
NEW SOUTH WALES
STATE OWNED CORPORATIONS

STATEMENT OF CORPORATE INTENT

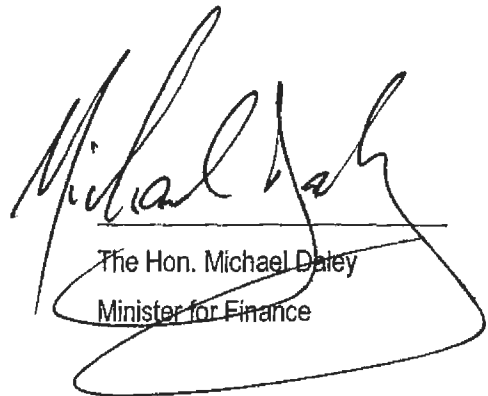
YEAR ENDING 30 JUNE 2010

EnergyAustralia

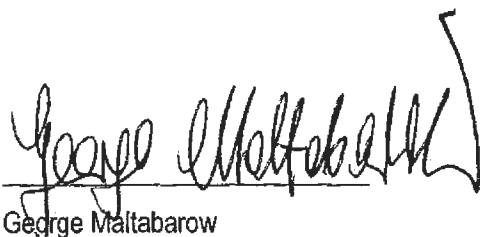
This Statement of Corporate Intent has been agreed between:



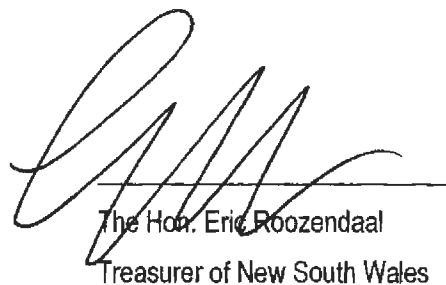
John C. Conde AO
Chairman of EnergyAustralia
On behalf of the Board of EnergyAustralia



The Hon. Michael Daley
Minister for Finance



George Maltabarow
Managing Director



The Hon. Eric Roozendaal
Treasurer of New South Wales

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Statement of Corporate Intent 2009/10

The Board of EnergyAustralia proposes this agreement with the Shareholding Ministers for EnergyAustralia's commercial objectives for 2009/10.

Nature and scope of operations

EnergyAustralia is a New South Wales (NSW) State Owned Corporation constituted under the Energy Services Corporations Act 1995. We hold, and operate within the requirements of, a NSW Electricity Distribution Network Service Provider Licence issued under the Electricity Supply Act 1995. Our electricity network covers 22,275 square kilometres from Waterfall, in Sydney's South, to Auburn in Western Sydney, and the upper Hunter Valley in the North. We provide more than 30,000GWh¹ of electricity to 1.6 million network connections with over 5,000 full time employees.

In accordance with NSW Treasury requirements the 2009/10 Statement of Corporate Intent is based on the Network distribution business only. i.e excluding Retail business contribution from 2009/10 and forward years.

Main Undertakings

Our main undertakings are to establish, maintain and operate facilities for the distribution of electricity.

Our operations include:

- Asset ownership and management, including the electricity transmission and distribution networks within our licence area.
- Leveraging core capabilities in the areas of energy-related products and services.
- Delivery of retail operations under revenue neutral cost recovery basis Transitional Service Agreements.

No substantive change in scope will be undertaken without prior agreement of the shareholders.

Objectives of the corporation

EnergyAustralia will become Australia's energy provider of choice because our network is safe and reliable; our customers value our service; our staff are proud to work here and our community recognises our values, our contribution, our citizenship and our achievements.

¹ GWh (gigawatt hour) = one million kilowatt hours

Strategic direction

Network Investment

EnergyAustralia plans to deliver the investments, operations and strategic initiatives as described in our Regulatory Proposal submitted in June 2008, and revised in February 2009. The proposed network investment plans for 2009-2014 have been accepted by the Australian Energy Regulator (AER) and investment has increased significantly compared to the previous regulatory period. In the three financial years of this SCI, 2009/10 to 2011/12, the total network system capital expenditure is \$4.3 billion, including expenditure of \$1.1 billion in 2009/10. This is 40% above the investment in the previous three years. (Refer to Appendix 1 for details).

Our objectives for the capital program are to:

- increase the capacity of the network and improve network performance to meet the mandatory Design, Reliability and Performance licence conditions set by the NSW Government
- meet increasing duty of care and community obligations, with improved standards for safety of our staff and our community and protecting the environment around our network infrastructure
- modernise our communications and control systems to integrate new technologies and build an "intelligent" network for improved reliability
- enhance our information technology systems to support network, asset and customer management initiatives.

Worker and Community Safety

EnergyAustralia's highest priority is safety. After achieving a leading position in 2005, our performance has plateaued in comparison to peer organisations. Our objectives for safety are to improve public safety measured by fewer incidents arising from contact with the network, reduce worker injuries and their severity and achieve best practice safety performance.

Leverage innovation

EnergyAustralia is at the forefront of the implementation of smart metering and "SmartGrid" technologies including new communications, monitoring and control infrastructure. These technologies will improve reliability, enable new customer products and empower connection of small, local generation. This means changing network operations and design and new asset management strategies.

Performance Management

EnergyAustralia restructured the business operations in 2008/09 and upgraded the SAP architecture of our management system. In 2009/10, capability building initiatives include improving our regulatory strategies, project management and leadership skills and improvements to parts of our management systems.

EnergyAustralia is also driving productivity improvements and efficiency to achieve the Government's Wages Policy undertakings and deliver better than regulated returns.

Build the Foundation for the Future

EnergyAustralia has initiated a strategic program to develop the products, services and network enabling technologies that will be required by our customers in the future, building on our expertise in energy efficiency advice and services.

Business risk management for 2009/10

Significant emerging risks arise for the shareholders' investment in EnergyAustralia from:

Regulatory return

The AER released its final determination in April 2009, which to a large extent accepted EnergyAustralia's proposal. However, EnergyAustralia applied for a merit review of some of the AER's decisions.

On 12 November 2009, the Australian Competition Tribunal released its decision in relation to EnergyAustralia's application for a 'merits review' of the AER's regulatory determination. As a result, EnergyAustralia's revenues for standard control services over the 2009-14 regulatory period will increase by approximately \$777m (unsmoothed) or \$818.4m (smoothed). That is, \$773m associated with the risk free rate and the debt risk premium, and \$4m for the 'Finance and Commercial – Business Systems' step change.

Network Reliability

The Design, Reliability and Performance licence conditions include System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI) reliability standards by feeder type (CBD, Urban, Short Rural, Long Rural).

Due to a number of significant events during 2008/09, EnergyAustralia did not meet the Design, Reliability and Performance licence conditions in urban feeder SAIDI and the CBD feeder SAIFI.

It is inevitable that carrying out a large amount of capital work, for both replacement and new capacity projects, increases the likelihood of outages on the network. The high load period has extended in recent years from four months to eight months, leaving only a short period for work without increasing risk. This risk can be mitigated to some extent but cannot be eliminated from the work program. The operation, maintenance and capital plans are being managed in accordance with our Network Management Plan and our commitment to safety, asset protection and reliability. We have targeted programs to improve reliability and to respond to the poor performance in Urban and CBD reliability.

Carbon Pollution Reduction Scheme

The energy industry will be impacted by the introduction of a carbon trading scheme proposed for July 2011. The legislative framework, targets and cost of carbon certificates are not decided at the time of writing.

This SCI assumes that the costs of obligations are able to be passed through to consumers. The costs of compliance and reporting obligations are uncertain and not included within this SCI.

Recent National Electricity Market reviews have highlighted that the CPRS introduction will add risks to system operations, including the risk of potentially tight supply balances, and the likelihood of more investment in networks and changes to connection arrangements. These are not reflected in this SCI.

NSW Government electricity industry reform program

EnergyAustralia is continuing to work with NSW Treasury regarding electricity industry reform in New South Wales. This includes maintaining a level of readiness for Transitional Service Agreements and management of separation processes. The Retail business contribution has been excluded from 2009/10 and forward years consistent with NSW Treasury Guidelines.

Performance targets

The financial forecasts contained in this draft SCI assume no change to the existing capital structure. EnergyAustralia will maintain a target dividend equal to 70% of 2009/10 adjusted net profit after tax (NPAT). In addition, a special fixed dividend of \$7.3m is included in this SCI.

EnergyAustralia has commissioned an independent review of its capital structure. The outcome of this review indicates that while an investment grade credit rating is expected to be maintained, a credit rating downgrade would be likely if the current capital structure is maintained. A copy of this review has been provided to Treasury for consideration of the recommendations.

Commercial performance targets

For comparative purposes, the 2008/09 results are compared to the SCI & Retail Business Plan targets. All SCI performance targets (2008/09 to 2011/12) exclude Retail as per NSW Treasury instructions.

		SCI	SCI+RBP	Actual	Forecast		
		2008/09	2008/09	2008/09	2009/10	2010/11	2011/12
EBITDA	\$m	733.6	800.9	879.8	981.0	1,252.4	1,548.1
EBIT (Excluding Retail)	\$m	438.2	438.2	479.8	634.6	865.4	1,127.1
Retail EBIT contribution	\$m	-	50.5	116.2			
Operating Profit Before Tax	\$m	114.0	158.3	330.7	187.5	311.0	487.7
Operating Profit After Tax	\$m	79.7	110.4	231.3	130.2	215.8	339.5
Target Dividend Payout Ratio		70.0%	70.0%	70.0%	70.0%	70.0%	70.0%
Return on assets	%	5.3%	5.8%	7.1%	6.8%	8.4%	9.5%
Return on equity	%	4.1%	5.6%	12.4%	7.6%	13.0%	19.5%

(SCI+RBP) = Statement of Corporate Intent plus Retail Business Plan

Distributions target

There is a \$182.2 million increase in 2008/09 total distributions compared to the 2008/09 SCI due to the inclusion of tax equivalent payments from the Retail business which were excluded from the SCI and forward years consistent with NSW Treasury direction.

The 2009/10 distribution from operations are less than 2009/10 forecast submitted in the 2008/09 SCI, largely reflecting the final AER Determination outcomes of lower WACC and smoothed pricing.

Unrealised gains or losses on financial instruments and superannuation resulting from accounting standards AASB 139 and AASB 119 are excluded from adjusted net profit after tax when calculating the dividend, in accordance with Treasury's Impact of AEFIRS² on Financial Distribution Policy document.

		SCI	SCI+RBP	Actual	Forecast		
		2008/09	2008/09	2008/09	2009/10	2010/11	2011/12
Income tax expense	\$m	34.3	47.9	99.4	57.3	95.2	148.2
Additional Dividend	\$m	-	-	-	7.3		
Dividend expense	\$m	55.8	55.8	173.0	91.1	151.0	237.6
Total distributions	\$m	90.1	103.7	272.3	155.7	246.2	385.9

(SCI+RBP) = Statement of Corporate Intent plus Retail Business Plan

Note: 2009/10 includes a fixed Additional Dividend of \$7.3m in addition to the target dividend payout ratio of 70% of adjusted NPAT

² AEFIRS – Australian Equivalent International Financial Reporting Standards

Operating performance targets

EnergyAustralia's Scorecard targets are shown in Appendix 2 as at September 2009. These targets do not include the revised EBIT and system capital expenditure targets resulting from the outcomes of the AER merits review, rephrasing of capital and Government Guarantee Fee. The key result areas are:

- Workplace
- Community
- Marketplace
- Operational Excellence
- Performance Reporting
- Environment

Financial asset and liability management

EnergyAustralia maintains short-term overdraft facilities of up to \$450 million from T-Corp for working capital purposes, in particular, to cover NEMMCO funding in extreme pool price circumstances and \$42 million from CBA to provide funding for very short term working capital requirements. Other facilities are a WorkCover guarantee in order to maintain a self-insurer's licence, and bank guarantees in favour of NEMMCO and VENCORP in order for EnergyAustralia to be a market participant.

EnergyAustralia has an approved 2009/10 debt facility of \$6,300 million with T-Corp. EnergyAustralia measures debt performance against a neutral benchmark portfolio of T-Corp stocks. EnergyAustralia is progressively lengthening the duration of the debt portfolio from the previous benchmark of 3.4 years and is also including the use of inflation linked debt.

Any breaches of the EnergyAustralia Board's Treasury Management Policy are required to be reported to the EnergyAustralia Board.

Representation and commitment statement

The Board of EnergyAustralia confirms the following:

- The performance targets within the SCI are based on and supported by the Corporation's Business Plan.
- EnergyAustralia's Network Management plan and supporting plans are as far as practicable consistent with the principles of the Total Asset Management (TAM) requirements for updating the NSW State Infrastructure Strategy (SIS) Policy issued by NSW Treasury (TPP 08-02) and the NSW Government Procurement Policy (TPP 04-1). Our asset maintenance policies and processes are adequate and appropriate to manage and control risks associated with physical assets.
- EnergyAustralia is aware of the requirements of *Ministerial Memorandum No. 2005-9, Major Infrastructure Coordination and Delivery* and will comply with these requirements if not contrary to the objectives of EnergyAustralia.
- Where relevant and applicable to EnergyAustralia, Projects of State Significance have been identified in accordance with the criteria set down in the *Guidelines for Assessment of Projects of State Significance*. In-principle approval from Cabinet Standing Committee on the Budget ("Budget Committee") and final approval from the Voting Shareholders has been received for Projects of State Significance planned to commence in 2008/09.
- The requirements of the *Financial Appraisal Guidelines* have been complied with for capital expenditure projects proposed to commence in 2009/10.
- All known 'key risks' and 'major emerging contingent liabilities' which could materially impact the current and future results of EnergyAustralia have been disclosed.

- EnergyAustralia is aware of the internal audit and risk management policy and regulatory framework outlined in *Performance Review: Internal Audit Capacity in NSW Public Sector (Final Report)* and has demonstrated practices consistent with the framework requirements.
- The requirements of the *Treasury Management Policy* have been complied with and related party interests, which may represent a possible conflict of interest for Directors have been disclosed.
- EnergyAustralia will comply with the requirements of Premier's Memorandum No 2007-12, *NSW Public Sector Wages Policy 2007*. With respect to the past negotiation of the current award/enterprise agreements, EnergyAustralia confirms that any identified negotiated employee related cost savings, reforms and operating efficiencies will continue to be pursued. The Board will report to shareholder Ministers on progress in achieving such savings as part of its quarterly reporting and continuous disclosure obligations.
- The performance targets within the SCI are inclusive of any 2008/09 Mini-Budget decisions excluding the sale of Head Office Building due to unfavourable market conditions.
- EnergyAustralia has policies and practices in place that are consistent with the requirements of Premier's Memorandum No. 2008-21 *Filling and Advertising of Public Sector Vacancies*.
- EnergyAustralia has policies and practices in place that are consistent with the requirements of Premier's Memorandum No.2009-04 on *Air Travel Policy*.
- EnergyAustralia will comply with the requirements of Premier's Memorandum No 2005-14, *Working Together: Public Sector OHS and Injury Management Strategy 2005-2008*.
- EnergyAustralia's Chief Executive Officer has an employment contract and performance agreement. The employment contract is appraised annually with the next appraisal scheduled for September 2009.
- EnergyAustralia's Board agrees to provide the Voting Shareholders with financial and other information, including information on major capital expenditure projects, on a quarterly basis to assess the performance against commitments in this SCI and to assess the value of the Shareholders' investment in the business.
- EnergyAustralia's Board agrees to comply with Section 3.4 (Continuous Disclosure) of the *Reporting and Monitoring Policy*.
- EnergyAustralia will comply with Treasury Circulars on accounting policy matters in accordance with Attachment 1 of the *Guidelines for the Development of the 2008-09 Statement of Corporate Intent*.

Reporting

- The Board will ensure forecast financial statements, Treasury Online Electronic System reporting, and forecasts of financial distributions and tax equivalents requested by Treasury (budget round forecasts) are incorporated into the quarterly reporting framework and are provided in accordance with Treasury timetables.
- The Board will submit a complete 2nd Quarter Report to December 2009 in lieu of a Half Yearly Commercial in confidence report.

Appendices

1 EnergyAustralia funded capital expenditure (\$millions)

	SCI	Actual	Forecast		
	2008/09	2008/09	2009/10	2010/11	2011/12
System expenditure					
Area Plans	385.9	452.6	533.8	702.6	777.6
Replacement Plan	112.1	160.4	211.4	293.0	370.2
11kV and LV Network Plans	98.9	114.8	127.0	151.2	178.7
Support Plan (incl. Property)	138.1	143.5	81.4	143.6	93.6
Operational Technology Plan (incl. AML)	26.5	34.0	26.2	17.6	27.0
Customer Connections Plan	55.5	65.5	72.0	88.0	103.0
Duty of Care Plan	25.3	29.0	56.1	54.7	56.4
Network performance (incl. reliability standards)		7.2			
Metering Plan	23.5	18.9	17.3	17.9	18.6
Street Lighting Plan	16.7	17.5	14.0	14.6	15.0
Total system	882.5	1,043.4	1,139.1	1,483.2	1,640.1
Non-system expenditure					
IT	76.4	118.4	75.0	75.0	51.3
Admin land & Buildings	92.0	83.0	102.0	86.8	30.5
Mobile Plant	29.3	30.5	27.2	25.0	20.8
Contestable Meters	3.6	3.8	3.7	3.9	4.0
Other	7.9	11.4	13.4	11.1	11.3
Total non-system	209.2	247.1	221.3	201.7	117.9
Total capital investment	1,091.7	1,290.7	1,360.4	1,685.0	1,758.0
Borrowings	910.6	893.1	1,157.6	1,374.2	1,237.4
Internal funding	181.0	397.5	202.8	310.8	520.7
Total capital investment - 2008/09 SCI	998.3	1,091.7	1,666.4	1,741.1	2,031.3
Variance 2008/09 to 2009/10 SCI	0.0	199.0	-306.0	-56.1	-273.2

2 2009/10 Our Scorecard



Our Scorecard 2009/10

OUR PURPOSE: To be Australia's energy provider of choice



EnergyAustralia

We will be Australia's first choice because:

- Our network is safe and reliable
- Our customers value our service
- Our staff are proud to work here
- Our community recognises our values, our contribution, our citizenship and our achievements

Our Values

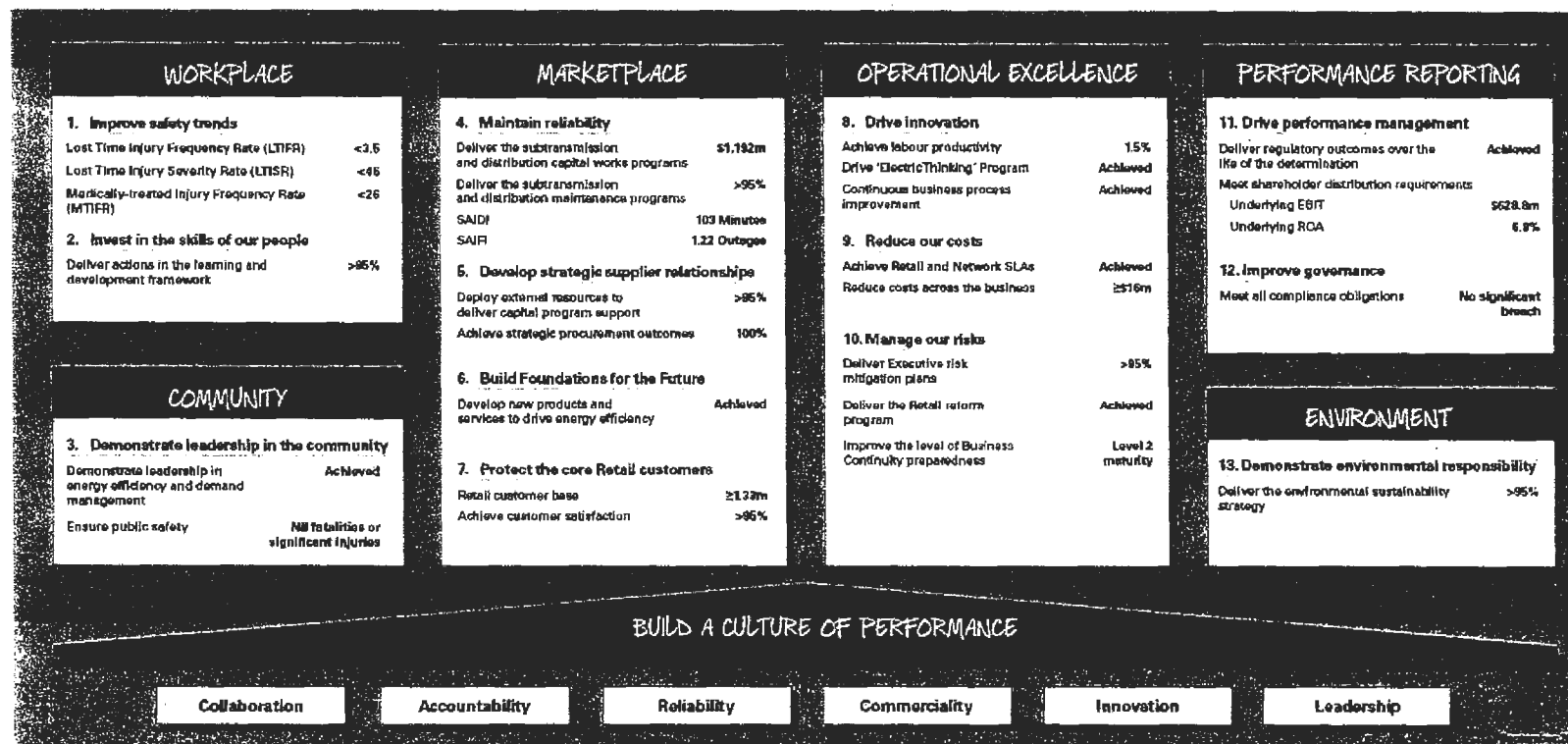
We are committed to:

- Safety
- Integrity
- Reliability
- Respect for our people, community and environment
- Commercial success

Our Goals

We will strive to be by 2014:

- Australia's safest network
- Australia's most reliable network
- Australia's most respected energy services provider



The system capital and EBIT targets have been adjusted to \$1,139m and \$635m respectively following the outcomes of the AER merits review, rephrasing of capital and Government Guarantee Fee