft Determination, the Revised Regulatory Proposal provided additional information, including expert reports, to address the matters raised by the AER.

Integral Energy argued that many of the revisions to Integral Energy's original proposal were required to address the onset of the global financial crisis that occurred following the preparation and lodgement of the original proposal on 2 June 2008. Consequently, neither Integral Energy nor the AER were able to adequately consider the impacts of the global financial crisis on the expenditure programs and forecasts put forward that ultimately formed the basis of the Draft Determination.

Integral Energy submitted that the effect of the global financial crisis was far reaching and impacted on Integral Energy's original proposal in the following ways:

- Energy and customer number forecasts declined due to the slowdown in economic activity
- Capital expenditure was also expected to decline to some extent as a result of lower customer connections and deferral of some major projects
- The nominal risk free rate was at an abnormal level that does not represent a reasonable expectation of interest rate movements over the 2009 regulatory control period
- The costs of contributing to defined benefits superannuation schemes have increased as a result of the loss in value of the funds.

As requested by the AER, Integral Energy also revised its forecasts underpinning the original proposal for energy and customer numbers and incorporated the audited 2007–08 weighted average price cap (WAPC) information.

On 16 February 2009, Integral Energy also prepared and lodged with the AER a written submission which contained additional information to support Integral Energy's Revised Regulatory Proposal and provided comments on other aspects of the AER's Draft Determination.

AER Final Distribution Determination 2009–14

The AER released its Final Distribution Determination on 30 April 2009. The outcomes for Integral Energy from the Final Determination are discussed below.

Demand forecasts

Integral Energy's Revised Regulatory Proposal, included revised customer number and energy forecasts based on audited 2007–08 WAPC data and incorporating the effects of a revised National Institute of Economic and Industry Research (NIEIR) gross state product (GSP) forecast for Integral Energy's region. NIEIR's GSP forecast was updated in December 2008 to incorporate the worsening global financial crisis and the impact of the Carbon Pollution Reduction Scheme White Paper.

After analysing Integral Energy's revised customer number and energy forecasts the AER concluded that they had been developed according to a reasonable methodology, and the resulting forecast is an appropriate input into the post-tax revenue model (PTRM).

Forecast capital expenditure

Integral Energy's Revised Regulatory Proposal included a capital expenditure allowance of $2,735 million ($2008–09) for the next regulatory control period. Integral Energy revised its forecast capital expenditure down by $244 million from the original regulatory proposal due to the impacts of the global financial crisis.

Following its review of Integral Energy's revised capital expenditure proposal, the AER made the following adjustments:

- $15 million reduction to substation renewal projects
- $2 million increase to reflect the application of modified input cost escalators.

The AER provided a capital expenditure allowance totalling approximately $2,720 ($2008–09) million over the regulatory control period from 2009 to 2014.

Forecast operating expenditure

Integral Energy's Revised Regulatory Proposal included an operating expenditure allowance of $1,521 million ($2008–09) for the next regulatory control period.

The AER's conclusion on Integral Energy's forecast operating expenditure allowance was to provide for a total expenditure allowance of approximately $1,515 million ($2008–09) over the regulatory control period from 2009 to 2014.

Cost of capital

The AER's Final Determination updated their draft decision for the nominal risk free rate and debt risk premium and the expected inflation rate. It used an averaging period for Integral Energy of 15 business days from 2 March 2009 to 20 March 2009, which Integral Energy argued was biased by the impact of the global financial crisis and the lowest interest rates since the Great Depression. The AER's averaging period resulted in a nominal risk free rate for Integral Energy of 4.32%.

The AER used Bloomberg fair yields and the same averaging period that was adopted for the risk free rate to determine the debt risk premium. Based on the AER's analysis the debt risk premium for Integral Energy was 3.52% which, when combined with the risk free rate produced an allowed return on debt of 7.84%.

The AER used an inflation forecast of 2.47% which was consistent with the 10 year estimate draft decision methodology.

The AER's conclusion on Weighted Average Cost of Capital (WACC) parameters resulted in a nominal vanilla WACC of 8.83% compared with the nominal vanilla WACC of 10.02% used in Integral Energy's Revised Regulatory Proposal.

Revenue requirements

The AER calculated the annual revenue requirement and X factors based on its decisions on the building block components.

For Integral Energy, the AER's Final Determination results in a total revenue requirement over the 2009 to 2014 regulatory control period of $4,485 million ($nominal) compared with $4,916 million ($nominal) proposed by Integral Energy in the Revised Regulatory Proposal.

The AER set Integral Energy's X factors to satisfy the requirements of the National Electricity Rules (NER) in that the expected revenue and the annual revenue requirement are equal in Net Present Value (NPV) terms and in the final year the difference between expected revenue and the annual revenue requirement is as close as practicable (difference is 3.8%). The resulting X factors for Integral Energy were a real increase of 12.58% in 2009–10 followed by real increases of 7% in the following two years, a 2% real increase in 2012–13 and a CPI increase in 2013–14.

Merits review

Following release of the AER's Final Determination and analysis of the decision by Integral Energy, it was decided to lodge an application with the Australian Competition Tribunal (the Tribunal) to seek a merits review of the AER's decision on the WACC averaging period for the risk free rate in the Distribution Determination 2009–10 to 2013–14.

Integral Energy's application was lodged with the Australian Competition Tribunal on 21 May 2009 and on 18 June 2009 Justice Middleton, Deputy President of the tribunal, granted leave allowing the merits review to proceed.

A two-week-long merits review hearing commenced on 10 August 2009 with a final decision by the tribunal expected by November 2009.

If Integral Energy's merits review is successful, any tribunal decision is expected to be implemented from 1 July 2010.

Network prices 2009–10

In June 2009, the AER approved Integral Energy's 2009–10 annual network pricing proposal as consistent with the requirements of chapter 6 of the Transitional Rules and the 2009 Network Determination.

A key element of Integral Energy's network tariff strategy that was revisited in 2009 is to ensure network tariffs achieve the objectives of providing revenue sufficiency, achieving pricing efficiency, promoting customer equity and minimising revenue volatility. Primary areas of focus will be to develop residential and General Supply time of use (TOU) tariffs that would become Integral Energy's primary network tariffs in the anticipated mandated roll-out of interval meters (targeted to commence in 2012) and to ensure our prices reflect efficient costs in order to provide 'value for money' for our customers.

To better understand customers' price responsiveness, in 2008–09 we continued a pricing trial involving a representative sample of approximately 1,300 residential customers in western Sydney who have elected to be placed on either of the following tariffs:

- *Dynamic peak time-of-use tariff* – Customers on this tariff pay different prices for their energy consumption at different times of the day. They pay a significantly higher dynamic peak price for their energy consumption during a dynamic peak event. The number of dynamic peak events is limited to 12 a year.
- *Seasonal peak time-of-use tariff* – Customers on this tariff pay different prices for their energy consumption at different times of the day and year. They pay a higher price for their energy consumption during the peak periods in summer (November to March) and winter (June to August).

The trial commenced on 1 August 2006 and was in operation until 31 July 2009. A key finding of the trial is that customers, in particular those on the dynamic peak TOU tariff, are willing to change their usage patterns when basing their consumption decisions on a more focused and efficient pricing signal. The results of the trial will inform the development of Integral Energy's network tariffs moving forward.

The potential move to TOU tariffs to accompany a mandated rollout of 'smart' meters will introduce the risk of revenue and pricing volatility to Integral Energy and its customers. Therefore, gaining a better understanding of customers' usage patterns will increase in importance under a TOU meter scenario in the financial management of the business and in setting efficient prices for our customers.

Retail Regulatory Determination 2007–10

IPART regulates the prices that Integral Energy can charge customers whose electricity is supplied under a standard form customer supply contract.

On 14 June 2007 IPART released its final report and final determination for the regulated retail charges to apply from 1 July 2007 to 30 June 2010 (2007 Retail Determination). The terms of reference for this review required IPART to set regulated retail tariffs and charges for small customers such that their reliance on regulated prices would be reduced and retail competition would be facilitated over the period to 30 June 2010.

Energy cost allowance

In the 2007 Retail Determination IPART allowed for an annual review of the market-based energy purchase cost allowance, to factor into the determination material step changes in this allowance, if required. The annual review is a mechanical review in that it applies the pre-determined methodology that is set out in the 2007 Retail Determination.

In March 2009 IPART released its draft report on assessing the market based electricity purchase costs for 2009–10 and called for submissions.

After considering stakeholder input from submissions and further advice from IPART's consultant, Frontier Economics, IPART released its final decision in May 2009. The final decision was that the 10% threshold for material change had been met for 2009–10 and therefore the allowance for energy purchase costs should be increased to reflect this.

As a result of the increase in the energy purchase cost allowance and the increase already factored into the 2007 Retail Determination, the retail component of the regulated retail prices increased by 11.9%.

Regulated retail prices 2009–10

Based on the 2007 Retail Determination, the revised energy purchase cost allowance and incorporating the price increase from the AER's 2009 Network Determination, a regulated retail pricing proposal for 2009–10 was developed and submitted to IPART on 29 May 2009. The tariffs were approved for implementation from 1 July 2009.

The annual regulated retail bill increase in nominal terms for the average residential customer using 6,000 kWh per annum is estimated to be approximately $217 (or 21.2%) in 2009–10. For the average general supply customer using 26,000 kWh per annum, the estimated increase will be $896 (or 23.7%).

NSW Government compensation package

Given the substantial increase in electricity pries in 2009–10, the NSW Government announced a $272 million compensation package to assist families and pensioners to meet the price increases. The package includes:

- $125 million over five years to support a Customer Assistance Policy
- $65 million over five years to increase the pensioner energy rebate from $112 to $130 per year and indexation of the rebate to CPI thereafter
- $55 million over five years to increase funding for the Energy Accounts Payment Assistance Scheme (EAPA)
- $27.5 million over five years to extend the pensioner energy rebate to a selected group of health care card holders.

These measures came into effect from 1 July 2009.

Review of regulated retail tariffs and charges for electricity 2010–2013

The 2007 Retail Determination on regulated retail tariffs will cease to apply on 30 June 2010. The NSW Government has recently committed to retaining regulated retail tariffs until at least 2013 and the Minister for Energy has asked IPART to undertake a review and make a new determination for the period 1 July 2010 to 30 June 2013.

IPART released an Issues Paper and invited submissions in early July 2009 and expects to release a draft report and determination in early December 2009. IPART's final report and determination is expected to be released in March 2010 for application from 1 July 2010.

Integral Energy has been an active participant in the IPART review consultation process to date, and will continue to participate in all aspects of the review given its importance to Integral Energy's retail business, its regulated customers and the level of competitiveness in the NSW retail electricity market.

Multicultural Policies and Services Program

Integral Energy's corporate values commit the organisation to acknowledging and valuing cultural diversity across our stakeholder base, in our delivery of customer service, in our management of employees and in our interactions with suppliers, communities and other stakeholder groups.

Customers

We strive to ensure that appropriate services are offered to our diverse multicultural customer base and that customers are not disadvantaged because of their cultural backgrounds.

Data collected from the 2006 Census indicates that 29% of people living in Integral Energy's franchise area – Sydney's Greater West, the Blue Mountains, the Southern Highlands and the Illawarra – were born outside Australia. Approximately 28% of the population in our franchise area comes from non-English speaking backgrounds. The three most common languages spoken in our franchise area, excluding English, are Arabic (3.7%), Vietnamese (2%) and Cantonese (1.8%).

We aim to provide the same level of service to each of our more than 859,000 customers, who can contact the organisation 24 hours a day, seven days a week.

Integral Energy's *INpower* brochure is available to customers in six community languages and we provide an interpreter service that allows customers to speak their own language. Arabic and Vietnamese speaking customers are the predominant users of the interpreter service, which is supplied by the Australian Government Department of Immigration and Multicultural and Indigenous Affairs.

Contact numbers are printed on the back of customer bills and on the front page of the standard service contract.

Integral Energy's hardship charter will be translated into 10 community languages to provide greater assistance for non-English speaking customers who may be facing financial stress and are unsure how to get help.

Integral Energy offered this same interpreter service for interested residents to enquire about proposed capital works happening within their local area. To date, newsletters for Liverpool Transmission Substation, Granville Zone Substation and Liverpool line works have included an offer of the interpreter service.

During 2008, Integral Energy continued its sponsorship of the Community Service Award at the National Multicultural Marketing Awards for the fourth year. The awards are designed to encourage and reward businesses and organisations that promote their products and services to people from culturally and linguistically diverse backgrounds.

Integral Energy's Customer Consultative Committee considers the needs of customers of differing ethnic and cultural backgrounds. The Committee provides valuable feedback and advice about the organisation's policies and services, and helps us deliver a standard of service that meets customer expectations and exceeds the level of service provided by our competitors. Committee membership includes a representative of the Multicultural and Aboriginal communities.

In August 2009, Integral Energy will introduce PowerStart, an Indigenous PreVocational program, which is coordinated by an approved Federal Government Department of Education, Employment and Workplace Relations organisation who provide work experience to a group of indigenous participants.

Participants will attend TAFE for two weeks to review and upskill their literacy and numeracy skills, and receive an introduction to electrical theory. They will also complete a three-week induction program with Integral Energy, where they will learn about our occupational health and safety practices, how to climb poles, cable jointing and other aspects of the energy industry to provide an understanding of what an electrical apprenticeship entails.

At the end of the six weeks, participants have the opportunity to undertake the Integral Energy Apprenticeship Assessment and if successful, will be included in the remainder of the selection process for our 2010 intake of apprentices.

Employment Practices

The cultural diversity and ethnic mix of our customers is reflected in the make up of our staff, with employees and their families representing many different countries.

To ensure that we have a highly competent, flexible and competitive workforce, Integral Energy is committed to employing on the basis of merit. Candidates are assessed against job related criteria regardless of gender, age, ethnicity, religion or other irrelevant factors. Managers are provided with guidelines to follow during the recruitment and selection process to ensure that equity and diversity are maintained.

In 2008–09, we continued working towards our Workplace Diversity Strategy to ensure that diversity is integrated into our everyday work practices. The purpose of the strategy is to provide a framework for diversity within Integral Energy that recognises, encourages and appreciates the value of our differences.

The strategy has four key focuses:

1. Ensure that human resources policies and procedures support a diverse workplace.
2. Create a work environment that engages, enables and empowers people to do their best at work.
3. Adopt an approach to recruitment and retention that supports a sustained increase in diversity in the workforce.
4. Provide appropriate support for staff throughout the work lifecycle.

In 2009–10, we will continue to monitor progress against our diversity strategy.

Nightwatch

NightWatch provides businesses with valuable security through the installation of an external lighting system that utilises existing Integral Energy assets (wooden poles and metal columns) and features automatic dusk to dawn switching. 1750 customers are using this low cost lighting system to illuminate their premises that not only provides improved security but helps promote business after hours. Further information on Nightwatch can be found on Integral Energy's website www.integral.com.au.

Notifications to the Independent Commission Against Corruption

In 2008–09 there were seven notifications to the Independent Commission Against Corruption (ICAC) in accordance with the provisions of the *Independent Commission Against Corruption Act 1988* (NSW). Integral Energy received one notification from the ICAC concerning allegations of corrupt conduct.

Publications

Integral Energy produces an extensive range of publications to keep stakeholders well informed of our operations. These publications include the annual performance report, appliance running cost brochure, electrical safety at home brochures, world of savings brochure, statement of business ethics, network connection brochures for rural and subdivision areas, information on Blacktown Solar City, Nightwatch, INpower brochure, environmental handbook and tree management brochure. These publications are available at no cost by calling 131 002 or by visiting our website (www.integral.com.au).

Overseas travel

Name	Date	Destination	Purpose
Garry Neal Peter Norrie	13 July – 19 July 2008	Korea	Factory accreditation inspections (Daewoo GIS Facility in Korea; LS Industrial systems in Korea; Hyosung in Korea and Daewoo Transformer factory in Korea)
Andrew Tang	13 August – 16 August 2008	Thailand	Inspection / witness testing at ABB Thailand (60 MVA unit 508005)
Rod Howard	22 August – 5 September 2008	Switzerland, United Kingdom, Bermuda and United States	Consultation with industry and insurers
Peter Norrie	25 August – 28 August 2008	Taiwan	Attend inspection at Fortune Electric, Taiwan (33/11kV 15 MVA Kiama ZS transformer unit D071398)
Andrew Tang	11 September – 17 September 2008	Thailand	Attend inspection / witness testing at ABB Thailand (132/33/11kV 60 MVA transformer for Nepean TS)
Peter Norrie	29 October – 3 November 2008	Thailand	Attend inspection / witness testing at ABB Thailand (132/33/11kV 120 MVA transformer for West Wetherill Park TS unit 508020)
Andrew Tang	13 November – 22 November 2008	Taiwan	Attend witness testing at Fortune Electric, Taiwan (33/11kV 15 MVA Kiama ZS transformer unit D071398)
Peter Norrie	28 November – 3 December 2008	Vietnam	Mechanical design review factory inspection ABB Vietnam (132/11kV 45 MVA transformer Granville, unit VN00373; Doonside, unit VN00375 and Doonside unit VN00376
Christian Demuth	14 December – 19 December 2008	United States	Acceptance testing of camera system for Helicopter Inspections
Peter Norrie	17 December – 19 December 2008	Thailand	Inspection of 132/33/11kV 120MVA transformer (Liverpool TS unit 508011 – 12)
Andrew Tang	19 January – 24 January 2009	Thailand	Test of 132/33/11kV 120MVA transformer (Liverpool TS unit 508011 – 12)
Peter Norrie	12 February – 14 February 2009	Taiwan	Attend inspection at Fortune Electric, Taiwan (33/11kV 25 MVA transformer – Clarmont Meadows Unit 1 D0841901 and North Warragamba unit D0839701)
Peter Norrie	13 February – 15 February 2009	Vietnam	Second inspection at ABB Vietnam (132/11kV 45 MVA transformer Granville, unit VN00373; Doonside, unit VN00375 and Doonside unit VN00377
Andrew Tang	15 March – 21 March 2009	Taiwan	Attend witness testing at Fortune Electric, Taiwan (33/11kV 25 MVA transformer – Clarmont Meadows Unit 1 D0841901 and North Warragamba unit D0839701)
Graeme Browne Arvin Reddy	29 March – 4 April 2009	Korea	Factory Acceptance testing of 132kV GIS switchboard at Hyundai Heavy Industries
Ty Christopher Danny Asvestas	17 April – 1 May 2009	Germany, Switzerland, France	Network Technology Study Visit
Neil Browne	21 April – 25 April 2009	New Zealand	Attendance at 2009 CIGRE C4 Meeting and Power Quality for Future Networks' Conference
Robin Jong	20 May – 22 May 2009	Malaysia	Factory accreditation (General Cables Thailand and Universal Cable Malaysia)
Ian Robinson Stephen Lette	23 May – 6 June 2009	Italy, Spain, Portugal, Denmark, Sweden, Canada, United States	Network Technology Study Visit

8 Appendices

Summary of legislative changes and significant judicial decisions

Integral Energy's operations are subject to numerous state and federal laws, subordinate legislation such as mandatory codes and rules, and Judge made law. A number of these laws were amended and new laws affecting Integral Energy commenced in the financial year ending 30 June 2009.

1. Principal State and Federal Acts to which Integral Energy is subject

State Owned Corporations Act 1989 (NSW)

Energy Services Corporations Act 1995 (NSW)

Public Authorities (Financial Arrangements) Act 1987 (NSW)

Public Finance and Audit Act 1983 (NSW)

Independent Commission Against Corruption Act 1988 (NSW)

Freedom of Information Act 1989 (NSW)

Electricity Supply Act 1995 (NSW)

Occupational Health & Safety Act 2000 (NSW)

Protection of the Environment Operations Act 1997 (NSW)

Environmental Planning and Assessment Act 1979 (NSW)

Independent Pricing and Regulatory Tribunal Act 1992 (NSW)

National Electricity (New South Wales) Act 1997 (NSW)

Trade Practices Act 1974 (Cth)

Privacy Act 1988 (Cth)

Corporations Act 2001 (Cth)

Workplace Relations Act 1996 (Cth)

National Greenhouse and Energy Reporting Act 2008 (Cth)

Renewable Energy (Electricity) Act 2000 (Cth)

Anti-Money Laundering and Anti-Terrorism Financing Act 2006 (Cth)

2. Material changes to relevant Acts

New South Wales

The *Environmental Planning and Assessment Amendment Act 2008* made substantial reforms to NSW planning laws, amending more than 22 pieces of legislation. Its commencement was staggered between 1 August 2008 and 2 March 2009. The reforms aimed to:

- Reduce development assessment timeframes and tailor application processes to specific classes of application. Smaller scale developments will continue to be dealt with by councils. Projects of State or regional significance may be assessed by the Planning Assessment Commission or Joint Regional Planning Panel. Independent Hearing and Assessment Panels and Planning Arbitrators will have a role in review and appeal processes
- Increase the use of exempt and complying development and codify State-wide standards with the aim to cover 50% of development
- Limit appeals to the Land and Environment Court
- Reform the certification process by extending certification processes and making certifiers more accountable.

The Independent Commission Against Corruption Amendment Act 2008 commenced on 16 December 2008. The Amendment Act made minor amendments to the *Independent Commission Against Corruption Act 1988* in relation to proceedings for offences and other matters.

Commonwealth

The *National Greenhouse and Energy Reporting Amendment Act 2008* commenced on 15 and 16 September 2008. The Amendment Act made minor amendments to the *National Greenhouse and Energy Reporting Act 2008* including:

- Simplifying requirements for the registration of corporations
- Making mandatory the separate public disclosure of scope 1 (direct) and scope 2 (indirect) greenhouse gas emissions
- Confirming the ability of the Minister to specify conditions for the use of alternative methods to calculate greenhouse gas emissions
- Clarifying provisions relating to reporting of greenhouse gas projects and offsets.

The *Financial System Legislation Amendment (Financial Claims Scheme and other Measures) Act 2008* amended the *Corporations Act 2001* and commenced in parts on 17, 18 & 19 October 2008. The Act introduced measures to implement a financial claims scheme including a 100% guarantee of deposits in authorised deposit taking institutions and makes other arrangements to deal with distressed or failing institutions.

The Offshore Petroleum Amendment (Greenhouse Gas Storage) Act 2008 commenced on 21 and 22 November 2008. The Amendment Act amended the *Corporations Act 2001* by establishing a system of off shore titles to authorise the transportation by pipeline and injection and storage of greenhouse gas substances under the sea bed.

The Trade Practices Legislation Amendment Act 2008 commenced on 22 November 2008. The Amendment Act clarified the role of recoupment in predatory pricing cases under subsection 46(1) of the *Trade Practices Act 1974* and ensured that predatory pricing remains clearly prohibited by that provision. This addressed concerns raised about predatory pricing in the recent inquiry into the effectiveness of the Act.

The *Australian Energy Market Amendment (AEMO and Other Measures) Act 2009* partially commenced on 26 and 27 March 2009. The Act amended the *Renewable Energy (Electricity) Act 2000* and the *Trade Practices Act 1974* to replace references to the National Energy Market Management Company Limited ACN 072 101 327 (NEMMCO) with the Australian Energy Market Operator Limited ACN 072 101 327 (AEMO).

The *Trade Practices Amendment (Clarity in Pricing) Act 2008* commenced on 25 May 2009. This amendment required companies to specify the total price of products in advertising including all of its components. The Amendment Act also set out exceptions to this requirement.

The *Trade Practices Amendment (Cartel Conduct and Other Measures) Act 2008* had a staggered commencement between 27 June and 24 July 2009. The amendment Act introduced four new cartel offences and established criminal penalties (including up to 10 years jail) for serious cartel conduct.

The *National Greenhouse and Energy Reporting (Measurement) Amendment Determination 2009* commenced on 26 June 2009. The Amendment Determination amended the *National Greenhouse and Energy Reporting (Measurement) Determination 2009* by:

- Updating the measurement with new 2008 standards and updated emission factors
- Detailing methods specified for certain sectors
- Clarifying certain issues, such as definitions.

3. New legislation

New South Wales

Nil

Commonwealth

Nil

4. Subordinate legislation, codes and determinations

New South Wales

The *Electricity Supply (Corrosion Protection) Regulation 2008* commenced on 1 September 2008. The regulation remade the existing *Electricity Supply (Corrosion Protection) Regulation 2003* with minor amendments.

The *Electricity Supply (Safety and Network Management) Regulation 2008* commenced on 1 September 2008. The regulation remade the existing *Electricity Supply (Safety and Network Management) Regulation 2002* with some changes.

The *Environmental Planning and Assessment Amendment Regulation 2000* was amended by the following regulations:

- The *Environmental Planning and Assessment Amendment (Complying Development) Regulation 2009* commenced on 27 February 2009. It amended procedures that relate to the application, notification and determination process for complying development certificates
- The *Environmental Planning and Assessment Amendment (Inspections and Penalty Notices) Regulation 2009* commenced on 2 March 2009. It amended requirements for development involving excavation. This included prescribing development consent conditions (including for complying development certificates), prescribing required records and timeframes and providing for penalty notices to be issued for certain offences
- The *Environmental Planning and Assessment Amendment (Complying Development Certificates) Regulation 2009* commenced on 5 June 2009. It further amended notification process for complying development certificates.

The *Protection of the Environment Operations (General) Regulation 2009* commenced on 30 June 2009 (with the exception of Schedule 9, which commences on 1 June 2012). The regulation consolidated (with some changes) and remade the *Protection of the Environment Operations (General) Regulation 1998*, *Protection of the Environment Operations (Penalty Notices) Regulation 2004* and the *Protection of the Environment Operations (Savings and Transitional) Regulation 1998*.

The *Protection of the Environment Operations Amendment (Miscellaneous) Regulation 2009* had a staggered commencement between the end of May and 30 June 2009. The Amendment Regulation amended the *Protection of the Environment Operations Act 1997*, the *Protection of the Environment Operations (General) Regulation 1998*, and other related regulations. These amendments concern environmental protection licences, treatment of contaminated groundwater, clarifying the circumstances in which a licence is required for certain processes, increasing fees, and providing additional requirements in relation to the transport of waste.

Commonwealth

The *National Greenhouse and Energy Reporting Regulations 2008* commenced on 1 July 2008. The regulations detailed and clarified existing administrative requirements and reporting obligations under the *National Greenhouse and Energy Reporting Act 2007* such as:

- Reporting thresholds
- Definitions for important concepts including 'facility', 'energy', and 'greenhouse gas emissions'
- Rules for nominating a responsible entity for joint ventures
- Registration and de-registration requirements
- Matters for inclusion in a corporation's report.

The *National Greenhouse and Energy Reporting (Measurement) Determination 2008* commenced on 1 July 2008. The Measurement Determination contained methodologies for estimating a corporation's greenhouse gas emissions, energy production and energy consumption.

The *Renewable Energy (Electricity) Amendment Regulations 2008* commenced on 19 December 2008. The Amendment Regulations amended the Renewable Energy (Electricity) Regulations 2001 to specify the Renewable Power Percentage for 2009, which was to be 3.64% (an increase from 3.14% in 2008).

The *Corporations Amendment Regulations 2009* (No. 4) commenced on 2 May 2009. The regulations amended the *Corporations Regulations 2001* to improve the operation of financial services and market regulatory policy. Among other things, the amendment provided for the licensing of clearing and settlement facilities.

The *Energy Efficiency Opportunities Amendment Regulations 2009* (No 1) commenced on 23 June 2009. The Amendment Regulations amended the Energy Efficiency Opportunities Regulations 2006 to extend the period of the current exemption of electricity generators and electricity and natural gas transmitters and distributors from obligations under the Energy Efficiency Opportunities Legislation.

National Electricity Rules

The *National Electricity Rules (Rules)* govern the operation of the National Electricity Market. The Rules have the force of law and are made under the National Electricity Law. During the current financial year the following instruments made amendments to the Rules which materially impacted on Integral Energy:

- *National Electricity Amendment (NEM Reliability Settings: Information, Safety Net and Directions) Rule No. 6* commenced on 1 July 2008. The Rule Change introduced the Energy Adequacy Assessment Projection and the Reliability and Emergency Reserve Trader (replacing the existing reserve trader arrangements). It also extends NEMMCO's powers to make reliability directions.
- *National Electricity amendment (Setting VoLL Following the Shedding of Interruptible Load) Rule 2008 No. 12* commenced 20 November 2008. The Rule change removed NEMMCO's obligation to set the dispatch prices equal to the value of lost load (VoLL) following automatic load shedding.
- *National Electricity Amendment (Reclassification of Contingency Events) Rule 2008 No. 8* commenced on 23 October 2008. The Rule Change required NEMMCO to develop and apply pre-determined risk assessment criteria when considering whether to re-classify a contingency event and also required that market participants be provided with improved information about potential and actual reclassifications of contingency events.
- *National Electricity Amendment (Registration Changes for Traders, Reallocators, and Transfer of Registration) Rule 2008* No. 15 commenced on 1 January 2009. The Rule Change included additional and explicit eligibility requirements for persons applying to be a Trader or Reallocator in the National Electricity Market. It also adopted changes to facilitate transfer of registration of registered facilities to a new owner.
- *National Electricity Amendment (Compensation Arrangements Under Administered Pricing) Rule 2008 No. 17* commenced on 1 January 2009. The Rule change amended the process used to calculate compensation following the application of an administered price cap, market suspension event, VoLL, or market floor price.
- *National Electricity Amendment (Confidentiality Arrangements in Respect of Information Required for Power System Studies) Rule 2009 No. 4* commenced on 27 February 2009. The Rule change affected the sharing of confidential information between registered participants, NEMMCO and network service providers.
- The *National Electricity Amendment (WACC Reviews: Extension of Time) Rule 2009 No. 6* commenced on 31 March 2009. The Rule change provided an extension for the AER's first Weighted Average Cost of Capital (WACC) Review and for the submission of regulatory proposals by Distribution Network Service Providers in South Australia and Queensland.
- The *National Electricity Amendment (NEM Reliability Settings: VoLL, CPT and Future Reliability Review) Rule 2009 No. 13* commenced on 28 May 2009. The Rule change increased the level of VoLL and the Cumulative Price Threshold.

5. Significant judicial decisions

Integral Energy is unaware of any significant judicial decisions during the financial year ending 30 June 2009 that have affected or may affect it in its capacity as an energy services corporation or affect the users of its services in their capacity as customers of an energy services corporation.

6. Significant legislation enacted but commencing next financial year

NSW

Amendments to Electricity Supply Act 1995 (NSW)

The *Electricity Supply Amendment (Energy Savings) Act 2009* amends the *Electricity Supply Act 1995* from 1 July 2009 by establishing the NSW Energy Savings Scheme (NESS). The NESS aims to lower electricity consumption by encouraging energy saving activities.

The Amendment Act adds a new Part 9 'Energy Savings Scheme' to the *Electricity Supply Act 1995* and makes consequential amendments to Part 8A of the Act relating to the Greenhouse Gas Abatement Scheme (GGAS). (The two schemes will work side by side until, as presently anticipated, the latter is repealed by the CPRS Scheme on 30 June 2011).

From 1 July 2009, scheme participants including Integral Energy will need to meet individual energy savings targets for each year by surrendering energy savings certificates. They will also need to lodge an annual energy savings statement with the Scheme Regulator with an assessment of their individual energy savings target for the year and the energy savings certificates they propose to surrender to meet that target. An energy savings shortfall penalty is payable if a scheme participant fails to meet its individual energy savings target.

An energy savings certificate is a tradeable certificate which may be created by an accredited person carrying out a 'recognised energy saving activity'. One certificate represents one tonne of carbon dioxide equivalent of greenhouse gas emissions saved by that activity.

Transitional arrangements apply for accreditation and other issues that are currently covered by GGAS. For example, certificates may not be created in relation to energy savings already claimed under GGAS. The NESS also includes provision for the Minister to grant exemptions to industries or activities that are both trade-exposed and emissions-intensive.

The *Energy Legislation Amendment (Infrastructure Protection) Act 2009* was assented to on 9 June 2009 and will commence on a date yet to be proclaimed. The Act amends both the *Electricity Supply Act* and the Gas Supply Act to give network operators greater protection in respect of persons carrying out work, particularly excavation work, near electricity and gas infrastructure.

The *National Electricity (South Australia) (National Electricity Law – Australian Energy Market Operator) Amendment Act 2009* of South Australia was proclaimed on 24 June 2009 and commenced on 1 July 2009. The Amendment Act amended the *National Electricity (South Australia) Act 1996* and the National Electricity Law, including substituting references to NEMMCO with references to AEMO (Australian Energy Market Operator), setting out the role and functions of AEMO under National Electricity Law and clarifying the powers of the AER. The *National Electricity (Australian Energy Market Operator) Amendment Rules 2009* also commenced on 1 July 2009. These changes applied automatically in New South Wales by virtue of the *National Electricity (New South Wales) Act 1997*.

Commonwealth

The *National Greenhouse and Energy Reporting Amendment Regulations 2009* amend the *National Greenhouse and Energy Reporting Regulations 2008* to support changes made to the *National Greenhouse and Energy Reporting Act 2007* by the *National Greenhouse and Energy Reporting Amendment Act 2008* and clarify certain administrative matters. The regulations were registered on 26 February 2009 but do not commence until the commencement of item 1 of Schedule 1 to the *National Greenhouse and Energy Reporting Amendment Act 2008*, which at 1 July 2009 was yet to be proclaimed.

The *Fair Work Act 2009* was assented to on 7 April 2009. Certain minor administrative provisions commenced on 26 May 2009, but most provisions will have a commencement date of either 1 July 2009 or 1 January 2010. The Act establishes the Rudd Government's new workplace relations system and will completely replace the *Workplace Relations Act 1996* (Cth). The Act, among other things:

- Creates a new institutional framework for workplace relations through the creation of Fair Work Australia
- Provides a minimum safety net for employees through the new National Employment Standards
- Provides for a shift back to collective bargaining and the use of enterprise agreements, as well as creating a requirement to bargain in good faith
- Provides for greater union involvement in the collective bargaining process and increased union rights of entry
- Narrows the test for "genuine redundancies" making it more difficult to make employees redundant
- Provides for all employees to be covered by unfair dismissal laws.

The *Fair Work Act 2009* is supported by the *Fair Work Regulations 2009* which commenced on 1 July 2009, except for Parts 2-2 and 6-3 which commence on 1 January 2010.

As discussed earlier, although the *Australian Energy Market Amendment (AEMO and Other Measures) Act 2009* was assented to on 26 March 2009, not all provisions have commenced. Items 7 to 11 and item 13 of Schedule 1 (which deal with the substitution of references to NEMMCO with references to AEMO) were due to commence on the earlier of either a day to be fixed by Proclamation or 26 September 2009.

The *Renewable Energy (Electricity) Amendment Regulations 2009 (No. 1)* amend the *Renewable Energy (Electricity) Regulations 2001* to replace references to NEMMCO with references to AEMO as a result of the establishment of AEMO. The regulations were made on 25 June 2009 but do not commence until the day on which items 7 to 11 of Schedule 1 to the *Australian Energy Market Amendment (AEMO and Other Measures) Act 2009* commence (see above).

The *Trade Practices Amendment Regulations 2009 (No. 2)* were also made on 25 June 2009 and make similar amendments to the *Trade Practices Regulations 1974*. The regulations will commence on the day that item 13 of Schedule 1 to the *Australian Energy Market Amendment (AEMO and other Measures) Act 2009* commences (see above).

Location addresses, phone numbers and hours of operation

Main office
51 Huntingwood Drive
Huntingwood NSW 2148
PO Box 6366, Blacktown NSW 2148

Bowenfels Field Support Centre
9–13 Cooerwull Road
Bowenfels NSW 2790

Coniston Office
Corner of Bridge Street and
Old Springhill Road
Coniston NSW 2500

Glendenning Central Logistics Facility
49 Glendenning Road
Glendenning NSW 2761

Glendenning Civil Works Centre
15 Belfast Place
Glendenning NSW 2761

Glendenning Field Support Centre
43 Glendenning Road
Glendenning NSW 2761

Hoxton Park Field Support Centre
490 Hoxton Park Road
Hoxton Park NSW 2171

Kandos Field Support Centre
16 White Crescent
Kandos NSW 2848

Katoomba Field Support Centre
27–29 Whitton Street
Katoomba NSW 2780

Kings Park Field Support Centre
10 Tasha Place
Kings Park NSW 2148

Moss Vale Field Support Centre
8–10 Old Dairy Close
Moss Vale NSW 2577

Narellan Field Support Centre
17 McPherson Road
Smeaton Grange NSW 2567

Nowra Field Support Centre
20 Depot Road
West Nowra NSW 2541

Parramatta Field Support Centre
84–86 Macarthur Street
Parramatta NSW 2150

Penrith Field Support Centre
96–120 Blaikie Road
Jamisontown NSW 2750

Picton Field Support Centre
94 Bridge Street
Picton NSW 2571

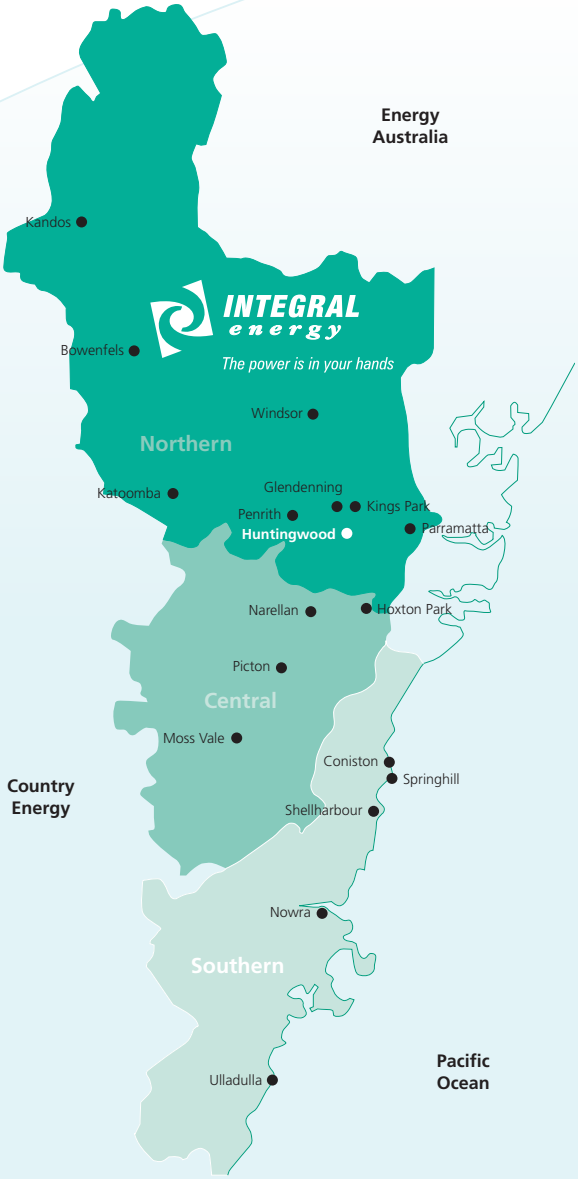
Shellharbour Field Support Centre
Buckleys Road
Shell Cove NSW 2529

South Windsor Field Support Centre
Corner Ham Street and Fairey Street
South Winsor NSW 2756

Springhill Field Support Centre
191–195 Five Island Road
Unanderra NSW 2526

Ulladulla Field Support Centre
18 Deering Street
Ulladulla NSW 2539

Location of operations



Contact details

Emergencies, streetlights out, hot water hotline
Tel: 131 003 (24 hours)

Customer Service
Tel: 131 002 (24 hours)

Account enquiries
Residential customers Tel: 131 002.

Business customers Tel: 1300 136 335 for the INbusiness Solutions team

(8.00am–6.00pm Monday to Friday)

Credit card payments
1300 361 104 (24 hours)

Head Office enquiries
Tel: 131 081 or (02) 9853 6666

(8.00am – 5:30pm Monday to Friday)

Fax: (02) 9853 6000

Email: integral@integral.com.au

Website: www.integral.com.au

Ethics hotline
1800 ETHICS (384 427)

AER	Australian Energy Regulator
AFSL	Australian Financial Services Licence
AIFRS	Australian equivalents to International Financial Reporting Standards
ARSBA	Annual Reports (Statutory Bodies) Act 1984
ARSBR	Annual Reports (Statutory Bodies) Regulation 1995
ASPs	accredited service providers
bund	area protected by a low wall to prevent the spread of dangerous liquids being stored or processed
CAD	computer aided design
CAPEX	capital expenditure
CBD	central business district
CEO	Chief Executive Officer
CSIRO	Commonwealth Scientific and Industrial Research Organisation
CO_2e (carbon dioxide equivalent)	units used to describe global warming potential of all greenhouse gases, e.g. carbon dioxide, nitrous oxide, methane, carbon monoxide
Cth	Commonwealth
EBIT	earnings before interest and tax
EBITDA	earnings before interest, tax, depreciation and amortisation
EEO	equal employment opportunity
EISS	Energy Industries Superannuation Scheme
esaa	Energy Supply Association of Australia
FBT	fringe benefit tax
FOI Act	Freedom of Information Act 1989 (NSW)
GAAP	Financials
GIS	Geographic Information System (database of all physical assets)
GWh	gigawatt hour
GST	goods and services tax
ICAC	Independent Commission Against Corruption
INgreen	a range of Green Power accredited products, launched by Integral Energy in February 2006
INpower	an Integral Energy program to assist customers facing financial hardship to pay for their electricity consumption
IPART	Independent Pricing and Regulatory Tribunal
ISDA	International Swaps and Derivatives Agreement
ISO	International Organization for Standardization
KPIs	key performance indicators
kV	kilovolt
kVA	kilovolt ampere
kWh	kilowatt hour
LPG	liquefied petroleum gas
LTI	lost-time injury
MVA	megavolt ampere
MWh	megawatt hour
NEM	National Electricity Market
NEMMCO	National Electricity Market Management Company Limited
NGAC	NSW Greenhouse Abatement Certificates
NPAT	net profit after tax including capital contributions
NSW	New South Wales
ODRC	optimised depreciated replacement cost
OHS	occupational health and safety
OPEX	operating expenditure
PCBs	polychlorinated biphenyls
PF&AA	Public Finance and Audit Act 1983
PPA	power purchase agreement
SAIDI	system average interruption duration index
SAMP	Strategic Asset Management Plan
SCI	Statement of Corporate Intent
SENI	serious electrical network incident
TOU	time of use
TSA	Transition Services Agreement

8 Index


INTEGRAL
energy
The power is in your hands