

ANNUAL PERFORMANCE REPORT 2004-2005

we're growing to serve you better

05



# Annual Report 2005

31 October 2005

The Hon Morris Iemma MP  
Premier, Treasurer and Minister for Citizenship  
Level 40, Governor Macquarie Tower  
1 Farrer Place  
Sydney NSW 2000

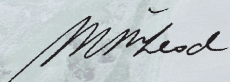
Dear Premier

## Report of performance for the year ended 30 June 2005

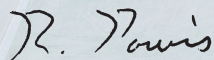
This report covers Integral Energy's performance, operations and statement of accounts for the year ended 30 June 2005, in accordance with the provisions of the *Annual Reports (Statutory Bodies) Act 1984* and the principles of the Global Reporting Initiative, and is submitted on behalf of the Board of Integral Energy for tabling in Parliament.

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

Sincerely



**Michael McLeod**  
Chairman



**Richard Powis**  
Chief Executive Officer

1997



*Were growing to serve you better. The use of electricity is fundamental to our society's modern lifestyle. Integral Energy is servicing some of Australia's fastest growing communities and businesses by investing \$1.2 billion in the electricity network over the next five years. The front cover shows dusk over the Penrith district, an important regional centre in Integral Energy's network franchise.*

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## Who we are

**Integral Energy is a state-owned energy corporation, serving some of Australia's largest and fastest growing regional economies.**

**We operate in the National Electricity Market, retailing energy and providing metering and data services to industrial and commercial customers. We also distribute electricity to more than 822,000 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.**

We are incorporated under the *Energy Services Act 1995* and conduct our business with a sharp commercial and customer focus, within the terms of the *Electricity Supply Act 1995* on behalf of our shareholder, the NSW Government.

We are a forward looking, financially disciplined energy business, committed to achieving a sustainable future for our staff, our customers and our community.

We believe in our people, which lets us look confidently to the future as **we strive to be Australia's leading energy business.**

In pursuit of this vision, we intend to build sustainable success into all facets of our operations, and have set ourselves the following mission: **to be a successful energy corporation with a long-term focus on being a best practice asset manager and competing in profitable energy markets.**

Safety excellence, integrity, customer commitment, sustainability and commercial success, respect for people, accountability and responsibility, and management by fact are the corporate values that underpin the way we work.



we're growing to serve you better

*This comparison of Parklea in 1997 and 2004 shows how communities served by Integral Energy are growing at a rapid pace when semi-rural areas are transformed into new suburbs. This transformation creates significant pressures to expand the electricity network to serve customers in more densely populated urban areas.*

# by investing \$1.2 billion in our network

## Scope of the report

**Integral Energy's continuing sustainability journey.**

This is the third year this report has integrated our annual and sustainability reports.

This report talks openly about what we did well and the areas we need to improve. It complies with the requirements of NSW Annual Reports legislation and embraces the principles of the Global Reporting Initiative (GRI).

Statutory accounts and financial information are verified by the NSW Auditor General. Environmental information is calculated according to formulas set down in the Greenhouse Challenge and utilises relevant environmental key performance indicators developed by the Energy Supply Association of Australia.

We believe we have made a promising start, but we know we have some way to go before we reach our journey's end.

Further information about Integral Energy is available at [www.integral.com.au](http://www.integral.com.au) or e-mail [integral@integral.com.au](mailto:integral@integral.com.au).

## Year at a glance

Items		2004-2005	2003-2004	% change
<b>Economic</b>				
EBITDA (including capital contributions <sup>1</sup> )	\$'000	<b>420,985</b>	384,491	9.5
Operating profit after tax	\$'000	<b>126,813</b>	102,324	23.9
Total sales of electricity	GWh	<b>9,503</b>	10,141	(6.3)
Total network customer connections		<b>822,446</b>	806,769	2.0
Reliability (unplanned interruptions to supply)	Min. lost/cust	<b>86.3</b>	116.7	26.0
Customer Service Indicator	%	<b>78.0</b>	56.0	39.3
Sales revenue	\$'000	<b>1,185,429</b>	1,166,695	1.6
Capital expenditure	\$'000	<b>256,811</b>	224,757	14.3
Net assets	\$'000	<b>1,123,139</b>	1,065,486	5.4
Return on net operating assets	%	<b>9.6</b>	9.2	4.3
Return on equity	%	<b>11.6</b>	9.8	18.4
Returns to NSW Government				
Dividend	\$'000	<b>114,132</b>	102,324	11.5
Income tax equivalents	\$'000	<b>64,590</b>	61,817	4.5
Qualified credit rating Standard & Poor's		<b>AA</b>	AA	

<sup>1</sup> Assets built at customer expense then passed to Integral Energy.

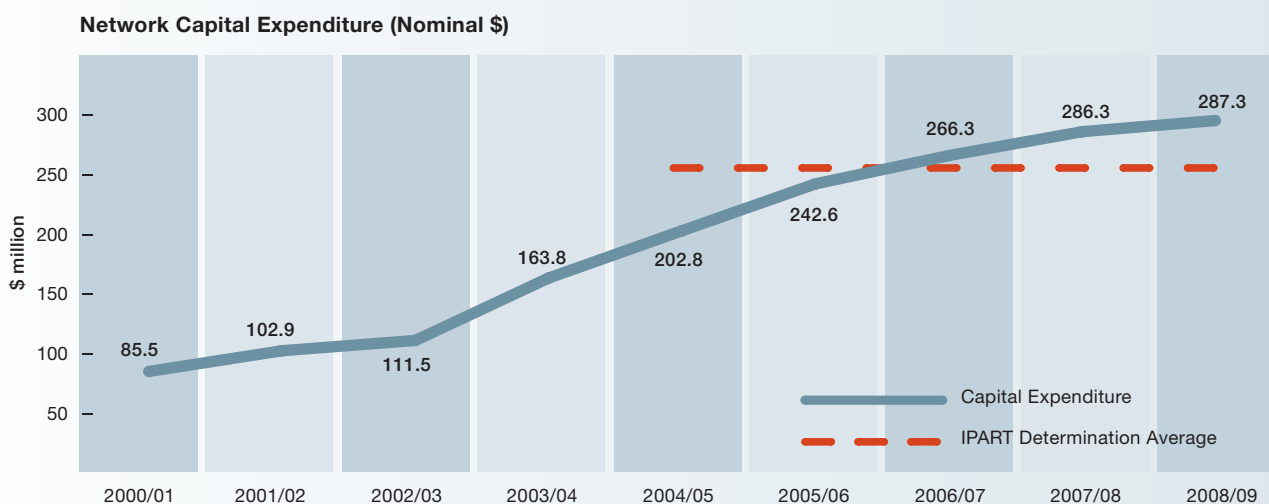
## Environmental

Energy purchased from alternative sources	%	<b>15.0</b>	15.8	(5.1)
Transformer oil recycled	litres	<b>311,504</b>	80,000	289.4

## Social

Social programs	\$'000	<b>20,720</b>	21,238	(2.4)
Pensioner Rebates	\$'000	<b>20,004</b>	20,542	(2.6)
Life Support Equipment Rebate	\$'000	<b>715</b>	696	2.7
Energy Accounts Payment Assistance (EAPA)	\$'000	<b>2,876</b>	3,021	(4.8)
Total employees		<b>2,298</b>	2,176	5.6
Lost time accidents frequency rate – per million hours worked		<b>6.3</b>	7.2	12.5
Absenteeism per employee	Days/year	<b>6.3</b>	6.1	(3.3)

## Historic and planned capital expenditure



Planned expenditure is illustrated in the chart above. Expenditure figures shown are inclusive of public lighting capital expenditure (which averages \$3.2 million per annum).

The chart also illustrates the significant increase in expenditure compared with the previous regulatory period.

## Chairman and CEO's Report

Integral Energy is proud to support some of Australia's fastest growing communities and businesses. Across Sydney's Greater West and the Illawarra, expanses of rural land are being transformed into residential estates housing thousands of families. Similarly, many large businesses are relocating their operations to these regions.

Only with access to safe, reliable and affordable electricity can this growth be sustained to enable these communities to flourish.

With these important developments in mind, the achievements of 2004-2005 have centred on the growth of our business through the dedication and hard work of our people.

As performance improves – and we have seen significant gains over the past five years – the expectations placed on us continue to grow. Our people have responded to

**Only with access to safe, reliable and affordable electricity can this growth be sustained to enable these communities to flourish.**

these heightened demands and expectations with renewed vigour and a commitment to great customer service.

They are to be congratulated for their efforts in achieving yet another set of strong results for this year.

### Strong financial results

Successful financial performance is essential to ensure that Integral Energy supports the growth and prosperity of the customers, communities and regional economies that we service.

Disciplined internal business processes sit at the core of Integral

Energy's improved performance over the past five years, and getting these fundamentals right has again delivered our fourth successive year of strong financial results.

The organisation posted an excellent result in 2004-2005, with earnings before interest, tax, depreciation and capital contributions, of \$355.4m compared with \$337.5m in 2003-2004.

The organisation continues to deliver value to its shareholder, the NSW Government, and returned over \$178m in dividends and tax equivalents this year. This result was achieved while undertaking a record capital spend of \$256.8m, an increase of \$32m on 2003-2004.

While this year delivered our greatest investment in growth to date, the year also highlighted the challenges we will continue to face if we are to meet the pressures of growth in coming years.

### Consultations on NSW energy policy

The security of energy supply is a critical issue for the future of New South Wales.

As the population and the economy grows, there is an increasing need to ensure that households, businesses and industry have access to a reliable, affordable, sustainable and secure electricity supply.

In 2004, the NSW Government issued its *Energy Directions Green Paper* to facilitate broad public discussion about particular aspects of energy policy, particularly in relation to providing the right incentives to

encourage greater private sector involvement in electricity generation in NSW.

As part of this process, Integral Energy placed considerable effort into contributing to the Government's consideration of these important matters.

Our submission focused on the need to encourage private sector involvement in electricity retailing as a means of underwriting future generation investment and reducing the Government's, and ultimately taxpayers, exposure to the risks of the highly volatile wholesale National Electricity Market. This approach would also address existing issues in energy retailing to realise the full value of our retail business.

We are awaiting the release of the Government's white paper in the second half of 2005 to give greater clarity on how the NSW Government intends to proceed.

### Continuing focus on safety

As our staff numbers grow, so does our need to ensure their safety and welfare while at work.

A priority across our business has been the development of a safety culture amongst all staff. Our goal is simple – to ensure that each day every employee returns home to their family without injury.

While we have again seen improvement in the frequency of Lost Time Incidents from 7.2 in 2003-2004 to 6.3 this year, and perform well against industry benchmarks, we are gearing to achieve a breakthrough in improving the level of safety performance of our staff. Our ultimate target is zero incidents, injuries and occupational illnesses.

To achieve this breakthrough in our safety performance, we undertook an independent review of our safety strategy and programs that identified scope for improvement.

Accordingly, we have renewed our efforts to improve safety and have adjusted safety targets for 2005-2006 to drive further improvements.

### **Building a sustainable and reliable network**

In its *Energy Directions Green Paper*, the NSW Government highlighted the strong growth in electricity demand in NSW, which is expected to increase by more than 15% over the next 15 years.

We are seeing even greater growth in Integral Energy's franchise. Over the next 10 years, maximum demand is forecast to grow by 45% with customer numbers set to increase by 29%.

One of the most significant drivers of future demand is the release of previously rural and semi-rural land into new urban developments. Most of the 160,000 new dwellings announced by the NSW Government in early 2005 and almost 90% of greenfield land release sites announced in 2002 are within our franchise.

In conjunction with this growth in new urban land releases, energy consumption levels in households in new development areas have doubled in some suburbs. Integral Energy estimates that over 70% of our customers now use air conditioners compared to 25% ten years ago.

In plain terms, this means we not only have more customers, but the average customer is consuming more power than ever before. And as demand grows in response to

changing land use, so do our customers' expectations for a safe and reliable electricity supply to their homes and businesses.

Growth to meet the needs of our customers has been recognised by our regulator, the Independent Pricing and Regulatory Tribunal (IPART), who has allowed for investment of over \$1.2 billion in our network between 2004-2009.

The challenge for the organisation is to deliver this significant investment in network infrastructure, and to deliver a better outcome to our customers in terms of network reliability and security.

In 2004-2005, Integral Energy made its greatest annual investment in its network since the organisation was incorporated in 1996. A total of \$202.8m was spent on network capital programs, a significant increase on the \$163.8m spent in 2003-2004.

### **We not only have more customers, but the average customer is consuming more power than ever before.**

In conjunction with this, we achieved an outstanding reliability result of an average 86.3 unplanned minutes lost per customer across the network against a target of 115 minutes. While unusually mild weather conditions have assisted with this result, increased investment and a strong focus on maintenance have also delivered improvements to the network.

While the overall average reliability result is pleasing, we need to continue to improve the performance of individual feeders where customers are not seeing improvements to their service levels.

### **Strengthening our retail business**

The retail electricity market remains highly competitive, with almost one million customers in NSW exercising choice and moving to negotiated agreements since the introduction of retail contestability for households and small businesses in January 2002.

The release of the *Energy Directions Green Paper* also added to the challenges of rising peak power demand and increasing competition already faced by our retail business.

2004-2005 saw progress in the performance of the residential and business markets, driven by the movement of customers onto negotiated agreements. Our retail business contributed over 7% above their profit target for the year.

This year saw the launch of our first marketing campaign directed at customers from the diverse range of cultures and nationalities within our market.

We also expanded the range of services offered to customers who may be experiencing difficulties in paying for their electricity consumption. At any point in time, Integral Energy is assisting over 13,000 customers in managing their electricity account.

The INpower program was developed during 2004 to ensure Integral Energy made every effort to assist customers facing financial hardship. Through our INpower program, we tailor a solution that will best suit the customer to ensure that their account reduces.

## Our scorecard for 2004-2005

Key performance Indicator	Measure	Target	Result 04/05	Comments
<b>Profitability</b>	EBITDA \$m (excluding capital contributions)	\$324.5m	<b>\$355.4m</b>	Result was 9% favourable against a target of \$324m and \$18m above 2003-2004 result.
<b>OPEX compliance</b>	OPEX \$m	\$308.6m	<b>\$269.9m</b>	Result was 13% favourable to target and exceeds level of expenditure in 2003-2004 by over \$11m. This area will retain a strong focus in 2005-2006 and beyond.
<b>Network reliability</b>	Unplanned minutes lost per customer	115.0 mins	<b>86.3 mins</b>	The result is 25% favourable to target. Increased investment, a strong focus on network maintenance and mild weather conditions have helped deliver this very positive result.
<b>Trade within VAR limits as approved by Board</b>	Breaches	0	<b>1</b>	One technical trading breach was reported in 2004-2005.
<b>Level of staff safety</b>	Accident frequency rate	6.0	<b>6.3</b>	The company is gearing up to achieve a break through in improving the level of safety performance of our staff with an accident frequency target rate of less than or equal to 3 in 2005-2006. Our ultimate target is zero incidents, injuries and occupational illnesses.
	Staff satisfaction	15% improvement on 2002 survey	<b>8.7% improvement on 2002 survey</b>	This survey posted the most positive result compared to staff surveys conducted over the last 10 years.
<b>Maximum no. of serious environmental incidents</b>	Number of incidents	≤2	<b>1</b>	The organisation incurred one serious environmental incident in August 2004 due to equipment failure in a substation.

### Environment

Our commitment to environmental performance is made at the highest level of the organisation.

For the fourth consecutive year, Integral Energy comfortably met its Mandatory Renewable Energy Target (MRET) set under the Federal Government's *Renewable Energy Electricity Act 2000*. This requires the additional purchases of electricity from sources other than coal each year.

In 2004, Integral Energy was one of the first member businesses to endorse the Energy Supply Association of Australia Code of

Sustainable Practice. The Code provides an interpretation of sustainability for the energy supply industry, reflecting current thinking of the World Business Council for Sustainable Development, the International Standards Organisation 14000 series, and the Australian Standards 8000 series on corporate governance.

In response to this commitment, we developed a sustainability action plan that integrates previous environmental strategies and details specific actions that will be undertaken to achieve the integration of sustainability into our business.

Regrettably, there was a significant environmental incident in August 2004 with the loss of oil from a transformer at the Minto zone substation. Our people worked hard to ensure the spill was contained and any contamination cleaned up.

To prevent similar incidents, we accelerated our program to build bunds around transformers at transmission and zone substations to safeguard against spills. We are now working toward completing the program during the 2006-2007 financial year – three years ahead of schedule.

### Our people

Our people are the core of our business and ultimately determine our success.

Employing and retaining skilled staff against a backdrop of full employment remains an ongoing priority for us. Staff numbers grew by over 5% to support expanding areas of the business.

Record numbers of apprentices were welcomed in 2004-2005 with a total of 125 in training, including a

new intake of 42 this year. The organisation will recruit a further 40 apprentices to commence during 2006.

In addition to a new two-year Integral Energy Award completed in December 2004, we are reviewing award salaries to ensure we remain a competitive employer within our industry. In conjunction with the relevant unions, the review will be finalised by 1 December 2005.

This year also marked progress in the ways we develop and reward our people.

Development of a competency based progression structure for selected award based positions continued. The system will provide a pathway for skills development and pay progression based on acquisition and application of skill competencies.

Leadership remained a strong focus for development of our managers throughout 2004-2005. 77 senior staff have now attended the leadership development centre. We also introduced a leadership development program for all leading

## WHAT WE DID WELL AND WHERE WE NEED TO IMPROVE

### ECONOMIC

- Earnings before interest, tax, depreciation and amortisation (excluding capital contributions) of \$355.4m, 4% above our NSW Treasury forecast and compared with \$337.4m in 2003-2004.
- Returned over \$178m in dividends and tax equivalents to the NSW Government.
- Achieved a sharp improvement in network reliability performance, with 86.3 minutes lost per customer (unplanned) against a target of 115 minutes.
- Invested a record \$202.8m in network infrastructure, compared with \$164m in 2003-2004, in order to meet unprecedented demand for electricity in some of Australia's fastest growing regions.
- Achieved targets for capital and maintenance expenditure.
- Our retail business contributed over 7% above their profit target.

### ENVIRONMENTAL

- Extended our ground breaking demand management programs to businesses in Wetherill Park, Parramatta and Bella Vista.
- Formalised the organisation's position on greenhouse gas emissions.
- Met our Mandatory Renewable Energy Targets.
- An oil spill at our Minto Zone Substation resulted in a summons being filed by the Department of Environment and Conservation.

### SOCIAL

- Achieved a customer satisfaction level of 78%.
- Employed a record intake of apprentices and commissioned the building of a new apprentice training school.
- Completed a strategic review of how the organisation communicates and engages with its 2,300 staff.
- Donated \$109,000 to charity in the first full year of our workplace giving program.
- Introduced new programs to assist customers experiencing financial hardship as an alternative to disconnecting customers for not paying their bills.
- Despite best-ever employee safety result, our lost time injury frequency rate of 6.3 fell just short of target.

hands, focussed primarily on field operation groups. To date, one third of leading hands have attended the program which will continue during 2005-2006.

We launched our formal reward and recognition program on 1 July 2004. This year 7% of Integral Energy's workforce received formal recognition for their efforts in contributing to the success of the business.

Our 2004 staff attitude survey posted the most positive results of any staff survey conducted at Integral Energy over the past ten years.

### Stakeholder engagement

For the past five years we have had to focus internally to a large extent to ensure the fundamentals of our business were correct. This meant being more disciplined in our daily operations and putting in place checks and balances to ensure our focus was directed at key internal priorities.

Our challenge now is to turn our attention to relationships with external stakeholders.

In 2004 we set out to improve our relationship with builders and developers following the results of our bi-annual stakeholder survey and established an effective partnership with the Urban Developers Institute of Australia (UDIA).

Our Customer Consultative Committee continued to provide effective input into policy, planning and decision making on a wide range of customer and community centred issues. The launch of our annual network planning statement – *Network 2015* – was another successful platform to bring together diverse stakeholders to discuss the way our network will be planned and delivered.

In 2004-2005 we engaged extensively with stakeholders interested in our capital works program, particularly the proposed upgrade of the Vineyard to Rouse Hill transmission line.

Like many infrastructure projects, this crucial upgrade has not been without controversy. Recognising this, we undertook extensive and ongoing consultation processes to ensure that the views of the local community, customers and other external stakeholders have all been properly taken into account. Stakeholder engagement of this kind will become increasingly important as we roll out more capital works projects throughout our franchise over the next five to 10 years.

We also undertook extensive consultations with a range of government, industry, business and customer stakeholders after an incident on 1 December 2004 that resulted in emergency load shedding on the South Coast. This incident followed a direction to Integral Energy to immediately shed load to protect the security of the broader electricity supply system.

In the coming year, we intend to create further opportunities to engage in more regular dialogue with our external stakeholders to improve our understanding of their needs. Given the often competing stakeholder interest in our business, we know we will need to strike the right balance between social, environmental and community expectations while continuing to deliver solid business outcomes.

### Board changes

In 2004-2005 we welcomed Emma Stein as a non-executive director to the Integral Energy Board. Emma has previously served as a Director for a

number of multinational firms and currently holds additional non-executive directorships with DUET, Arc Energy and the Growth Centres Commission.

### Outlook

We need to embrace the challenges of 2005-2006 with careful forward planning to sustainably grow our business. Foremost in the challenges for 2005-2006 will be the need to:

- Achieve a breakthrough in improving the organisation's level of safety performance;
- Continue to deliver our plans for improving and expanding our network;
- Increase the value of our retail business;
- Lead our staff to achieve optimal performance.
- Respond to changes in our operating environment arising from changes in government energy policy and the progressive transfer of regulatory responsibilities to the Australian Energy Regulator and Australian Energy Market Commission from 1 July 2005.

We have every confidence in our corporate plan, and, above all, we have enormous confidence in our talented workforce, whose continued dedication and commitment during 2004-2005 delivered these excellent results.



**Michael McLeod**  
Chairman



**Richard Powis**  
Chief Executive Officer



**CLIENT PROFILE**  
**ADI DEFENCE**

The Joint Command Support System (JCSS), in use at the Australian Defence Force Headquarters, was developed by ADI Limited. Since 2001, Integral Energy has been supplying electricity to ADI, Australia's leading defence, systems and engineering company, across all their sites in New South Wales and Victoria.



^ Peter D'angelo, Project Manager, Transmission substations, Springhill, Greg Schafer, Manager Springhill Project, Huntingwood



^ Terry Fisher, Leading Hand EFM, Penrith



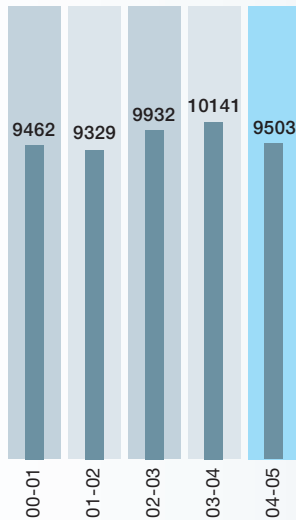
## Did we meet our challenges?

Financial challenges for 2004-2005, and our performance against them, are listed below

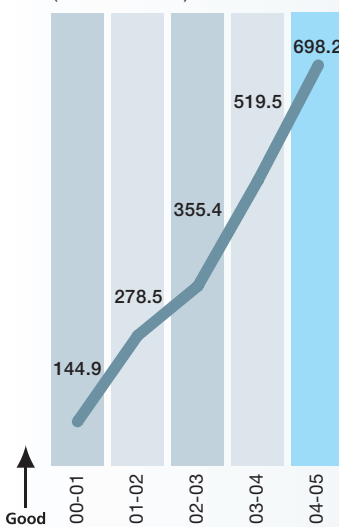
Key challenge	Status	Remarks
Improving our network operating performance, including increasing reliability of supply.	✓✓	Network reliability showed significant improvement at 86.3 unplanned minutes lost per customer (excluding storms and other major incidents), more than 28 minutes below our target of 115 minutes.
Continuing to build and maintain value in our network.	✓✓	Achieved our largest network capital expenditure ever of \$202.8m, over \$38m more than in 2003-2004.
Building up the accuracy and completeness of data about the network and non-network assets that we own through the development of a comprehensive register for our network and non-network assets.	✓	Further development of the Geographical Information System showing the location of all network assets, introduced in December 2002.
	✓	Ongoing use of the Field Inspection System to inspect the organisation's poles and towers, implemented in December 2002.
	✓	Creation of a corporate equipment register and work management system to replace legacy systems, implemented in May 2004.
Continuing to provide key stakeholders with effective financial advice and management.	✓✓	Exceeded budgeted EBITDA target by 9.5%.
	✓	Continued strict adherence to financial operating targets.
	▲	Systems and processes have been established to adhere to Australian Equivalent International Accounting Standards.
	▲	Developed financial models to assist business units in analysing key data.
	▲	Provided input and analysis on key business projects such as our new retail strategy, new trading system and review of potential IT&T service providers.
Continuing to address the mass-market challenges of full retail contestability, including addressing the needs of our customers.	▲	Solid performance in a challenging environment, supplying electricity to over 800,000 business and residential customers.
	▲	Successful acquisition and retention of profitable customers, particularly in securing new business customers.
	▲	Introduction of a new contract management system in July 2004 giving Integral Energy a key competitive advantage in the contestable market.
	▲	Continued success with cost-effective direct marketing campaigns, including a new campaign to multicultural customers, securing profitable customers on contract and offering savings to customers.

- ✓✓ challenge exceeded
- ✓ challenge achieved
- ✗ challenge not achieved
- ▲ ongoing challenge with targets met to date or positive progress shown
- ▼ ongoing challenge with targets not met to date

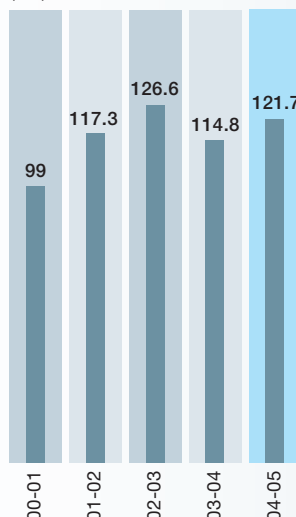
**Electricity sold**  
(GWh)



**Returns to shareholder – dividends and tax equivalents**  
(cumulative \$m)



**Employee wages & benefits**  
(\$m)



## PERFORMANCE INDICATORS

### Customers

- Total network customer connections were 822,446 at the end of June 2005, an increase of 2.0% from 2003-2004.
- Network reliability (unplanned disruptions to supply) was 86.3 minutes lost per customer (excluding storms and other major incidents). The result is a 26% improvement on the result in 2003-2004. A strong focus on network investment, maintenance and mild weather conditions helped deliver this very positive result. Our target for 2005-2006 is 111 unplanned minutes lost per customer.
- Our retail business sold 9,503 GWh of electricity and contributed over 7% above their profit target, despite a 6.3% decrease in the quantum of electricity sold in 2003-2004.
- Provided customers with \$23.6m in rebates and payment assistance under the Pensioner Rebates Scheme, Life Support Equipment Scheme and the Energy Accounts Payment Assistance Scheme, a 2.7% decrease from the previous year. The NSW Government reimburses this money.

### Suppliers

- Purchased goods and services from more than 6,000 external suppliers and contractors through an open and transparent process.
- Established long-term contracts with strategic suppliers to facilitate delivery of the capital program.
- 96% of suppliers were paid on time, up from 94% in 2003-2004.

### Employees

- Paid \$121.7m in wages and benefits (including superannuation) to our employees, a 6% increase from the \$114.8m paid in 2003-2004. The rise is due to increased staff numbers and salary and superannuation benefits contained in a new staff award.

### Providers of capital

- Earnings before interest, tax, depreciation and capital contributions, were \$355.4m, compared with \$337.5m in 2003-2004. This result was 9.5% favourable against the budget of \$324.5m. Our target for 2005-2006 is \$335.4m.
- Returned a net profit after tax of \$126.8m, a 23.9% increase on the previous year.
- Returned a \$114.1m dividend to our shareholder, compared with \$102.3m in 2003-2004.
- Interest on debt was \$85.4m.

### Public sector

- Income tax equivalents were \$64.6m, an increase of 4.5% on the \$61.8m paid in 2003-2004.



^ Peter Pascoe, Leading Hand Lineworker, Penrith



^ Michael Gambino, Lineworker, Seven Hills

Integral Energy is growing to serve all our customers better – from Sydney's Greater West, to the Blue Mountains, the Southern Highlands and the Illawarra.

Success in the economic dimension of the organisation's performance can be measured across a number of areas, including profitability, service reliability, prudent investment in network infrastructure, and the ability to meet customer expectations and perform successfully within a competitive marketplace.

In recent years, Integral Energy has focused on the following three key business strategies:

- Providing long term customer service by building a sustainable and reliable network;
- Maximising the contribution of the retail business by maintaining our competitive marketing position; and
- Ensuring support systems are in place to ensure adequate resources are directed where they are needed.

This section tracks economic performance for 2004-2005, with details of financial performance, investment in the network, an overview of the retail business, and the systems in place to support the business.

### Growing the network to serve customers better

With almost half a million new homes to be built in Sydney over the next 25 years – more than half of them in our network franchise area – Integral Energy faces an enormous challenge to meet ever-increasing demand for energy.

In addition to the extensive housing development underway in Sydney's north-west sector and Wollongong, existing customers are consuming more energy than before, largely as a result of a sharp increase in the use of air conditioners. It is estimated 74% of our western Sydney customers now have air conditioners, compared with 25% in the mid-1990s.

## CASE STUDY 1

### Meeting Sydney's growth – the Vineyard to Rouse Hill electricity upgrade

Integral Energy is growing its network to service newly developed urban areas on the outskirts of Sydney. Urban development and the provision of reliable electricity supplies are inextricably linked.

Areas in the west and north west of Sydney such as Rouse Hill, Mungerie Park, Schofields and Riverstone are being developed over the next decade to provide homes, jobs, schools and shops to cater for Sydney's growth.

In response, electricity demand in the region is forecast to double over the next decade as the areas change from essentially rural to urban land use.

To meet this demand, Integral Energy is planning a major upgrade of the electrical network in the region to improve the reliability of power supplies for existing customers and ensure that adequate power is available to support future land development.

The upgrade will replace the 50-year old electrical infrastructure that currently supplies this area. This is essential to avoid blackouts and to meet the increasing demand for power associated with burgeoning residential and commercial land development in the region.

Like many infrastructure projects, this crucial upgrade has not been without controversy. Recognising this, Integral Energy is undertaking an extensive and ongoing consultation process to ensure that the views of the local community, customers and government have all been properly taken into account.

Consultation with the community has included providing regular project update newsletters and the formation of a community advisory group comprising representatives of the community, customers, local government and Integral Energy.

Detailed assessments for the upgrade are currently being developed and will be available for public comment in late 2005. Integral Energy is committed to delivering the best balance of all economic, social, environmental and design considerations that will support Sydney's growing population.



^ Current pole.



^ Proposed poles.

## Managing demand

Integral Energy distributes electricity over a network that is made up of 27,000 transmission, zone and distribution substations, 390,000 power poles and 175,000 streetlights bound together by 33,800 kilometres of underground and overhead electricity network.

Over the next 10 years, maximum demand on our network is forecast to grow by 45% with customer numbers set to increase by 29%.

To meet forecast customer load growth, and to deliver supply to the very high safety and reliability standards that customers expect Integral Energy has embarked on a major capital program to upgrade the network. At the same time, demand side management efforts are expanding to reduce network demand, especially during periods of peak consumption.

Before expanding the electricity distribution system, Integral Energy carries out investigations to ascertain the cost-effectiveness of avoiding or deferring network upgrades by implementing demand side management strategies and optimising the use of the existing network.

Integral Energy is currently implementing demand management programs in Castle Hill, Blacktown-Seven Hills, Wetherill Park, Parramatta, Nowra and Bella Vista. In 2004-2005 we also worked with Blacktown and Westmead hospitals towards commissioning cogeneration plants. Our demand side management strategy is discussed in greater detail in the Environmental Performance section of this report.

In June 2004, the Independent Pricing and Regulatory Tribunal (IPART)

determined that Integral Energy could invest more than \$1.2bn in the network over the period 2004-2009. (Full details of our 2004-2009 IPART determination on network revenue and network pricing, are in the appendices).

In 2004-2005, the first full year of the network determination, a record \$202.8m was invested – up from the previous record \$163.8m invested last year.

## Capital program

Integral Energy faces a number of constraints in delivering improved supply to customers: among them the skills shortage in the power industry, an ageing asset base, and the rapidly increasing load growth in western Sydney. Other challenges include the need to maintain customer supply during capital works and to find infrastructure solutions that are the best balance of community, design, environmental and economic considerations.

During the year, major augmentation works were undertaken at:

- transmission substations in Mt Druitt, Baulkham Hills, West Liverpool, Blacktown and Bellambi;
- zone substations in Parramatta (Lennox), Arndell Park, North Parramatta, Tahmoor, Maldon, Bowral, Liverpool, Cattai, Newton (Blacktown), Luddenham, Glenmore Park and Shellharbour.

In addition to this, new zone substation works were:

- completed at Greystanes and Wallgrove,
- in progress at Erskine Park and Baulkham Hills, and

- commenced at Hoxton Park and Bella Vista.

Further planning to upgrade the Vineyard to Rouse Hill transmission line continued during 2004-2005. The upgrade is necessary to meet forecast growth in the region of 220% over the next decade as the area changes from rural to urban land use. An Environmental Impact Statement for the upgrade will be released in 2005. (see Case Study 1, page 11).

Other significant works have included the refurbishment of 33kV overhead lines on the South Coast, and the refurbishment of many of the steel lattice 132kV transmission line towers located in western Sydney and on the South Coast. These works were aimed at maintaining and improving the integrity of these assets for the long term.

The current Power Factor Correction program continued into its third and final year and has resulted in more than 100 capacitor banks commissioned at various substation sites. These capacitors now provide more than 500MVAR of additional reactive power at a total cost of \$27million.

## Maintenance program

Integral Energy's network is maintained by more than 900 field staff whose role is to ensure our electricity assets are "fit for service". Working closely with the Control Room and other key staff, field staff provide a 24 hour emergency repair service.

Maintenance achievements in 2004-2005 included:

- The completion of inspections of all streetlight columns and development of a process for routine inspections in the future.



^ Bruce Copas, District Operator, Coniston



^ Manoraj Jayasekara, Renewal Program Development Manager, Huntingwood

## MAJOR WORKS IN PROGRESS

Description	Cost to date Pre 2004-2005	Cost to date 2004-2005	Total Cost	Practical completion date	Region	Comments
Wallgrove ZS		\$2,050,364	\$2,050,364	Complete	Blacktown	Temporary 15MVA zone substation with significant capital contributions from three customers
Baulkham Hills ZS (Toongabbie)	\$2,558,989	\$2,759,711	\$5,318,700	Sep-05	Blacktown	New 132/11kV Zone Substation within Baulkham Hills Transmission Substation
Mt Druitt TS 132kV busbar	\$1,700,988	\$3,092,888	\$4,793,876	Dec-05	Blacktown	Install 3rd transformer and construct new 132kV switchyard to improve system flexibility and reliability
Quakers Hill ZS Augment	\$8,728	\$1,431,595	\$1,440,323	Oct-06	Blacktown	Install new 132/11kV transformer and prepare site to be converted to full 132kV in the future
Newton ZS Augment	\$294,167	\$1,112,364	\$1,406,531	Aug-05	Blacktown	Extend existing building, install 3rd transformer, new section of 33kV indoor switchgear and new section of 11kV switchgear
Parklea ZS 3rd Transformer	\$10,154	\$1,159,430	\$1,169,583	Oct-05	Blacktown	Install 3rd transformer, new outdoor 132kV switchgear and new section of 22kV switchgear
Sth Windsor ZS Augment	\$20,909	\$1,646,496	\$1,667,405	Dec-05	Hawkesbury	Install 3rd transformer and augment existing transformer cables
Aerodrome ZS (Hoxton Park)	\$23,048	\$2,634,843	\$2,657,891	May-06	Liverpool	New 33/11kV zone substation
Liverpool ZS Augment	\$203,271	\$2,044,097	\$2,247,368	Complete	Liverpool	Install 3rd transformer, new section of 33kV indoor switchgear and new section of 11kV switchgear
West Liverpool new 132kV feeder	\$457,607	\$1,114,202	\$1,571,809	Complete	Liverpool	Install new 132kV feeder to take supply from Transgrid
Homepride ZS Augment	\$1,507,696	\$55,152	\$1,562,848	Complete	Liverpool	Install 3rd transformer and new 11kV switchgear section
Lennox ZS Augment	\$1,188,600	\$343,185	\$1,531,785	Nov-05	Parramatta	3rd transformer installed. Replacement of 2 existing transformers to be completed
Mamre ZS (Erskine Park)	\$2,792,420	\$5,362,367	\$8,154,787	Oct-05	Penrith	New 132/11kV Zone Substation and associated 132kV transmission line works
Werrington ZS Rebuild	\$1,105,324	\$2,896,018	\$4,001,341	Mar-06	Penrith	Extend existing building, install indoor 33kV and replace existing 11kV switchboard and 3 x power transformers
Glenmore Park ZS Augment	\$3,386,127	\$582,462	\$3,968,589	Complete	Penrith	Required to meet increasing load in the developing Glenmore Park area
Shellharbour ZS Augment	\$606,980	\$3,671,990	\$4,278,970	Jul-05	South Coast	Install 3rd transformer, new outdoor 33kV switchgear, new section of 11kV switchgear and underground 2 existing 33kV feeders
South Coast/Shoalhaven SCADA Upgrades	\$2,579,217	\$747,416	\$6,012,941	Ongoing	South Coast	Replaced existing outdated systems at various sites within the South Coast and Shoalhaven regions
Shoalhaven TS Augment	\$1,216,321	\$169,747	\$1,386,068	Complete	South Coast	Augment power transformer to 60MVA and install 132kV bus section circuit breakers
Evans Lane SS	\$10,616	\$1,314,635	\$1,325,251	Oct-06	South Coast	Rebuild Evans Lane 132kV switching station and rebuild 132kV feeder 98M/1 to increase capacity
Kembla Grange Augment	\$1,258,468	\$230,391	\$1,488,860	Complete	South Coast	Install 2nd power transformer and new 11kV switchgear section
Tahmoor & Maldon ZSs	\$2,492,590	\$2,196,169	\$4,688,759	Dec-05	Southern Highlands	Augment 2 power transformers and replace 11kV switchgear at both Tahmoor and Maldon ZSs, and rebuild the 33kV transmission line between the substations
Wetherill Park West TS	\$3,524,020 (includes \$3.5m for land purchase)	\$119,908	\$3,643,928	Oct-06	Western Sydney	New 132/33/11kV Transmission/Zone substation
Quarries ZS (Holroyd)	\$5,813,228	\$1,185,314	\$6,998,542	Complete	Western Sydney	Building complete. Final install of equipment and commissioning
Power Factor Correction Works	\$26,016,194	\$950,584	\$26,966,778	Complete	Across Integral's Area	100 x 11kV 5MVAR units have been commissioned with a further 7 units installed to address issues with Integral Energy's power factor as seen by Transgrid
33kV Circuit Breaker Replacement Program	\$1,935,002	\$1,064,339	\$2,999,341	Ongoing	Across Integral's Area	Program to replace units at various sites that have been identified as being at the end of their useful life
132kV Steel Tower Transmission Line Tower Painting	\$1,059,479	\$4,376,767	\$5,436,246	Ongoing	Across Integral's Area	Protective coating of steel tower transmission lines to extend their life and ensure their long-term integrity
Security Fence Upgrades	\$3,050,000	\$6,060,000	\$9,110,000	Ongoing	Across Integral's Area	Installation of modern standard security fencing to ensure public safety and security

CASE STUDY 2

**Integral Energy Power Quality and Reliability Centre**

Integral Energy strives to deliver a reliable and high quality electricity supply to all current and future customers. The quality and reliability of electricity supply can be influenced by a number of factors, including the length of power lines, load density, the age of the electrical assets and the exposure of lines to animals and vegetation.

Detailed research being undertaken by the Integral Energy Power Quality and Reliability Centre at Wollongong University is giving the electricity industry a deeper understanding of the technical issues related to supply voltage quality.

The Centre, the first of its kind in Australia, was established in 1996 with a \$400,000 grant from Integral Energy and continued support since that time. In September 2004, Integral Energy announced a further investment of nearly \$1 million for the next three years.

The Centre's objective is to work with industry to improve the quality and reliability of the electricity supply to industrial, commercial and domestic users. The centre specialises in research, training, standards development and consultancy services to allow effective management of power quality and reliability problems.

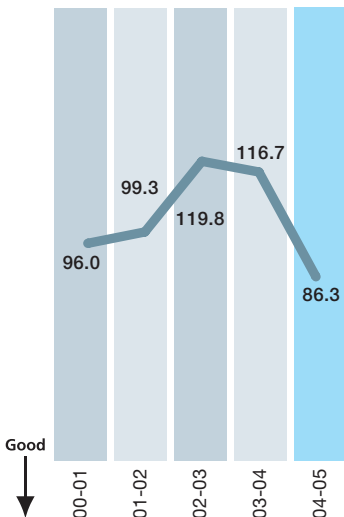
Integral Energy's support for the research Centre will mean all our customers will benefit from improved services and supply quality.



^ Sarath Perera, University of Wollongong, Sean Elphick, Professional Officer, Power Quality and Reliability Centre

**Network reliability**

Average unplanned minutes lost per customer



- The establishment of a vegetation management crew in the Southern Region, to supplement existing crews in Katoomba and Narellan. Our vegetation management teams keep powerlines clear of overgrown vegetation to ensure safety to the public and reliability of the electricity supply.
- Completion of 98% of the set maintenance program.

**Improved reliability**

The increased focus on the network, improved vegetation management and mild weather during 2004-2005 resulted in a significantly improved reliability performance of our network.

Planned and unplanned minutes of supply lost per customer, excluding storms, totalled 115 minutes, against a target of 145 minutes. This comprised 86 minutes per customer of unplanned lost supply and 29 minutes of planned outages.

Incidents during 2004-2005 that had significant impact on our network performance included:

- An incident at Hawkesbury Transmission Substation in July 2004 causing the loss of North Richmond, Glossodia, Richmond, Windsor and South Windsor zone substations affecting 20,820 customers;
- An incident at Shoalhaven Transmission Substation in September 2004 affecting approximately 48,200 customers;
- On 1 December 2004, Transgrid directed shedding of load from Dapto Bulk Supply Point due to system constraints. This interruption affected approximately 77,630 customers. This incident is excluded from the lost supply measure.

The reliability target for 2005-2006 is 111 minutes unplanned and 28 minutes planned.



^ Todd Field, Corporate Credit Manager, Huntingwood,  
Judith Dias, Debt Recovery Officer, Huntingwood



^ Tamara Hitchcock, Channel Manager, Huntingwood

### Strengthening our presence in the retail energy market

The electricity market remains highly competitive, with almost a million customers in NSW exercising choice and moving to negotiated agreements since the introduction of retail contestability for households and small businesses in January 2002.

2004-2005 saw progression in the performance of the residential and business markets, driven by the movement of customers onto negotiated agreements. The acquisition and retention of profitable customers through the use of direct marketing, outbound telesales and door to door sales has continued throughout the year.

Integral Energy continues to perform solidly in this challenging environment, supplying electricity to over 800,000 business and residential customers.

Key results included:

- tens of thousands of non-franchise customers have been won by a dedicated team of door to door sales agents;
- continued success with cost-effective direct marketing campaigns (including a new multicultural campaign) securing thousands of existing profitable customers onto contract with higher margins, while still offering savings to customers;
- the new contract management system went live in July 2004 and contains the details of more than a quarter of a million contracts. The new system enables Integral Energy's retail business to automate wins, renewals and other contract transactions, giving Integral Energy a key competitive advantage in the contestable market.

In the business segment we were successful in securing hundreds of sites during this year. A major focus of the business sales team, since the launch of full retail contestability, has been building our ability to meet customers with multiple site requirements, and developing strategies to leverage our strength in the market.

As part of this, Integral Energy secured contracts with major corporate, business and government customers which will continue to provide significant revenue over coming years. Critical to our success was the range of improved business processes designed to boost our capabilities, coupled with a targeted approach to prospecting for new business.

Door to door sales activity has been a particular success during the last year, with hundreds of thousands of customer contacts made in non-franchise areas of NSW.

The activity required a great deal of behind the scenes work to ensure that training, collateral and scripting provided to sales agents all complied with the relevant legislation/regulation.

Unfortunately, despite all the activity undertaken to support this sales channel, during the year there were a small number of breaches of the Marketing Code of Conduct, equating to 0.19% of all customer contracts.

Each of these breaches was thoroughly investigated and learning points gathered to ensure that the training and materials provided to agents were further enhanced. This has resulted in the ongoing provision of regular training updates to agents, the redesign of materials and improvements in sales scripting to ensure Integral Energy complies with the Marketing Code of Conduct.

Integral Energy successfully launched several marketing initiatives during 2004-2005.

In recognition of the diverse range of cultures and nationalities in NSW, marketing activities were commenced specifically aimed at different cultures, starting with a campaign for the Chinese speaking community. Advertisements were placed in the Chinese press, letters were sent to customers and Chinese speaking call centre operators were recruited to assist customers with campaign enquiries.

In January 2005 Integral Energy launched a new basic meter pricing offer, SmartSaver, which offers customers a guaranteed percent off the prevailing default rate for the life of their contract. The offer also includes membership in a leisure and lifestyle program which provides money saving opportunities for shopping services, entertainment services, dining, accommodation and tourist and leisure services.

Integral Energy also joined forces with Rheem Australia to provide customers with discounts on the supply and installation of off peak hot water systems. Off peak hot water systems run on cheaper electricity rates, so that customers make savings. The initiative also supports Integral Energy's Demand Management program by lowering energy demand in peak periods.

Integral Energy launched two newsletters – INews and InBiz – to stay in touch with contract business customers. A newsletter for residential customers was also launched – At home – with the objective of building a closer relationship with customers. The newsletter includes articles, customer offers and energy savings and safety tips.

### Greenhouse reductions

This year Integral Energy again met its renewable energy obligations under the *Mandatory Renewable Energy Target Act 2000* (MRET). This is a federal scheme that imposes an obligation on wholesale energy purchasers to source a proportion of their energy supply from renewable energy generators.

Obligations imposed under the New South Wales Greenhouse Gas Abatement Scheme were also met. This scheme requires energy retailers operating in the state to meet greenhouse gas emissions targets through the purchase of low emissions generation.

Initiatives regarding greenhouse gas emissions are detailed in the Environmental Performance section of this report.

### Customer service

Integral Energy's customer interaction centres at Huntingwood and Coniston handled nearly 1.3 million inbound calls in 2004-2005. Average call answer times were 46 seconds for retail-related calls and 29 seconds for network-related calls.

During 2004-2005 the customer interaction centres completed their second Relief Team Leader program and initiated a third due to its success. The program is driven by the need to ensure that Integral Energy's customer service faced minimal impact from staff turnover.

2004-2005 saw the introduction of a number of quality programs in the customer interaction centres. The programs (including service order quality and quality coaching) were aimed at developing staff and ensuring compliance to process. In particular the

Service Order Quality program proved successful with compliance rates rising steadily from 83.6% in September 2004 to a consistent 95% through the last quarter of the year.

The centres' training and development section delivered an unprecedented number of programs (27) throughout 2004-2005 ranging from regular induction courses to specialist refresher training. In total 1,492 hours were spent delivering programs aimed at improving staff skills in customer service.

Revenue Management Services manage credit risk and debtor performance, both for retail and network sales and operations.

Early in 2004-2005, outbound calls to customers for debt follow up were handed to the customer interaction centres, resulting in a 70% decrease in outstanding calls. This allowed for quicker customer notification of outstanding accounts.

In March 2005 the Direct Debit by Credit Card automation project was implemented, so that a more efficient process is in place for this method of payment.

In addition, Integral Energy's billing team issued more than 3.5 million electricity bills, and confirmed 179,000 customer pension details with Centrelink as part of the State Government Pension Rebate Scheme.

Further details of our customer engagement activities, including our Customer Consultative Committee, implementation of our financial hardship policy and customer comments are in the Social Performance section of this report. Our process for dealing with customer comments is outlined in the Appendices.

### Trading

Integral Energy has a trading function that actively participates in the electricity financial markets. These financial contracts hedge the exposure Integral Energy has to the NEMMCO pool market due to the consumption of electricity by Integral Energy's customers. The trading area ensures the exposure to extreme pool prices is minimised by hedging Integral Energy's exposure as necessary. Complex analytical models are being developed and refined by experienced actuarial staff to constantly improve the quality of data and forecasts that underpin our trading decisions.

Trading activity over the last 12 months has increased dramatically. This is as a result of continued changeover of customers as they move to contracts following the introduction of full retail contestability. Integral Energy has expanded its presence in the wholesale market in response to this increased activity and now has three times as many counterparties as it had 12 months ago. Further counterparties ensure that Integral Energy is able to transact in the wholesale market to obtain the best possible prices for our contestable customers.

There is a continuing need for Trading to be active in the wholesale electricity markets, ensuring Integral Energy is fully informed of the current market conditions. Trading has continued to ensure that Integral Energy is well placed in the wholesale market therefore providing our customers with competitive electricity prices.



^ Carolyn Reynolds, Team Leader Customer Service, Penrith



^ Jeff Collins, Payroll Officer, Huntingwood, Esther Clough, Human Resources Assistant, Huntingwood, Maryanne Misdom, Human Resources Officer, Huntingwood

## Support systems

### Information Communication and Technology (ICT)

Integral Energy is reliant on the assured continuity and availability of its information systems to sustain its business operations.

In 2004, an ICT strategy was completed which identified four key outcomes for the ICT group's value proposition to business:

- Assured business platform – Delivery of this outcome means that information systems are available, reliable and secure with appropriate levels of performance, functionality and continuity of service.
- Cost effective – As ICT costs are a significant input to overall business costs, the emphasis on demonstrating value and return on investment for ICT initiatives is paramount, as is the continual focus on improving efficiency of operations to reduce cost.
- Enhanced organisational productivity – Given the degree to which information systems are now integrated into business processes, there are a number of initiatives that will play a key role in determining the productivity of business processes. Employee self service portal, business to business systems for customer connections and automated connectivity and integration between systems are examples of such initiatives.
- Competitive advantage – Access to structured and flexible information reporting, better targeted information for customers, when and how they need it, and connections to suppliers, markets and network assets will enable

Integral Energy to make better business decisions and attract customers.

In December 2004, contracts were signed with LogicaGMC and Optus for ICT outsourcing services. The new arrangements allow for strong performance based monitoring through service level agreements and detailed scope of works definition. This, combined with the application of rigorous operational processes, has already resulted in significant improvements to systems availability and visibility of management to the status of our systems. Ongoing improvements will continue through the collaborative approach of the ICT group and the outsourcers to improve processes for service delivery and responsiveness to the demands of the business.

### Property

Integral Energy is in the final stages of restructuring its property portfolio to support operational objectives and ensure property assets match our targeted cost structure. In 2005-2006 restructuring will be complete and a strategic maintenance plan will be drafted to ensure the portfolio continues to meet changing operational needs.

Land has been purchased at Moss Vale and Picton to provide the necessary facilities to service the Southern Highlands. These facilities will replace the existing Bowral depot, which is inappropriately located on the main street of Bowral, and the current Picton facility. The Hoxton Park Field Support Centre (FSC) is being rebuilt to provide suitable accommodation for the principal facility servicing the Central Region. In addition, the

Technical Training Centre facilities are to be relocated from leased accommodation in Werrington to a new facility adjacent to the Hoxton Park FSC.

The Shellharbour FSC office has been fully refurbished to provide comparable accommodation to other newer facilities in the franchise. Nowra FSC office refurbishment is underway and an expanded pole yard facility will be created on this site.

Penrith pole yard has been completed, enabling the sale of the former Schofields Pole Yard site to Landcom for redevelopment. In addition, Penrith FSC office has been fully refurbished. Works are well progressed at Glendenning for the new accommodation for the Transmission and Capital Solutions staff relocating from Seven Hills. The Distribution staff from Seven Hills will relocate to a new facility under construction in Kings Park that will allow Integral Energy to relinquish its leased accommodation.

### Security

Further to strategies already in place, in July 2004 Integral Energy tendered for a new company to provide a number of services across our network area.

These included three mobile patrol vehicles and security services for our head office at Huntingwood.

The number of depot related security incidents continued to decline considerably in 2004-2005.

It is proposed to further reduce current levels of depot related incidents in 2005-2006, whilst at the same time focusing on the security of fenced electrical installations.



**CLIENT PROFILE**  
**SUSTAINABILITY STREET**

Penrith customer Dennis Lawler and Integral Energy's Paul Butylewicz examine an in-home electricity display. These displays can provide customers with information on how to better manage their electricity usage. The display is being provided under a trial being run under the Penrith Sustainability Street program featured in case study 1 on page 21.



^ Mary Renwick, Administration Officer, Bowenfels



^ Stephen Douglas, Environment Specialist, Coniston



## Did we meet our challenges?

Environmental challenges for 2004-2005, and our performance against them, are listed below

### Key challenge

### Status Remarks

To have a management system in place that is compliant with the international standard ISO 14001 and that promotes the objectives of our Environment Policy.



Formal processes of the Environmental Management System (EMS) were broadened and risk management processes have been embedded. An internal audit protocol will be developed to assess any remaining gaps.

Ensuring that all activities and operations are in compliance with legislation and other requirements.



No written warnings or infringement notices were issued and licence conditions were complied with. Regrettably a significant oil spill occurred in 2004 at our Minto Zone Substation, and following an investigation, the Department of Environment and Conservation have filed a summons. Additional information on this matter is provided on page 22.

Continuing to develop an environmentally responsible culture across all levels of the organisation.



Comprehensive environmental training program was developed in response to identified risks and employee feedback.

Promoting the efficient use of energy and the reduction of greenhouse gas emissions, through innovative and effective energy management.



Company position on greenhouse gas emissions was included in the Environment Policy. Opportunities to reduce green-house gas emissions associated with fleet vehicles were identified.

Minimising waste generation through effective re-use and recycling practices.



The waste and disposal roadshow was delivered to staff to increase awareness of current practice and identify improvement opportunities.

Minimising the impact of our infrastructure and taking appropriate measures to protect sites of historical, scientific or natural importance, the acoustic and visual environment, and flora and fauna.



The growth needs of Western Sydney continues to be met in accordance with the *Environmental Planning and Assessment Act 1979*. Impacts associated with existing infrastructure, such as noise, are addressed where cost effective and practicable.

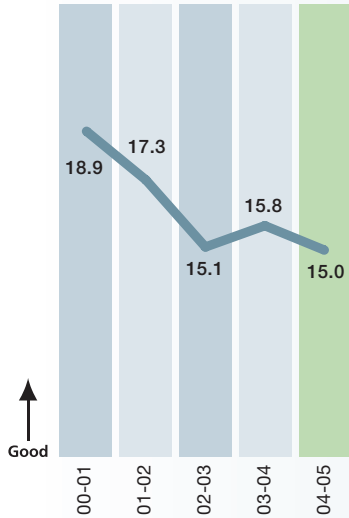
Minimise harm to the environment through the implementation of specific pollution minimisation and control procedures.



Review of risk assessment process initiated to ensure existing programs are effective and resources are appropriately allocated.

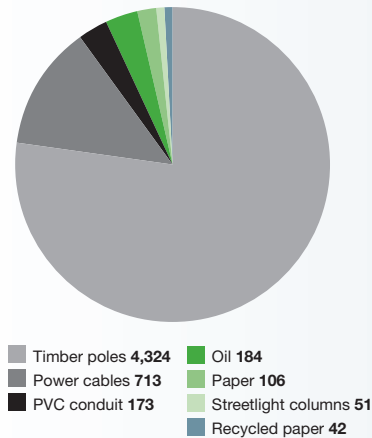
- ✓✓ challenge exceeded
- ✓ challenge achieved
- \* challenge not achieved
- ▲ ongoing challenge with targets met to date or positive progress shown
- ▼ ongoing challenge with targets not met to date

**Energy purchased from alternative sources %**  
% of total purchases

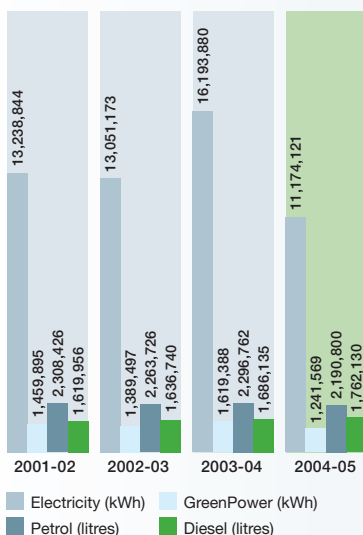


**Waste Reduction and Purchasing Policy (WRAPP)**

Major materials purchased (tonnes)



**Direct energy consumption**



## PERFORMANCE INDICATORS

### Compliance

- A total of 11 environmental incidents were reported to the Department of Environment and Conservation.
- While the goal of no written warnings, infringement notices or prosecutions was achieved in 2004-2005, the organisation was served a summons for a significant oil spill that occurred in August 2004 due to equipment failure at Minto zone substation.

### Expenditure

- Environmental expenditure exceeded \$6.1m in 2004-2005, an increase of over 40% compared to the previous year. This included an acceleration of our transformer bunding program that will be completed three years ahead of schedule during 2006-2007.

### Oil regeneration

- 311,504 litres of oil was recycled in 2004-2005, representing a 289.4% increase on the previous year's result.
- An oil management strategy was developed during the year to promote continual improvement of oil management through the organisation.
- 70% of oil used is now defined as PCB free, placing Integral Energy ahead of schedule in dealing with this legacy.

### Waste Management and recycling

- Diverted a total of 7,155 tonnes of material for recycling this year.
- In line with business imperatives, the main materials purchased included timber poles, power cables, PVC conduit, oil and paper.

### Source emissions

- Total greenhouse gas emissions directly attributed to Integral Energy activities have increased marginally to 27,308 tonnes of CO<sub>2</sub>e this year compared to 26,572 tonnes of CO<sub>2</sub>e in 2003-2004.
- The greenhouse emissions from electricity consumption for offices and field service centres fell by 12% from 2003-2004 and the consumption of petrol also fell marginally. Integral Energy maintains its commitment of purchasing 10% Green Power for all office and depot buildings.

### Network loss emissions

- Total greenhouse gas emissions related to losses from our network increased over the past financial year, growing to 870,845 tonnes of CO<sub>2</sub>e. This was due to changes in the accounting of carbon intensity and changes in the mix of energy purchased.

### Water consumption

- Total water consumed decreased by a further 12% in 2004-2005 despite a nearly 6% increase in the total number of employees. This equates to a 39% reduction in total water consumption since 2002-2003.
- Particularly pleasing is the positive manner in which staff supported water conservation measures in response to water restrictions in place across Sydney, the Illawarra and the Blue Mountains.



^ Vegetation management, Megalong Valley



^ Richard Campbell, Second Year Apprentice, Distribution Powerline

### Policy, management and governance

Integral Energy's commitment to environmental performance is made at the highest level of the organisation and reflected in the Board Policy on Environment. This policy is reviewed on a regular basis to ensure currency and to reflect best practice.

In 2005, Integral Energy's position on greenhouse gas emissions was included in the Environment Policy. The position acknowledges that greenhouse gas emissions are a significant public policy issue and defines our response. The greenhouse gas emissions position is reflected in the policy together with the following principles:

- Resource conservation
- Maintenance of public health
- Prevention of pollution
- Stakeholder engagement
- Consultation, education and training of staff and contractors.

### Strategy and management

Achievement of the above principles is driven by the sustainability action plan and Environmental Management System (EMS).

Incorporating previous environment strategies, the sustainability action plan details initiatives needed to integrate sustainability into the wider business. The plan was developed in response to the esaa code of sustainable practice. The code provides an interpretation of sustainability for the energy supply industry, reflecting current thinking of the World Business Council for Sustainable Development, the ISO 14000 series, and the AS 8000 series on corporate governance. Integral Energy was one of the first esaa member businesses to endorse the code.

A key component of the code is the development and implementation of an EMS. The EMS consists of formal, documented processes

developed in accordance with the international standard ISO 14001. The EMS provides the framework for identifying and responding to environmental risks.

### Governance

Integral Energy's commitment to continual improvement is governed by the executive environmental steering committee. Responsibilities of the committee include the oversight of the corporate environment strategy (now incorporated into the sustainability action plan), implementation of the EMS and ensuring due diligence for the environment.

### Regulatory compliance

Integral Energy's goal is to conduct operations in accordance with all legislative requirements. Where environmental incidents do occur, they are reported to the executive and action is taken to prevent recurrence.

## CASE STUDY 1

### Sustainability starts at home

Every month, residents in Banool Street, Penrith, gather to share tea, cakes and ideas on sustainable living.

The Banool Street neighbours, and residents of the nearby Sir John Jamison Circuit, are part of Penrith Council's Sustainability Street, a program launched by the council in March 2005 with the support of Integral Energy and the Australian Greenhouse Office.

Initially focused on energy savings and reduction of greenhouse emissions, the participants meet monthly to exchange tips and discuss ways to live more sustainably. Integral Energy's ongoing support to the program includes the installation and monitoring of interval meters in some homes and the provision of energy saving advice. In August 2005, Penrith City Council launched plans to expand the program to a further four streets.

Integral Energy was also a major sponsor in the Wollongong City Council's 'Sustainability Begins at Home' community education program, launched in July 2004.

The program focussed on the six elements of a sustainable home: energy efficiency, water conservation, waste management, creating nature spaces, sustainable food gardens and better buying. As part of the energy efficiency element, Integral Energy participated in public forums and awarded two prizes of a year's supply of Green Power.



^ Residents of Banool Avenue, Penrith looking forward to good results from Sustainability Street energy savings

In 2004-2005 there were 11 environmental incidents reported to the Department of Environment and Conservation (DEC). All incidents involved the loss of oil from equipment such as pole top transformers, padmount substations and power transformers within substations.

Regrettably, one of the incidents was significant and involved the loss of 9,000 litres of oil from a transformer at Minto Zone Substation in August 2004. Arising from a split in the transformer cooling fins, the incident resulted in the loss of oil into the stormwater system and McBarron Creek. Following an immediate report to the DEC, Integral Energy's environmental incident response team worked closely with HAZMAT to ensure the spill was contained and the stormwater system and creek cleaned of any contaminants.

While achieving the goal in 2004-2005 of no written warnings,

infringement notices or prosecutions, the DEC filed a summons in response to the oil spill at Minto zone substation. Integral Energy is cooperating with DEC to resolve the issues. In the past year, current programs have been expanded and new initiatives developed designed to reduce the environmental risks associated with oil-filled equipment. These programs were developed in accordance with the esaa guideline for oil containment, the accepted benchmark for the industry. They include:

- Bund program – A ten-year risk-based program currently in progress to construct bunds around power transformers in zone and transmission substations. In response to the environmental incidents in 2004, the program was accelerated in 2004-2005. The organisation is now working toward completing the program during the 2006-2007 financial year – three years ahead of schedule.
- Drainage plan program – Substation drainage plans are a critical tool in ensuring spill response is rapid and appropriately directed. Developed in 2005, this three year program will generate drainage plans for all substation sites where plans do not currently exist.
- Substation environmental risk assessment – A review of the substation environmental risk assessment process was initiated in 2005 to ensure risks are appropriately defined and mitigation measures are sufficient. Completion date of the review was September 2005.

### Demand side management

Integral Energy's focus on demand side management (DSM) was strengthened in 2004-2005 with the development of a holistic DSM plan. With a goal of DSM leadership, the plan includes the following elements:

## CASE STUDY 2

### Partners in sustainable energy

Integral Energy and the Blue Mountains World Heritage Institute formed a community partnership in mid 2005 to help deliver more sustainable energy solutions for the Blue Mountains.

The partnership offered \$50,000 worth of support to carry out energy audits throughout Lawson. The audits are intended to show how lower energy usage can be achieved, and also provide examples of what could be achieved throughout the Blue Mountains City Council local government area.

Why would Integral Energy want to reduce electricity usage? Because it is good for our business as it delays the need for expensive capital investment; it reduces energy costs to customers; and it is good for the environment as it reduces greenhouse emissions through greater energy efficiency on the part of both households and businesses.

Integral Energy recognises that the way people are using electricity is changing. There are now more home businesses and there has been a greater uptake of electrical appliances, especially air conditioning. Our partnership with the Blue Mountains World Heritage Institute will investigate how to reduce the impact of these changing patterns.

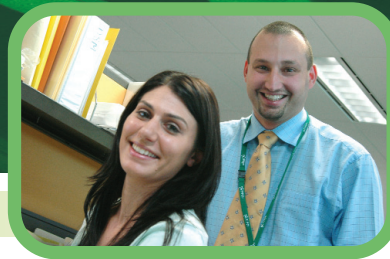
This partnership with Integral Energy is the first of what we hope will be many, between the Institute, Blue Mountains City Council and other agencies to develop sustainable solutions for the Blue Mountains.



^ Mal Fletcher, Leading Hand Lineworker, Katoomba. Integral Energy is partnering with the Blue Mountains World Heritage Institute to see what electricity savings can be achieved by inexpensive improvements in efficiency.



^ One of six Toyota Prius electric hybrid cars purchased by Integral Energy



^ Helen Laspatzis, Product Manager Green, Huntingwood, Colin Sultana, Product and pricing Manager, Huntingwood

- Environmental: protecting the environment through energy efficiency and green products.
- Customer information: providing information to assist customers in reducing their energy use and price signals to appropriately reward customers for this reduction.
- Reducing network demand: reducing the demand on Integral Energy's network in areas of system constraint allows Integral Energy to defer network augmentation and can improve network utilisation.
- Reducing wholesale energy costs: reducing the wholesale energy costs through reduction of demand during times of high prices.

The DSM plan includes a range of initiatives to target both large and small customers. Savings of 4076 kVA have been achieved from our DSM initiatives in 2004-2005. In addition, a number of 'barrier reduction programs' have been developed with a view to provide customers with the necessary information to manage their energy demands.

### Reducing demand

Through free audits and financial incentives, Integral Energy works with large customers in areas of high network demand. In some cases, incentives are provided to customers with local generation to operate that generation during times of system peak. Programs are currently in place in Blacktown, Wetherill Park, Parramatta, Nowra, Campbelltown, Castle Hill and Norwest Business Park. The success of the programs has extended the life of critical assets such as zone substations through the

reduction in peak energy demands. The Castle Hill demand reduction program, for example, has achieved 817 kVA of peak demand reduction. In partnership with the NSW Department of Energy, Utilities and Sustainability, and with commitment from leading retailers at the Castle Towers shopping centre, more than 30 energy efficiency projects have been identified.

### Power factor correction

The power factor correction program is another way of reducing demand while providing customer benefits. In areas of high network demand, customers are provided with financial incentives to improve power factor. In 2004-2005, arrangements were entered into with 28 customers resulting in a cumulative 5MVAR reduction.

### Small customer programs

Small customer programs are more embryonic, requiring trials before widespread adoption. These programs typically require detailed investigations, market research and a pilot study, followed by a larger scale trial. In 2004-2005 a number of programs were at the investigation stage, including ice-storage air conditioning, advanced metering, in-home displays, swimming pool pump control and time-of-use and critical peak pricing. It is anticipated that a number of these programs will move into the next stage during 2005-2006.

One small customer program that has been in operation for decades is Integral Energy's controlled load tariffs (off-peak 1 and off-peak 2) that offer a reduced rate for operation of appliances such as water heaters outside of peak times. Integral Energy has over 350,000

customers on controlled load, shifting more than 1,200 GWh out of peak times.

### Greenhouse gas emissions

Reflected in the Environment Policy, the organisation's position on greenhouse gas emissions is implemented through a number of mandatory and voluntary initiatives including:

- **Greenhouse challenge plus**  
Integral Energy entered its ninth year as a voluntary participant in the greenhouse challenge plus program (previously known as the 'greenhouse challenge' program), run by the Australian Greenhouse Office. Under this agreement, Integral Energy has committed to a number of actions designed to reduce greenhouse gas emissions. Progress on actions are reported annually to the Commonwealth Department of Environment and Heritage.
- **NSW greenhouse gas benchmark scheme**  
This mandatory scheme was introduced in NSW on 1 January 2003. Under the scheme, electricity retailers (and other parties) operating in the state must meet greenhouse gas emissions targets through the purchase of low emissions generation. In 2004, Integral Energy once again exceeded its obligations under the scheme.
- **Our customers**  
Our approach to reducing greenhouse gas emissions also recognises the role of our customers. By providing customers with information on greenhouse gas emissions and real options to make informed decisions, Integral Energy can have a significant impact on our greenhouse bottom line.

Over 2,100 home and small business energy audits were conducted in the past year as part of our home energy management scheme (HEMS). The audits provide customers with valuable information to reduce energy consumption and the cost of bills, focusing on hot water, shifting to off-peak consumption, installation of shower roses and compact fluorescents in homes and the promotion of the energy star program.

In addition, a number of presentations were delivered to community organisations on general energy efficiency and the impact of BASIX (the Building Sustainability Index) on new developments.

A particular highlight this year was the NSW Premier's Public Sector Awards where Integral Energy received the Bronze Award for the Solar in Schools program. Together with the Department of Energy, Utilities and Sustainability, and the Department of Education and Training, the award was received for Stage 3 of the Solar in Schools program. Through the program, solar panels are installed in schools around

**Total greenhouse gas emissions**  
Tonnes CO<sub>2</sub>



■ Petroleum products 10346  
 ■ Electricity (consumption) 9800  
 ■ Solid waste 4555  
 ■ HFCs 627  
 ■ SF6 1981

This graph excludes electricity (network) losses 870845

NSW and educational resources about sustainable energy are provided to teachers and students. To date Integral Energy has assisted with the purchase and installation of rooftop photovoltaic systems in over 80 schools around NSW.

The year saw the continuation of the organisation's accredited Green Power products, with an increasing number of commercial and governmental customers choosing to have a portion of their energy requirements met by renewable energy.

### Energy purchases

Sourcing a portion of electricity from renewable and alternative energy projects is a key component in our response to greenhouse gas emissions. Integral Energy continues to meet its obligations under the Mandatory Renewable Energy Target, a federal scheme designed to stimulate investment and uptake of renewable energy technologies. Integral Energy currently purchases energy from hydro and wind generators and non-coal fired sources including advanced technology plants using alternative energy, cogeneration and methane gas.

The gas-fired cogeneration plant at Smithfield in Sydney's west, for example, is a highly efficient source of energy for Integral Energy's customers. Developed by Sithe Energies and Visy paper, this project results in a significant reduction in greenhouse gas emissions each year.

Integral Energy recently entered into an agreement with Energetech Projects Pty Ltd to purchase renewable energy from a wave generator. Located on the outer breakwater of Port Kembla Port,

the unique project will convert the energy available in sea waves into clean electricity.

### Our operations

Integral Energy is committed to purchasing 10% green power for all our buildings and field centres in order to improve the energy rating of our office space. In accordance with the Australian Building Greenhouse Rating (ABGR) scheme, the lighting in the Huntingwood head office was upgraded to reduce voltage input. Further initiatives are planned including a modification of the air conditioning system to minimise energy use while meeting the needs of staff who work in the building around the clock.

### Resource use Water consumption

The positive response of staff to water restrictions across Sydney delivered significant water savings. Water consumption decreased by 12 percent in the past year despite an increase in employees of nearly six percent.

### Waste management and recycling

Reflecting the NSW government's Waste Reduction and Purchasing Policy (WRAPP) Integral Energy is committed to the reduction of waste. Delivery of the waste and disposals roadshow, a training and awareness program, helped to communicate this message to employees.

Although our total waste to landfill increased in the past year – a reflection of our capital works and remedial works programs – the portion of waste recycled was over 55 percent. This compares to the previous year where only 44 percent of the waste stream was recycled.



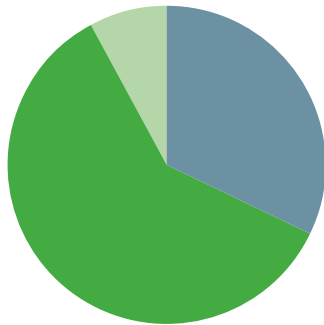
^ John Newton, Contaminated Land, Licensing and Waste Manager, Huntingwood



^ Michael Grant, Electricity Worker Vegetation Management, Katoomba

### Waste by type

Tonnes



#### Landfill 3833

- General waste 1288
- Timber to landfill 1416
- Soil and construction 1129

#### Liquid/Hazardous Waste 943

- Group A liquid waste 888
- Group C septic waste 42
- Hazardous waste 13

#### Recycled 7155

- Vegetation 1252
- Timber to recycling 2318
- Oil 910
- Steel 1482
- Non-ferrous metals 711
- Paper 314
- Soil and Construction 122
- Tyres 15
- Cardboard 10
- IT hardware 9
- Toner cartridges 6
- Oil filters 3
- Plastic 2
- Coolant 1

Recycling initiatives included:

- Timber pole recycling
- Recycling of plastic hardhats, IT hardware and toner cartridges
- Recycling of oil through filtering and the CSIRO developed oil re-refining process.
- Improved waste separation processes to enable recycling of soil and construction waste.

Similar improvements were noted in the liquid and hazardous waste stream which was reduced by half as a result of improved stormwater management in the construction of new bunds and vehicle wash bay restrictions.

In 2004-2005 Integral Energy purchased over 5,600 tonnes of materials to support our growing network. Major materials purchased include timber power poles, power cables, oil, and PVC conduit. The purchase of recycled content paper and envelopes continued in 2004-2005.

### Oil management

With over 18 million litres of oil in service throughout the network, the management and conservation of oil resources remains in sharp focus. Used as an insulating medium in most electrical equipment, the quality

and long-term performance of this resource is closely aligned with network reliability.

We remain committed to recycling and, where appropriate, the re-refining of oil resources with a goal to recycle all suitable oil for reuse throughout the network. In support of this goal, the oil management strategy was developed in 2004-2005.

A key element in the strategy is the proactive management of PCBs. A legacy issue, PCBs were once widely added to oil to improve insulation properties and reduce risk of fire. With 70% of the network now defined as PCB-free, Integral Energy is ahead of schedule in meeting target dates in all relevant guidelines and agreements.

### Assets and impacts

The significant growth experienced in our franchise area has increased the need for environmental impact assessments for significant construction and maintenance works. Conducted in accordance with the *Environmental Planning and Assessment Act 1979*, environmental impact assessments are the key tool to understanding and mitigating the impacts of our assets. The impact assessment process results in the

investigation of social, environmental and economic impacts of developments. Where warranted, monitoring and mitigation measures are implemented to ensure impacts are minimised.

With many sites in service for more than 50 years, environmental issues arising from historical operations are emerging. During the past three years, the organisation has been proactively removing underground storage tanks that were once commonly used at our depot sites for the storage of oil, diesel and creosote (a disused pole treatment). As with many other industries, underground storage tanks occasionally leaked, resulting in localised contamination. Where this has occurred, sites have been remediated to current land use standards at a minimum.

In 2004-2005 Integral Energy removed underground storage tanks and completed the remediation of localised contamination at three depot sites. Another three sites remain in progress, with works expected to be completed in 2005-2006.

### Future challenges

Challenges for 2005-2006 include:

- accelerate the bund program to enable completion during the 2006-2007 financial year;
- complete the substation environmental risk assessment review;
- achieve a sustained reduction in greenhouse gas emissions;
- implement the commitments in the sustainability action plan for 2005-2006.



CLIENT PROFILE  
APPRENTICES TRAINING

*From left to right: second year distribution powerline apprentices, Wayne Bennett, Glen Parker, Nicholas McWhinter, Brad Murray and Stephen Wisemen.*

Training the workforce of the future will ensure we can service the needs of our growing customer base. These apprentices are learning to join electricity cables at our Werrington Training facility. In conjunction with the growth in total staff, the number of apprentices in training totals 125 in 2004-2005. A further 40 apprentices will be recruited in the coming year to build and maintain the electricity network into the future. Further details are in case study 1 on page 30.



^ Greg Balcombe, CIC Training and Development Manager, Huntingwood, Sarah Roberts, Customer Service Representative, Coniston



^ Chris Worall, Electricity Worker, Seven Hills

## Did we meet our challenges?

Challenges for our social performance, and our performance against them, are listed below

### Key challenge

### Status Remarks

Continuing to integrate safety into Integral Energy's business management process, and to continuously improve safety management, working towards the goal of zero accidents, illnesses and injuries.



Safety was a priority focus across our business in 2004-2005. An independent review of our safety procedures in mid-2005, however, identified significant scope for improvement. Accordingly, the organisation is undertaking a comprehensive review of our safety strategy and has narrowed sharply its safety targets for 2005-2006.

Developing a revised occupational health and safety (OHS) communication strategy to raise safety awareness in the workplace and ensure that everyone understands his or her accountability and responsibility for safety.



The OHS communication strategy was revised in 2004-2005. However, with the organisation's overarching safety strategy currently under review, we expect that further revision of the communication strategy will be required during 2005-2006.

To be an employer of choice by finding out the concerns of our employees and working hard to address these.



A staff attitude survey conducted in 2004 identified a range of employee issues and concerns. Other channels of communication include team meetings and informal feedback. In 2004-2005, we sought to address employee concerns, including salary equalisation.

Building organisational capability through our staff, including improving the leadership abilities of our frontline managers through tailored programs, and to work to develop individual career development plans for all employees.



In 2004-2005 we introduced a leadership development program for leading hands and two online training courses. We also undertook further leadership training for senior managers. To date, the Executive team and 67 senior managers have completed the intensive leadership development centre.

Developing a working environment that fosters a high performance culture, including the development of a competency based progression structure to improve the knowledge and skills of award employees; and, the implementation of 360-degree performance surveys.



A competency based progression structure for selected award based positions was developed in 2004-2005 and won support from 80% of award based staff at a vote in September 2005.

The 360-degree performance surveys are now a key feature of our staff appraisal process.

Engendering and fostering a customer service culture throughout the organisation.



Despite an encouraging customer satisfaction rating of 78%, we aim for even better results.



We formalised our approach to financial hardship during 2004-2005 to better serve customers facing financial difficulties.

Continuing to review and rationalise our enterprise agreements and workplace arrangements.



A new two year Terms and Conditions of Employment Award and a new three-year meter reader workplace agreement were negotiated in 2004-2005. Negotiations to consolidate two workplace agreements for network shiftworkers are continuing.

Engaging with stakeholders on matters of mutual interest and concern.



A stakeholder management strategy has been adopted to better identify and address stakeholder concerns. In particular, we are actively engaging with local communities impacted by our capital expenditure program. We also conducted extensive consultations with property developers through its peak industry association in 2004-2005.

- ✓✓ challenge exceeded
- ✓ challenge achieved
- ✗ challenge not achieved
- ▲ ongoing challenge with targets met to date or positive progress shown
- ▼ ongoing challenge with targets not met to date

### SOCIAL PERFORMANCE INDICATORS

#### Employees

##### Employment

- Employed 2,298 full time equivalent staff, an increase of 5.6% on 2003-2004.
- The average age of employees remains at 42; 1.8% of employees are under 20, while 60% of our workforce is aged 40-65.
- In 2004-2005, employee turnover was 4.8%, which compares with 5% in 2003-2004.
- Employed two new cadets, four new electrical engineering graduates and 42 new apprentices. An additional 40 apprenticeships will be offered in 2006.

##### Health and safety

- The lost time injury frequency rate was 6.3 accidents in each one million hours worked. This was above the target of 6.0 and marks a third year of improvement. The target for 2005-2006 is 3.0.
- The total number of lost time injuries in 2004-2005 was 28, four less than the previous year. The long term target remains at zero LTIs.
- The lost time injury severity rate was 53.6 shifts lost in each one million hours worked. This was a positive result, and well below the target of 75. The target for 2005-2006 is 22.
- A total of 114 new Workers' Compensation claims were received during the year. The average cost of all open claims (337) in the year was \$2,550.
- In 2004-2005, there were three serious electrical accidents involving members of the public (one fatal).

##### Staff training and development

- Over 400 staff attended skills-based and leadership training courses from the selection of 20 on offer.
- All the Executive and 67 branch managers attended the Leadership Development Centre.

##### Indigenous relations

- 1% of employees are of Aboriginal and Torres Strait Islander descent. The plan is to increase this to 2% within the next five years through the implementation of the Aboriginal Employment Strategy.

##### Diversity and opportunity

- A procedure has been developed which supports diversity in the workplace. All decisions relating to staff are made on the basis of merit to ensure equity and fairness.

##### Labour/management relations

- Over 65% of employees are represented by a union, primarily the Electrical Trades Union or the United Services Union. Almost 90% of employees are covered by the Integral Energy Terms and Conditions of Employment Award
- A new two year employment award was completed in December 2004 resulting in an annual increase of 4.6% plus a 1% increase in employer sponsored superannuation.
- An improved consultative committee structure was introduced to enhance communication with employees.
- A competency based progression structure for award positions was finalised to provide a pathway for skills development and pay progression through the acquisition and application of competencies.
- In conjunction with relevant unions, a review of award salaries commenced to ensure Integral Energy remains a competitive employer within our industry.

#### Customer performance indicators

- Achieved a customer satisfaction rating of 78%, narrowly missing our target of 80%.
- 163 customers were compensated with payments of \$20 each under our agreed customer service guarantees, largely due to planned outages. This total of \$3,260 compares favourably against payments of \$3,760 in 2003-2004.
- 1,256 customers were enrolled in our customer assistance program to assist residential customers facing financial hardship to pay for their electricity usage.
- Customer connections totalled 4,765 applications comprising 1,335 subdivisions and 3,151 connections of load.
- Disconnections increased from 8,449 in 2003-2004 to 13,044 in 2004-2005 as Integral Energy took steps to intervene earlier to recover debt. An estimated 80% of customers were reconnected within 24 hours after making payments towards their debt.

#### Community performance indicators

- A stakeholder survey demonstrated improvements in Integral Energy's reputation across government and regulatory stakeholders.
- The same survey identified the need to improve processes related to connections for developers and accredited service providers.
- Approximately 1% of pre-tax operating profit was invested in community relations and sponsorship initiatives.



^ Sharon Toohey, Customer Service Representative, Huntingwood, Deann McCartney, Customer Service Representative, Huntingwood



^ Wayne McNair, Regional Safety Manager, Springhill

**SOCIAL PERFORMANCE**

Integral Energy's activities and business decisions impact a wide range of stakeholders: employees, customers, suppliers, shareholders, government, the local communities, and residents living near existing or proposed electrical assets.

Integral Energy strives to act responsibly, equitably and with integrity in all aspects of these relationships – as an employer, electricity service provider, client, community member and neighbour.

This chapter explores the social dimension of Integral Energy's sustainability performance in 2004-2005. The results are promising, indicating improved levels of employee and customer satisfaction, greater stakeholder engagement and increased community involvement.

However, given the diverse and at times conflicting interests of stakeholders, the issues faced are often complex and challenging. As an example, the proposed Vineyard to Rouse Hill electricity upgrade to power the expansion of North West Sydney will greatly benefit many thousands of customers but is a cause of concern for those residents living near the power lines.

To ensure that all stakeholder issues and concerns are addressed in an integrated and balanced way, Integral Energy is guided by our stakeholder management strategy.

The principles underpinning this strategy include pro-active and candid consultation with stakeholders to identify key interests and views regarding the economic, environmental and social aspects of Integral Energy's business operations. This is done through various forums

including employee team briefings, customer research, public forums, call centre analysis, conferences, informal feedback and formal surveys.

Effective social engagement is an evolving process and Integral Energy is making positive headway. A Reputation and Stakeholder survey conducted in mid-2004 re-affirmed the importance of Integral Energy's focus on reputation and stakeholder management. The report indicated that Integral Energy's reputation has improved substantially over the past three years.

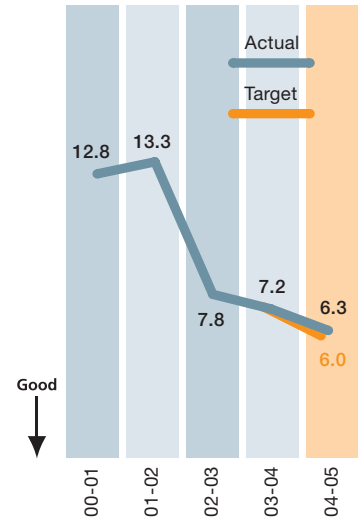
**Our people**

As an employer, Integral Energy has a duty to provide its 2,298 employees with a professional working environment in which staff can expect to carry out their responsibilities safely, to be treated with respect, to be recompensed fairly, and to have opportunities to develop their skills and capabilities.

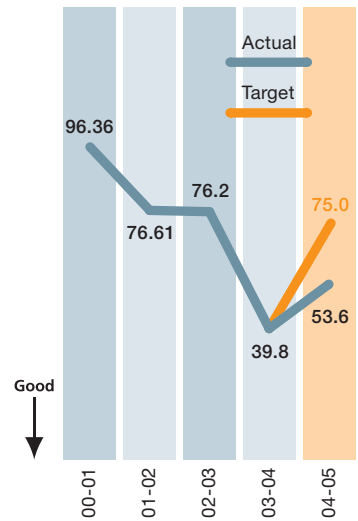
**Working safely**

Safety is the top priority for the organisation and is enshrined in our corporate values. Integral Energy's ultimate safety goal is the institutionalisation of a culture of no harm in the workplace, so that all employees and contractors return to their homes free from injury at the end of each day. In 2004-2005, although achieving the best safety performance in the organisation's history, the company was disappointed to narrowly miss our safety targets. An independent safety workplace assessment by Du Pont in mid-2005 confirmed that there is room for improvement in some key aspects of safety policies and practices. As a result, safety will again be a priority focus in 2005-2006.

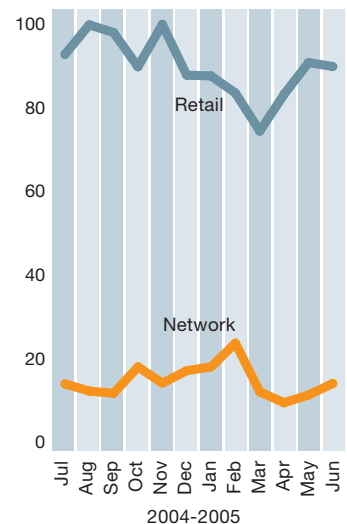
**Lost time injury frequency rate (LTIFR)**  
Per million hours worked



**Lost time injury severity rate**  
Shifts lost per accident



**Customer call rates 000's**



CASE STUDY 1

**Powering our future**

Burgeoning electricity demand and the construction of half a million new homes in Sydney over the next 25 years – with more than half of them in Integral Energy’s franchise – is an enormous challenge facing present and future generations.

Making sure Integral Energy has the right people in the right locations to service our customers is a key factor in meeting the demand for electricity of current and future customers.

Growing the organisation to meet the needs of customers is one of the most significant challenges Integral Energy faces to maintain the sustainable performance of the company. In this environment, the recruitment, retention and training of a talented workforce are critical.

A total of 125 apprentices were undertaking training in 2004-2005, including an intake of 42 new apprentices. A further 40 apprentices will be recruited in the coming year.

Integral Energy’s commitment to training its future workforce has led to investigations to expand its technical training facilities and to locate them more centrally. Integral Energy has also trained more people, not only to meet its increasing customer commitment, but also to strengthen and build its future skills base.

Many of our staff live and work amongst the customers we serve. New field service centres have been opened at South Windsor, Narellan and Springhill and a new all-in-one store at Glendenning is supporting the material needs of our workforce.



^ Peter Tkaczuk, Technical Training Officer, Werrington, introducing first year apprentices to electrical switchgear

Efforts to instil a safety culture throughout the organisation were galvanised by a formal safety management structure. Overall occupational health and safety (OHS) responsibility sits with the Executive OHS Committee, which meets on a regular basis to discuss safety issues and review and develop appropriate policies, procedures and practices. It is supported by a Safety Leadership team, comprising chairpersons of local OHS committees, as well as safety advisers from each of our three regions, and a safety team of 15 staff.

The organisation has a comprehensive Safety Management System, based on a matrix of 20 occupational health and safety elements. Safe working practices are outlined in a series of 600 Safe Work Method Statements currently being completed. Additional resources and changes to the management structure of this project were made

during the year to accelerate its implementation.

An annual self-insurance audit by WorkCover NSW of selected aspects of the Safety Management System was conducted in August 2004. While the overall result was good, the audit identified areas for improvement, including updating policies and procedures. The audit result enables Integral Energy to retain its status as self-insurer for workers’ compensation.

**Labour-management relations**

Awards and workplace arrangements negotiated in 2004-2005 comprised:

- A new employment award resulted in increases totalling 4.6% plus a 1% increase in employer sponsored superannuation per annum over the next two years.

- A new three-year Integral Energy Meter Readers Workplace Arrangement and Field Officers Workplace Arrangement, including an increase to meter reading targets for a designated route.
- Negotiations to consolidate two separate shiftwork workplace arrangements for the network business commenced in 2005 and are continuing with a view to introducing a new arrangement by December 2005.

In 2004-2005 Integral Energy finalised a competency based progression structure for selected award based positions. Following extensive consultation, the system was endorsed by 80% of staff in a voting process in September 2005. This system finalises lingering inequities in conditions as a result of the merger of the former Illawarra and Prospect Electricity almost 10 years ago.



^ Monique Dennaoui, Accounts Payable Officer, Coniston, Christine McNamara, Accounts Payable Team Leader, Coniston



^ Neil Mills, Distribution Operations, Parramatta, Ben Grant, First Year Apprentice, Distribution Powerline

In mid-2005, Integral Energy adopted a review of award salaries as part of an equalisation initiative to ensure it offers employees fair pay in comparison to competitors and remains competitive within the industry by retaining and recruiting appropriately skilled workers. This approach is especially important against a backdrop of relatively full employment and a shortage of skilled engineers and electrical workers throughout Australia. Working closely with relevant unions, Integral Energy identified 54 positions for review and is currently researching salary information on these specific roles. This review is due to be finalised by 1 December 2005.

An improved consultative committee structure was introduced in 2005 to broaden representation across the organisation in a forum to discuss issues relating to staff.

### Training and education

The skills shortage throughout the power industry presents a major constraint in Integral Energy's efforts to maintain and upgrade its electricity network and has longer-term labour implications for all electricity companies. In this environment, the recruitment, retention and training of a talented workforce are critical.

A total of 125 apprentices were undertaking training in 2004-2005, including the 2005 intake of 42 new

apprentices. The organisation will recruit a further 40 apprentices in 2006. To cope with their technical training needs, Integral Energy commissioned a new Apprentice Training Facility, to be centrally located in its franchise area at Hoxton Park in Sydney's south west.

Seventy seven senior staff, including, the Chief Executive Officer, General Managers and all branch managers, attended an intense assessment of leadership competencies as part of the Leadership Development Centre and a follow-up program 'Achieving your leadership potential'.

Following the success of our Management Development Program, Integral Energy introduced a

## Equal Employment Opportunity (EEO)

### Trends in the representation of EEO groups<sup>1</sup> % of total staff<sup>2</sup>

	Benchmark or target <sup>3</sup>	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
Women	50%	26%	32%	32%	33%	<b>22%</b>
Aboriginal people and Torres Strait Islanders	2%	1%	1%	1%	1%	<b>0.9%</b>
People whose first language was not English	20%	6%	7%	8%	8%	<b>7%</b>
People with a disability	12%	2%	2%	2%	2%	<b>5%</b>
People with a disability requiring work related adjustments	7%	1%	1%	1%	1%	<b>1%</b>

<sup>1</sup> Staff numbers are as at 30 June

<sup>2</sup> Excludes casual staff

<sup>3</sup> Set by the NSW Government

### Trends in the distribution of EEO groups<sup>1</sup> Distribution Index<sup>2</sup>

	Benchmark or target	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
Women	100	54	58	60	55	<b>97</b>
Aboriginal people and Torres Strait Islanders	100	35	34	26	14	<b>91</b>
People whose first language was not English	100	40	65	63	76	<b>109</b>
People with a disability	100	28	30	32	34	<b>96</b>
People with a disability requiring work related adjustments	100	26	25	31	32	<b>32</b>

<sup>2</sup> A Distribution Index of 100 indicates that the centre of the distribution of the EEO group across salary levels is equivalent to that of other staff. Values less than 100 mean that the EEO group tends to be more concentrated at lower salary levels than is the case for other staff. The more pronounced this tendency is, the lower the index will be. In some cases the index may be more than 100, indicating that the EEO group is less concentrated at lower salary levels.

## Employee numbers

	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
Total staff <sup>1</sup>	1,668	1,765	1,944	2,050	2,176	<b>2,298</b>
% (reduction)/increase	(9.6)	5.8	10.1	5.5	6.1	<b>5.6</b>
% cumulative reduction <sup>2</sup>	46.7	43.6	37.8	34.4	30.4	<b>26.5</b>

Note:

<sup>1</sup> Staff numbers are based on full time equivalents. Significant reductions in staff numbers occurred as a result of voluntary exit programs in June-July 1998.

<sup>2</sup> These figures represent the change in employee numbers since the creation of Integral Energy in 1995 through the merger of Prospect and Illawarra Electricity. At the time of the merger the total employee number was 3,127.

leadership development program for all leading hands, focussed primarily on field operation groups. At 30 June 2005, 33% of the target audience had attended the program that will continue during 2005-2006.

### Employee communication

An increased emphasis on strategic staff engagement underpinned a new organisation-wide internal communication framework, following disappointing benchmarking results into staff communication and cultural change in 2003-2004. This resulted, for example, in the revitalisation of key communication channels designed to build more sophisticated approaches to employee engagement.

The bi-annual staff attitude survey was conducted in late 2004. The survey, with a healthy 79% response rate, posted some of the most positive results of any staff survey conducted at Integral Energy over the past ten years, yet results fell short of the 15% improvement target from the last survey. Some of the significant improvements point to better teamwork across business units and improved morale at Integral Energy.

In 2005-2006, safety will again be the top internal communication priority. A comprehensive employee engagement strategy will be rolled out as part of Integral Energy's breakthrough Safety Strategy.

### Customers

Integral Energy strives to go further for customers by delivering outstanding service and tailored products and services. In addition, it seeks to listen and respond to customer concerns and is committed to providing a safe and reliable power supply.

Our 12-member Customer Consultative Committee provides input into policy, planning and decision-making on a wide range of customer and community-related issues. The committee represents groups including senior citizens, community and environmental interests, business customers and the Aboriginal community. Subjects discussed during the five meetings held in 2004-2005 included customer service, plans to improve reliability and address growth, renewable energy initiatives, demand management, regulatory and pricing strategies, and customer assistance.

### Listening and responding to customer comment

Integral Energy's approach to customer comment is based on the Australian Standard AS 4269. Customer comments, complaints and compliments are managed through the customer care branch which uses a centralised system, established in 1994 and upgraded over the years, to keep up with changing technology and differing business and customer needs. This provides a single point of contact for our customers enabling more efficient and effective resolution of issues.

During 2004-2005 a total of 10,470 comments, compliments and complaints were managed. This represents a decrease of 13% compared to the previous year and includes 290 compliments largely for call centre staff and the management of issues by regional staff during emergencies. The majority of complaints received related to matters concerning billing, high consumption, debt recovery and marketing. Integral Energy aims to resolve complaints as quickly as

possible and had 75% of complaints resolved within 10 days, 86% within 15 days and 96% within 30 days.

### Managing hardship

In recognition that more could be done to assist customers experiencing financial difficulties, Integral Energy formalised its policy for dealing with customers deemed to be in financial hardship during 2004-2005. Managed by specially trained case managers, customers are given one-on-one attention in managing their accounts. By the end of June 2005, 1,256 customers had enrolled in the program with 108 successfully meeting their financial obligations.

Integral Energy's customer care staff have actively engaged with community welfare organisations on its policy and have worked with the Wesley Mission to train staff in the early identification of customer hardship. A new brochure outlining the program has been developed and translated into four languages.

As a result of customer feedback and in light of a concerning increase in customer disconnections, Integral Energy has initiated an extensive benchmarking study to compare and contrast its approach to managing customer hardship against that used by other utilities.

### Public safety

As part of its commitment to public safety, Integral Energy undertakes to provide safety information above and beyond its regulatory obligations. Communication during 2004-2005 targeted safety messages to the general public in the franchise area, and two specific high risk sub-segments of the general public: home handyman and school children (10-16 years); as well as general contractors.



^ Larry Lane, Project Manager – Civil, Seven Hills, Steve Wellington, Project Manager Transmission Civil, Seven Hills



^ Paul Gatt, Technologist, Seven Hills, Michael Wagner, Technologist, Seven Hills, Brian Mitchell, Safe Work Method Statements Officer, Huntingwood

## CASE STUDY 2

### Keeping customers INpower

Financial difficulties can strike virtually anyone, anytime, for any number of reasons.

When we become aware that customers are facing financial difficulties, Integral Energy will help by offering flexible and realistic payment options. By contacting us, customers can arrange assistance that best suits their needs.

At any point in time, Integral Energy is assisting over 13,000 customers in managing their electricity account. This assistance ranges from temporary help with a current bill, undertaking free energy audits or helping customers facing financial hardship become enrolled in our INpower program.

Free energy audits are available to those customers who want to manage both their electricity consumption and their account. Energy audits allow these customers to maintain their lifestyle and manage their electricity usage within their capacity to pay. Integral Energy conducted over 5,000 audits during the past year over the phone or through visiting customers in their homes.

The INpower program was developed during 2004 to ensure Integral Energy made every effort to assist customers facing financial hardship. Through our INpower program, we tailor a solution that will best suit the customer to ensure that their account reduces. While on the program, electricity will not be disconnected as long as the customer makes agreed payments.

Our staff have been specially trained by the Wesley Mission to ensure that they can readily identify customers facing significant financial hardship. In 2004 1,256 customers were enrolled in the program with 108 successfully meeting their obligations.

By providing new services tailored to our customers needs, Integral Energy will continue to grow to serve customers better.



^ Jan Twyman and Joy Aquiatan, Customer Assistance Consultants, Huntingwood

In a joint initiative with Abigroup Leighton, Integral Energy provided electrical safety training to trade contractors working on the construction of the M7 Westlink motorway project.

The Public Electrical Safety Awareness Plan is available on our website.

### Community

As Integral Energy continues to roll out its capital works program, the need for effective community engagement has intensified. One of the largest projects underway is the proposed Vineyard to Rouse Hill electricity upgrade to serve more than 20,000 customers in Sydney's north-west sector. Engagement to date includes: two public meetings; the establishment of a Community Advisory Group, with representation from the local council, landowners,

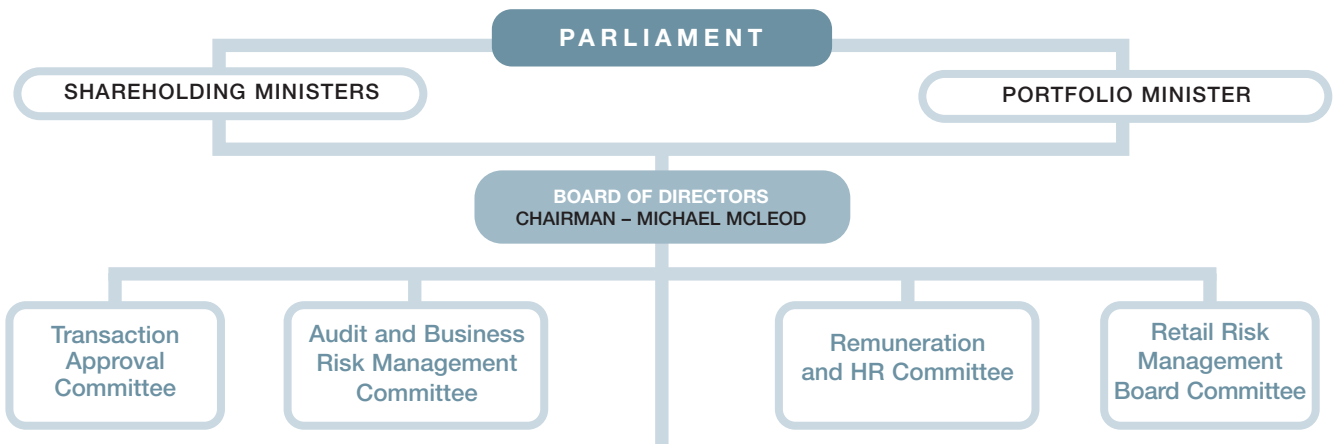
and other interested parties, which meets on a regular basis; eight community newsletters; a dedicated website; media releases; ministerial briefings; and the preparation of an Environmental Impact Statement for public display and comment. Integral Energy is also actively engaging with stakeholders in the Blue Mountains, Bella Vista and other areas where capital projects are planned.

Integral Energy's stakeholder survey also signalled opportunities to improve the organisation's customer connection process, along with its service delivery to property developers and local councils. As a result, extensive consultation was undertaken with the Urban Development Institute of Australia and a series of local meetings with councils were held.

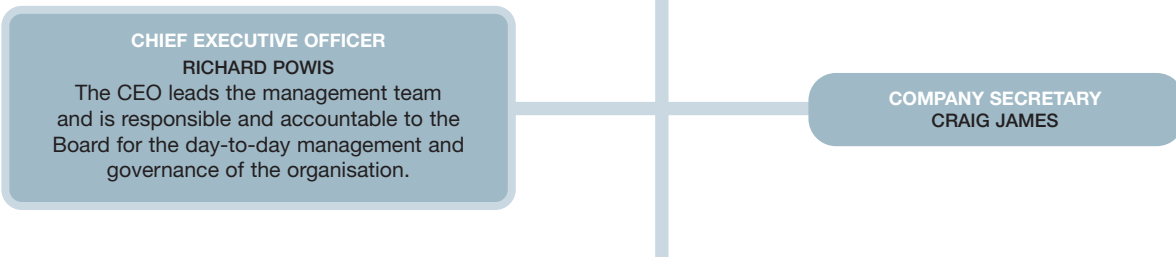
Integral Energy continues to support local communities across our franchise through a broad range of initiatives, including strategic sponsorships and its workplace giving program.

Integral Energy participates in carefully chosen sponsorships which enables it to demonstrate its core brand values and to further strengthen links between the organisation, employees and local communities.

Since the launch of its workplace giving program I care! in July 2004, more than \$90,000 has been donated to the 12 charities supported by the program, through pre-tax payroll employee donations and matching funds from Integral Energy. An additional \$19,000 was donated by I care! to The Salvation Army South East Asia Tsunami Appeal.



The Board of Directors is responsible for the overall corporate governance of Integral Energy and operates four committees.



**CHIEF EXECUTIVE OFFICER**  
**RICHARD POWIS**  
The CEO leads the management team and is responsible and accountable to the Board for the day-to-day management and governance of the organisation.

**COMPANY SECRETARY**  
**CRAIG JAMES**

## GENERAL MANAGERS OF BUSINESS UNITS

Each General Manager is to direct, control and hold to account the organisational resources, units and processes for which they are responsible. Specific committees in the business units assist the organisation in its pursuit of sustainability.

### GENERAL MANAGER ASSET MANAGEMENT

**Alan Flett**

Building and maintaining the network assets.

### GENERAL MANAGER ENGINEERING PERFORMANCE

**John Wallace**

Planning, operating and monitoring the network to ensure its capacity, sustained integrity and long-term value. Meter services and data.

### GENERAL MANAGER FINANCE AND COMPANY SECRETARY

**Craig James**

Providing financial strategy, discipline and cash flow management for the organisation by the accurate capture, control and reporting of financial performance to key stakeholders.

### GENERAL MANAGER HUMAN RESOURCES

**Alan Priestley**

Supporting the organisation to manage people to achieve a healthy and safe environment, and to develop, attract and retain high quality people.

### GENERAL MANAGER REGULATORY AND CORPORATE AFFAIRS

**Karen Waldman**

Providing custodianship and development of Integral Energy's positioning from a business strategy, regulatory and reputational perspective.

### GENERAL MANAGER CAPITAL SOLUTIONS

**Rod Howard**

Ensuring delivery of the network capital investment program in line with the Strategic Asset Management Plan (SAMP).

### GENERAL MANAGER RETAIL AND CUSTOMER SERVICES

**Bruce Rowley**

Developing, marketing and selling retail products that meet customer needs and maximise the value of the customer base.

### GENERAL MANAGER TRADING AND MAJOR ACCOUNTS

**Stephen Lowe**

Matching financial supply to demand over time while minimising cost and risk of energy supply.

## INTEGRATED SUITE OF ETHICAL PRINCIPLES

### BOARD CODE OF CONDUCT

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

### CODE OF ETHICS

The Code sets out the standards 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 the overall business relationship.

## Board of Directors



^ Left to right: John Fahey, Richard Powis, Emma Stein, Michael McLeod, Paul Sinclair, Janice Reid and Terry Downing.

### Michael McLeod, Chairman

FAICD

Initially appointed Non Executive Director in March 2000 and appointed Chairman in March 2002. Michael is a Director of Milyn Holdings Pty Ltd and Australasian Medical Insurance Ltd. He was also Managing Director at Willis Corroon Australia Ltd and CEO at Richard Oliver International Pty Ltd. He is a Fellow with the Australian Institute of Company Directors.

### Terry Downing

B COMM, M MGMT, DIP BUS STUDIES (INSURANCE)

Initially appointed 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 a Management Consultant with extensive experience in the financial services sector. Previously Terry held a number of senior executive positions in the financial services sector.

### Professor Janice Reid

B SC (ADELAIDE), MA (HAWAII),  
MA (STANFORD), PHD (STANFORD)

Initially appointed as Non Executive Director in March 2001. Janice was re-appointed in March 2005. Vice-Chancellor

of the University of Western Sydney since 1998, Janice has served on the boards of community organisations and public agencies at regional, State and Commonwealth levels in the health, welfare, education and cultural fields. Janice is a Fellow of the Academy of Social Sciences in Australia, a Fellow of the Australian Institute of Management, and a Member of the Australian Institute of Company Directors. In recognition of her service to cross-cultural public health research and the development of health services, Janice was made a Member of the Order of Australia in January 1998.

### John Fahey

DIPL

Initially appointed as a Non Executive Director in March 2002. Former Premier of NSW and member of State Parliament for 12 years (1984-96), John was elected to Federal Parliament in 1996, and served as Minister for Finance and Administration in the Howard government from 1996 until 2001. Besides adding to the Board's commercial focus, John represented residents from within Integral Energy's franchise area during his State and Federal Parliamentary career, giving him a close insight into the needs and interests of local customers.

### Paul Sinclair

Re-appointed Non Executive Director in May 2005. Paul is an Organiser, Electrical Trades Union (New South Wales Branch). He is also Acting Assistant Secretary of the Metal Trades Federation of Unions, New South Wales Branch and is a Director on the Boards of National Electricity Superannuation Scheme (NESS), Electrotech Skill Centre, and Electro Group Training.

### Emma Stein

BSC HONS PHYSICS, MBA

Appointed Non Executive Director in October 2004. Emma is also a Non Executive Director for DUET (an AMP and Macquarie joint venture), Arc Energy, and the Growth Centres Commission. Emma is also a member of the University of Western Sydney Strategy and Resources Board Committee and the NSW President for NAPCAN (National Association for Prevention of Child Abuse and Neglect). In the UK, Emma had a career as a Managing Director for a number of large multi-national firms.

### Richard Powis

BEC DIPED

Appointed Executive Director and Chief Executive Officer in January 2000. Full biographical details are listed in the Executive group section on page 40.

### Corporate Governance

The Board strives to ensure that good governance sits at the heart of Integral Energy. It ensures the delivery of outcomes sought by the shareholder; supports our people and the operations of the business; ensures sound financial and risk management practices, and effective compliance and auditing programs. The Board and Executive see good governance as a critical prerequisite for high-performance, and risk management as an essential part of good governance.

Integral Energy improved corporate governance arrangements by focusing on key principles of accountability, transparency and openness, integrity, stewardship, leadership and efficiency. Key results included:

- Established increasingly comprehensive reporting to the Board Audit & Business Risk Management Committee.
- Developed and implemented a risk management charter, risk management plan and a fraud and corruption control plan.
- Introduced a Board code of conduct
- Review of the staff code of ethics and introduction of a statement of business ethics for our suppliers.
- Updated all Board, company and business policies and procedures.
- Revised all Board and executive committee charters.
- Established an ethics line (1800 ETHICS).

### Risk management

Integral Energy aims to instil a culture of risk management throughout the organisation. It utilises the Australian standard AS/NZ 4360 – risk management as the basis of its approach.

Integral Energy defined its strategic risks across areas that include public and workplace safety, network reliability, program delivery, positioning of the retail business, the environment, stakeholder management, trading activities, legislative compliance, and business continuity. Responsibility for managing these risks and reporting progress against plans has been assigned.

### Insurance

A review of the adequacy of Integral Energy's insurance program in mid 2005 concluded that Integral Energy's insurance program is adequate, with no substantial gaps in coverage, and all participating markets meet with acceptable insurer security requirements.

### Compliance management

Integral Energy's compliance program has been reviewed and makes use of elements of the voluntary Australian Standard AS 3806 – Compliance Programs. This year, a detailed compliance plan was prepared allowing the organisation to further advance a compliance culture.

### Ethics and conduct

Integral Energy's code of ethics is discussed and distributed to all employees at induction. The code includes relevant elements of the

Australian Standard AS 8002 – Organisational Codes of Conduct. All managers across the organisation receive training in the code and it is available to the public via Integral Energy's website.

A code of conduct for the Board was developed which recognises the unique responsibilities and obligations of the Directors and a statement of business ethics was designed and distributed to 1,367 of our largest suppliers.

### Internal audit

Internal audit operates as an independent, objective, assurance and consulting function designed to add value to Integral Energy's operations. Internal auditing arrangements are founded on key principles:

- Internal audit has been established as an independent review function, resourced and directed by the Board and which operates in cooperation with the management of the organisation.
- The role of internal audit is defined in an internal audit charter approved by the audit committee.
- The scope of the function is set out in a risk-based annual audit plan approved by the audit committee.
- The activities of internal audit are appropriately coordinated with those of the Audit Office of NSW (external auditor). The external auditor does not provide internal auditing services.
- Internal audit uses benchmarking to compare its operations and effectiveness with those of other organisations.



^ Bret Tierney, Stores Manager, Glendenning



^ Paul Mills, Technical Communication Manager, Huntingwood

### Executive committees

There are several executive committees comprised of one or more members of the executive to provide integration of initiatives or specialist and independent advice. These key committees operate according to charters set down by the Chief Executive Officer and include the contract review committee, enterprise information and communications technology planning committee, executive environmental steering committee, executive occupational health and safety committee and the network capital governance committee. A review of the charters of all committees was undertaken during the year, with updates and improvements made where required.

### Review of the Board and its committees

In December 2004 the Chairman conducted a review of the membership of the Board committees and discussed the proposed membership of the Board committees

with reference to the CLERP guidelines regarding the rotation of committee members. As a result the membership of the Board committees was changed and became effective from the date of the resolution.

### Term of office

Except for the Chief Executive Officer, all directors can be appointed by the voting shareholders in periods of up to five years. A vacancy in the office of director (excepting the CEO and Labor Council nominee), either by retirement or other reason, is filled by a nominee of the voting shareholders. The current directors and their terms are set out in the table below:

### Board committees

The Board operates four committees, each with a specific function and charter, which is reviewed each year. The Board committees are Audit and Business Risk Management; Retail Risk Management; Remuneration and Human Resources; and Transaction Approval Committee.

The Board committees meet at least four times a year, except for the Transaction Approval Committee, which meets when required. The key responsibilities and objectives of these committees are outlined in the Appendices.

During the course of its work, the Board and its committees are able to draw on independent advice to assist in their deliberations and to supplement internal advice they receive.

### Policies and management systems

Integral Energy's Board and company policies provide an overall sense of direction and areas for actions related to the triple bottom line (financial, environmental and social responsibility). Examples of the policies and management systems in place for protection of the triple bottom line are described below.

### Occupational health and safety

Our commitment to occupational health and safety is set out in our Occupational Health and Safety Policy

The current directors and their terms are set out in the table below:

Director	Term (including re-appointments)		
Michael McLeod	1 March 2000 – 28 February 2007	Non Executive Director	Chairman from 1 March 2002
Terry Downing	1 March 2000 – 28 February 2006	Non Executive Director	Deputy Chairman from 1 March 2002
John Fahey	1 March 2002 – 28 February 2006	Non Executive Director	
Professor Janice Reid	1 March 2001 – 28 February 2006	Non Executive Director	
Paul Sinclair	1 January 1999 – 30 April 2006	Non Executive Director	
Emma Stein	12 October 2004 – 11 October 2007	Non Executive Director	
Richard Powis	Appointed 17 January 2000	Executive Director	Chief Executive Officer

The remuneration of each non-executive director is paid out of the funds of Integral Energy, and is determined by the voting shareholders. The CEO is not entitled to any additional remuneration for being an executive director. For further details about remuneration please refer to page 90.

and strategic plan. The organisation is committed to zero incidents, injuries and occupational illnesses. This commitment is supported by the following underlying principles:

- Safety is our first priority.
- We believe that all accidents are preventable.
- Working safely is a condition of employment.
- We will not take shortcuts when it comes to safety.
- We will not accept unsafe behaviour from anyone.
- We expect personal accountability for safety from everyone.

### Environment

The organisation has developed and implemented an environmental management system (EMS) in accordance with the international standard ISO 14001.

Underpinning our EMS is an Environment Policy, which sets out a commitment to seek continual improvement in environmental performance, compliance with legislative requirements and, where reasonable and practicable, exceed these requirements.

In 2005, our Environment Policy was broadened to reflect our position on greenhouse gas emissions. The position acknowledges that greenhouse gas emissions are a significant public policy issue and defines our response. The greenhouse gas emissions position is reflected in the policy together with the following other principles:

- Resource conservation
- Maintenance of public health
- Prevention of pollution
- Greenhouse gas emissions

- Stakeholder engagement
- Consultation, education and training of staff and contractors

### Supply chain management

Integral Energy purchases a range of goods and services in carrying out its business. The principle of obtaining value for money is at the core of all of Integral Energy's business relationships with suppliers, including people and businesses that provide goods and services, contractors and sub-contractors.

As part of our commitment to sustainability, Integral Energy seeks to partner with suppliers that share our values of environmental protection and sustainable business practices. This includes the procurement of environmentally friendly and socially responsible products and services.

### Directors' meetings – 2004-2005

Attendance at Board and Board Committee meetings in 2004-2005 is set out in the table below.

Director	Integral Energy Australia Board		Audit and Business Risk Board Committee		Retail Risk Management Resources Committee		Remuneration and Human Approval Committee		Transaction Committee	
	A	B	A	B	A	B	A	B	A	B
Michael McLeod	11	11	6	7	10	11	3	3	2	2
Terry Downing	11	11	7	7	11	11	–	–	2	2
John Fahey	10	11	7	7	–	–	1	1	–	–
Professor Janice Reid	11	11	5	5	–	–	3	3	–	–
Paul Sinclair	11	11	5	5	–	–	3	3	–	–
Emma Stein	7	7	2	2	7	7	–	–	1	1
Richard Powis	11	11	7	7	11	11	3	3	2	2

A Number of meetings attended. B Number of meetings held during the Director's Term of Office 2004-2005.

Notes:

- 1 The Transaction Approval Committee was established on 9 October 2002 to deal with urgent Board approvals required between meetings and has a rotating membership.
- 2 The Retail Risk Management Board Committee by its charter has a rotating membership.
- 3 Richard Powis attended the Audit and Business Risk Management Committee meetings as an invitee.
- 4 Paul Sinclair attended the Board meeting in May 2005 as an invitee pending his re-appointment as a Director. Mr Sinclair was paid an honourarium for the period.
- 5 Professor Reid attended the Board meeting and Remuneration and Human Resources Committee meeting in March 2005 as an invitee pending her re-appointment as a Director.
- 6 The membership of Board Committees was reviewed in December 2004.
- 7 Emma Stein was appointed to the Board on 12 October 2004.
- 8 A Special Meeting of the Audit and Business Risk Management Committee was held in November 2004 regarding the 2003-2004 IPART Regulatory Accounting Statements.
- 9 Michael McLeod attended the Remuneration and Human Resources Committee meetings as an invitee.



^ Geoff Woods, Scada and Communications Manager, Huntingwood, David Hennessy, Automation Specialist, Huntingwood



^ Pole replacement, Dapto

While working within a sound economic basis, Integral Energy values organisations and products that can demonstrate a commitment to the following principles:

- Compliance with all legislative and regulatory requirements, including relevant mandatory standards.
- Minimisation of environmental pollution.
- Sound resource usage, including the responsible use of energy and whole of life costs.
- The "redesign, reduce, reuse and recycle" principles of waste minimisation.
- Sound and ethical treatment of the workforces used to produce products and services.

Guidelines have been put in place to ensure that Integral Energy promotes open competition and that transactions are carried out in a fair and ethical manner. The selection of goods and services by Integral Energy is subject to a risk analysis and risk management plan to ensure that all goods and services purchased by Integral Energy are safe, without undue risk to health and the environment.

### Notifications to the Independent Commission Against Corruption (ICAC)

All principal officers of NSW public agencies have an obligation under section 11 of the *Independent Commission Against Corruption Act 1988* to report to ICAC any matter the officer suspects, on reasonable grounds, may concern corrupt conduct. As a State-owned corporation, Integral Energy is required to notify ICAC of any

serious breaches of policy, procedure or the code of ethics that may constitute corrupt conduct as defined in sections 7 and 8 of the ICAC Act.

In 2004-2005, there were seven notifications to ICAC in accordance with the provision of the *Independent Commission Against Corruption Act*. Integral Energy received one notification from ICAC concerning allegations of corrupt conduct. There was no direct involvement by ICAC in any of these notifications.

In September 2004, Integral Energy provided ICAC with an update on the recommendations arising out of the "Report on investigation into the conduct of an officer of Integral Energy", published in September 2003. A further and final report will be presented to ICAC.



^ Left to right: John Wallace, Karen Waldman, Richard Powis, Rod Howard, Bruce Rowley, Alan Priestley, Craig James, Alan Flett, Stephen Lowe.

### Richard Powis

BEC DIPED

Appointed Chief Executive Officer of Integral Energy in January 2000. Richard is a board member of the Energy Supply Association of Australia (esaa) and the Energy Industries Superannuation Scheme, and is Chairman of the Energy Networks Association. Prior to his appointment, Richard was part of the senior management team at TransGrid, and was a central figure in the development of the National Electricity Market.

### Alan Flett

BE IND ENG (HONS)

Appointed General Manager Asset Management in July 2000. Alan's career has seen him employed with companies in Australia and overseas, including ABB, Brook Crompton Parkinson and Cablemakers Australia. His overseas work included service in both the UK and China. Whilst working with ABB, Alan worked in both Transmission and Distribution areas and prior to joining Integral Energy was General Manager of ABB's Power Transformer division, in Australia and China, a position he had held since 1986.

### Rod Howard

BE (HONS), M ENG SC, B BUS, MBA, MIE AUST, GAICD

Appointed General Manager Capital Solutions in July 2002. Rod's previous responsibilities included General Manager Full Retail Contestability, General Manager Corporate Development/Company Secretary, General Manager Business Development, General Manager Integral Energy Contracting and, with Prospect Electricity, General Manager Network Services, General Manager Corporate, and Manager Technical Services. Rod joined Prospect in 1974 as a cadet engineer. He is a Director of the NSW Energy and Water Ombudsman scheme (EWON).

### Craig James

BFIN ADMIN, CA, CPA, ACIS, DIP FIN SERVICES (AFMA)

Appointed General Manager Finance in August 2000 and Company Secretary in October 2002. Previously employed in senior finance/secretarial and commercial roles within the commercial and public sectors. Craig has wide experience in accounting, financial and administrative re-organisation.

### Stephen Lowe

DIP FIN SERVICES (AFMA)

Appointed General Manager Trading in September 2001 and General Manager Major Accounts in April 2005. Stephen has a wealth of experience in energy trading, including responsibility for originating structured deals in electricity, as well as generating new business and expanding the client base for a major US organisation. His past experience includes establishing the Commonwealth Bank's energy trading capabilities, as well as recommending strategies on the development of a commodity trading department. Stephen also has experience in asset risk management, proprietary trading, and as a senior dealer in international finance markets.

### Alan Priestley

B SC (HONS), G DIP LABOUR RELATIONS, MBA

Appointed General Manager Human Resources in February 2001. Previously employed as General Manager Human Resources for Royal & Sun Alliance Insurance. Broad experience in the human resources field includes senior appointments with Mt Newman Mining and BHP Collieries Division.

### Bruce Rowley

B BUS, ASS DIP LG

Appointed General Manager Retail and Customer Services with Integral Energy in February 2004, previously General Manager Sales and Marketing. Prior to joining Integral Energy in February 2001, Bruce held the positions of General Manager Energy Services and then General Manager Sales and Marketing during 5 years with Advance Energy. In the previous 10 years Bruce gained wide experience in a number of senior management roles in marketing, corporate communication, strategic planning and customer service. Bruce is a Director of the Energy Retailers Association of Australia and is a member of the Council of the NSW Energy and Water Ombudsman (EWON).

### Karen Waldman

BSC(ARCH), BARCH (HONS), MBA, GAICD

Appointed General Manager Regulatory and Corporate Affairs in February 2004. Prior to this Karen was General Manager Regulatory from October 2002, General Manager Corporate Development/ Company Secretary from July 2000, and General Manager Integral Energy Contracting from April 1998. Previously employed by Sydney Water where she held positions including Regional Manager, Central Region, and Senior Strategic Planner. Prior to that she was General Manager and Director of her architectural and construction company, specialising in project management. Karen is a member of the Audit and Risk Management Committee of the University of Western Sydney.

### John Wallace

BE, BFIN ADMIN

Appointed General Manager Engineering Performance in July 2000. John's previous responsibilities with Integral Energy included Acting General Manager Integral Energy Contracting and Branch Manager in the Contracting business. Prior to the formation of Integral Energy, John was employed as the Divisional Engineer Development with Illawarra Electricity, after joining the electricity distribution industry as a cadet engineer.

### Overview

Integral Energy continues to deliver a strong performance, achieved through focus on business fundamentals, appropriate discipline and corporate governance.

Each financial year, as part of its obligations as a State Owned Corporation, Integral Energy is required to submit a Statement of Corporate Intent (SCI) to its two voting shareholders, the NSW Treasurer and the Special Minister of State. The SCI sets out key policies, performance targets and business directions which have been agreed to by the Board of Integral Energy and its shareholders.

### Summary

The SCI states the nature and scope of the main commercial activities of Integral Energy and the strategic direction of the organisation. In addition, the SCI includes details of:

- the objectives of the organisation;
- performance targets and projections;
- social programs and non-commercial activities;
- financial asset and liability management (including energy trading risk management); and
- commitment to network service quality.

Integral Energy's profit before income tax expense was \$57.8m favourable compared to the 2004-2005 SCI target. Total distribution consisting of income tax expense and dividend distribution was \$45.1m favourable compared to same.

### Net profit

Integral Energy achieved a net profit before tax including capital contributions of \$191.4m, representing an increase of \$27.3m compared to the previous year.

Revenues from ordinary activities increased \$27.7m compared to the previous year due to additional Network use of system income, revenue from the sale of NSW Greenhouse Gas Abatement Certificates and capital contributions. This has been partly offset by reduced electricity sales and a reduction in revenue from the sale of non-current assets, with the previous year including \$23.7m relating to the sale of Shellharbour.

Expenses from ordinary activities (including amounts set aside to provisions) increased slightly compared to the previous year by \$0.6m. Electricity purchases and other costs of operations were favourable, in line with a reduction in revenue from electricity sales, partly offset by additional employee benefit expenditure and increased depreciation. An increased network capital program over the preceding financial years is the main driver for the increase in depreciation expense.

### Shareholder return

Integral Energy is committed to delivering sustainable and attractive returns to its shareholder, the NSW Government.

With the strong performance this year, the Directors declared a first and final dividend of \$114.1m, representing an increase of \$11.8m compared to the previous year, and an increase of \$27.5m compared to the 2004-2005 SCI target.

The dividend payment is equivalent to 90% of net operating profit after income tax, including capital contributions.

### Balance sheet

Working capital decreased by \$229.2m as at the end of June 2005, primarily due to \$175.7m of debt maturity moving from non-current to current, an increase in current tax liabilities of \$27.8m, and an increase in provisions totalling \$16.8m. Amounts receivable from debtors and amounts payable to creditors remained consistent with previous year levels.

Non current assets increased by \$231.9m compared to the previous year. The written down value of property, plant and equipment increased by \$201.0m, with \$45.0m of this increase attributable to revaluation adjustments. Increases in prepayments, emission rights and assets held for sale contributed \$27.8m to the movement from the previous year.

Non current liabilities decreased by \$55.0m compared to the previous year, with the movement of debt from current to long term being the major driver.

### Cash flows

The net decrease in cash held over the 2004-2005 financial year was \$5.9m.

Net cash flows from operating activities of \$251.5m increased \$59.5m compared to the previous year, with increased receipts in the course of operations the main contributor.

Net cash used in investing activities of \$249.3m increased \$55.5m compared to the previous year, consistent with increased capital expenditure levels.

Net cash used in financing activities of \$8.1m decreased \$36.2m compared to the previous year, primarily due to the draw down of borrowings and partly offset by higher dividend payments.

The Corporation had unused credit facilities of \$83.4m at the end of June 2005.

### Capital expenditure

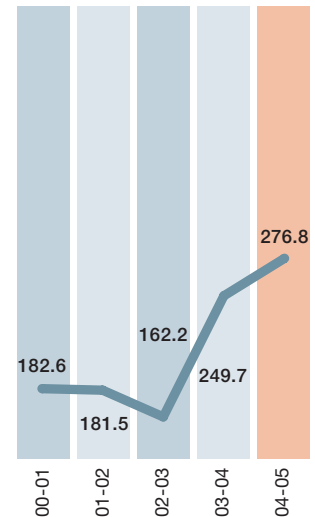
The 2004-2005 financial year resulted in a significant increase in capital spend, with expenditure totalling \$256.8m, including \$202.8m spent on improving network assets.

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 derive optimal returns to the shareholder. The SAMP sets priorities and summarises the investment required in the network in order to maintain ongoing capability of the network consistent with a "best in class" network asset manager.

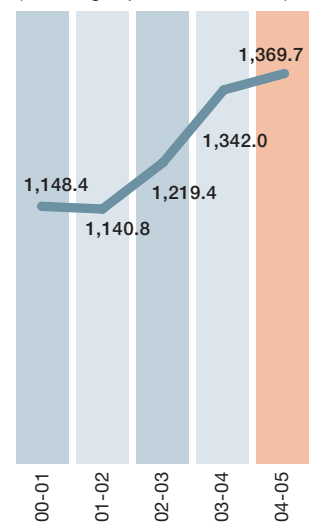
### Credit rating

Standard & Poor's maintained Integral Energy Australia's credit rating at AA for long-term corporate credit, and provided NR (not rated) for the short-term rating. The long-term credit rating continues to reflect NSW Government ownership of Integral Energy Australia.

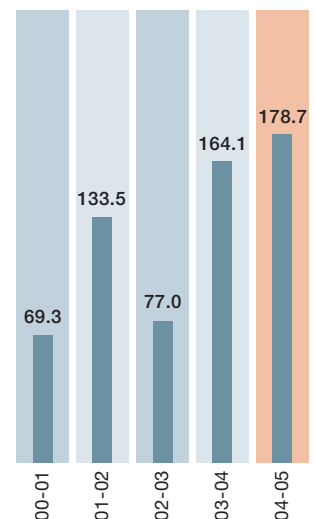
### Earnings before interest and tax (EBIT) \$m (including capital contributions)



### Revenue \$m (including capital contributions)



### Tax and Dividend Distribution \$m (including special dividends)



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## Directors' Report

Year ended 30 June 2005

The Board of Directors of Integral Energy (the Corporation) has pleasure in submitting the accounts of the economic entity for the period 1 July 2004 to 30 June 2005, and the independent audit report thereon.

### Directors

Details of Directors appear on page 35.

### Directors' meetings

Details of meetings and attendance by Directors are given in the Corporate Governance section on page 38.

### Results

The after tax profit of the economic entity for the year was \$126.8m.

### Principal activities

The principal activities of the economic entity during the course of the period ended 30 June 2005 were the purchase, distribution and sale of electricity, meter data provision and maintenance, and the construction and management of electricity distribution assets.

### State of Affairs

The corporation operates in the New South Wales, Victoria, ACT, Queensland and South Australia 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 entity for the period ending 30 June 2005 are presented on pages 47 to 74 inclusive.

### Events subsequent to the 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.

### Likely developments

The economic entity will pursue its vision **"to be Australia's leading energy business"** by focusing on delivering superior value to our customers and our shareholders now and into the future. Its business purpose is **"to be a successful energy corporation with a long term focus on being a best practice asset manager and competing in profitable energy markets"**.

Further information about likely developments in the operations of the economic entity 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 economic entity.

### Environmental regulation performance

The economic entity's environmental and waste discharge obligations are regulated under both State and Federal Law. All environment performance obligations are monitored by the Environmental Steering Committee and subjected, from time to time, to Government agency audits and site inspections. The economic entity has a policy of at least complying, but in most cases exceeding, its environment performance obligations. No environmental breaches have been notified by any Government Agency during the year ended 30 June 2005.

### Directors' benefits

During the period no Director of the entity has received, or become entitled to receive, any benefits by reason of a contract made by the entity 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.

### Rounding of amounts

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

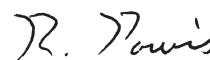
Signed in accordance with a resolution of the Directors:



**Michael McLeod**

Director

8 September 2005



**Richard Powis**

Director

8 September 2005



GPO BOX 12  
SYDNEY NSW 2001

## Integral Energy Australia

To Members of the New South Wales Parliament

### Audit Opinion

In my opinion, the financial report of Integral Energy Australia:

- (a) presents fairly Integral Energy Australia's financial position as at 30 June 2005 and its financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and
- (b) complies with section 41B of the *Public Finance and Audit Act 1983* (the Act).

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

### The Board's Role

The financial report is the responsibility of the members of the Board of Integral Energy Australia. It consists of the statement of financial position, the statement of financial performance, the statement of cash flows and the accompanying notes.

### The Auditor's Role and the Audit Scope

As required by the Act, I carried out an independent audit to enable me to express an opinion on the financial report.

My audit provides *reasonable assurance* to Members of the New South Wales Parliament that the financial report is free of *material* misstatement.

My audit accorded with Australian Auditing and Assurance Standards and statutory requirements, and I:

- evaluated the accounting policies and significant accounting estimates used by the Board in preparing the financial report, and
- examined a sample of the evidence that supports the amounts and other disclosures in the financial report.

An audit does not guarantee that every amount and disclosure in the financial report is error free. The terms 'reasonable assurance' and 'material' recognise that an audit does not examine all evidence and transactions. However, audit procedures used should identify errors or omissions significant enough to adversely affect decisions made by users of the financial report or indicate that Board members had not failed in their reporting obligations.

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.

### Audit Independence

The Audit Office complies with all applicable professional independence requirements of Australian professional ethical pronouncements. The 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.

A handwritten signature in black ink, appearing to read 'S R Stanton'.

**S R Stanton CPA**

Director, Financial Audit Services

SYDNEY

9 September 2005

## Statement of Financial Performance

Year ended 30 June 2005

	Notes	2005 \$'000	2004 \$'000
<b>Revenues from ordinary activities</b>	2	<b>1,369,761</b>	1,342,046
Expenses from ordinary activities	3	<b>(1,092,997)</b>	(1,092,378)
Borrowing cost expense	3	<b>(85,361)</b>	(85,527)
<b>PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE</b>		<b>191,403</b>	164,141
<b>INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES</b>	4(a)	<b>(64,590)</b>	(61,817)
<b>PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE</b>		<b>126,813</b>	102,324
Net increase/(decrease) in asset revaluation reserve	19(a)(ii)	<b>44,557</b>	41,780
<b>TOTAL REVENUES, EXPENSES AND VALUATION ADJUSTMENTS ATTRIBUTABLE TO MEMBERS OF INTEGRAL ENERGY AND RECOGNISED DIRECTLY IN EQUITY</b>		<b>44,557</b>	41,780
<b>TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS ATTRIBUTABLE TO MEMBERS OF INTEGRAL ENERGY</b>		<b>171,370</b>	144,104

The above Statement of Financial Performance should be read in conjunction with the accompanying notes.

# Statement of Financial Position

At 30 June 2005

	Notes	2005 \$'000	2004 \$'000
<b>CURRENT ASSETS</b>			
Receivables	6	119,185	113,998
Estimated revenue from unread meters		94,747	107,496
Inventories		15,041	13,839
Other financial assets	7	42,553	42,646
Deferred tax assets	4	26,824	29,091
Other	8	18,780	15,895
<b>TOTAL CURRENT ASSETS</b>		<b>317,130</b>	322,965
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	2,611,149	2,410,121
Deferred tax assets	4	33,393	30,340
Other	10	45,745	17,936
<b>TOTAL NON-CURRENT ASSETS</b>		<b>2,690,287</b>	2,458,397
<b>TOTAL ASSETS</b>		<b>3,007,417</b>	2,781,362
<b>CURRENT LIABILITIES</b>			
Bank overdraft	20(b)	7,081	1,265
Payables	11	166,542	168,015
Interest-bearing liabilities	12	465,864	290,213
Current tax liabilities	4	28,846	1,033
Deferred tax liabilities	4	31,653	35,478
Provision for dividend	5	114,132	102,324
Provisions	13	69,004	64,041
Other	14	13,568	10,942
<b>TOTAL CURRENT LIABILITIES</b>		<b>896,690</b>	673,311
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing liabilities	15	730,861	800,756
Deferred tax liabilities	4	130,340	122,758
Provisions	16	111,817	101,579
Other	17	14,570	17,472
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>987,588</b>	1,042,565
<b>TOTAL LIABILITIES</b>		<b>1,884,278</b>	1,715,876
<b>NET ASSETS</b>		<b>1,123,139</b>	1,065,486
<b>EQUITY</b>			
Contributed equity	18	335,046	335,046
Reserves	19(a)	724,700	680,143
Retained profits	19(b)	63,393	50,297
<b>TOTAL EQUITY</b>		<b>1,123,139</b>	1,065,486

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

## Statement of Cash Flows

Year ended 30 June 2005

	Notes	2005 \$'000	2004 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts in the course of operations		1,430,783	1,395,585
Payments in the course of operations		(1,063,862)	(1,080,024)
Interest received		1,791	4,362
Interest paid		(83,424)	(86,643)
Income tax paid		(33,805)	(41,276)
<b>NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES</b>	20(a)	<b>251,483</b>	192,004
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of property, plant and equipment		7,638	31,003
Purchase of property, plant and equipment		(256,899)	(224,757)
<b>NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES</b>		<b>(249,261)</b>	(193,754)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings		94,193	-
Repayment of borrowings		-	(1,418)
Dividends paid		(102,324)	(42,954)
<b>NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES</b>		<b>(8,131)</b>	(44,372)
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>			
Cash at the beginning of the financial year		41,381	87,503
<b>Cash at the end of the financial year</b>	20(b)	<b>35,472</b>	41,381

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of accounting

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*, Urgent Issues Group Consensus Views, and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report has been prepared in accordance with the historical cost convention and, except where stated, does not take into account changing money values or current valuations of non-current assets.

### (b) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous year.

### (c) Foreign currencies

Transactions in foreign currencies are converted to local currency at the rate of exchange ruling at the date of the transaction. Foreign currency monetary items that are outstanding at the reporting date are translated using the spot rate at the end of the financial year. All resulting exchange differences arising on settlement or re-statement are recognised as revenues and expenses for the financial year.

### (d) Cash and cash equivalents

Cash on hand and in banks, and short-term deposits are stated at nominal value. For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash, net of outstanding bank overdrafts. Bank overdrafts are carried at the principal amount. Interest is charged as an expense as it accrues.

### (e) Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

### (f) Investments

#### *Other financial assets*

Current other financial assets comprise:

- (i) investments for a fixed term where the maturity date is twelve months or less from year end balance date; or
- (ii) readily tradeable investments which are likely to be converted to cash within twelve months of year end balance date even though the maturity date may be greater than twelve months from year end balance date.

Non-current other financial assets are those repayable or with a maturity date of more than twelve months from year-end balance date.

### (g) Inventories

Inventories are valued at the lower of cost and 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 a first-in-first-out basis; and
- (ii) Finished goods and work-in-progress - cost of direct material, labour and a proportion of manufacturing overheads based on normal operating capacity.

### (h) Unread meters

At reporting date, Integral Energy accrues an estimate of electricity consumed where the meter has not been read. This calculation is recognised as revenue on unread meters in the Statement of Financial Performance.

### (i) Recoverable amount

Non current assets are not carried at an amount above their recoverable amount, and where a carrying value exceeds this recoverable amount, the asset is written down. In determining recoverable amount, the expected net cash flows have been discounted to their present value using a weighted average pre-tax cost of capital of 6.8% as the discount rate.

### (j) Property, plant and equipment

#### *(i) System property, plant and equipment and non-system land and buildings*

- 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 1041 "Revaluation of Non-Current Assets" and NSW Treasury Policy and Guidelines Paper TPP 03-02 "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.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Any increment resulting from the revaluation is credited directly to an asset revaluation reserve except that, to the extent that the increment reverses a revaluation decrement previously recognised as an expense in the Statement of Financial Performance in respect of that same class of assets, it is recognised as revenue in the Statement of Financial Performance for the reporting period. A revaluation decrement is recognised as an expense in the Statement of Financial Performance except that, to the extent that the decrement reverses a revaluation increment previously credited to, and still included in the balance of, an asset revaluation reserve in respect of that same class of asset, it is debited directly to that revaluation reserve (refer note 19(a)).

### (ii) Other property, plant and equipment

Other property, plant and equipment assets are initially recorded in the Statement of Financial Position at cost and are depreciated as outlined below.

### (iii) Valuation

Each class of property, plant and equipment is recognised in the Statements of Financial Position at "fair value" in accordance with Australian Accounting Standard AASB 1041 "Revaluation of Non-Current Assets" and NSW Treasury Policy and Guidelines Paper TPP 03-02 "Valuation of Physical Non-Current Assets at Fair Value". In respect of classes of assets for which there exists an active market, fair value is the amount for which the assets could be exchanged between knowledgeable and willing parties in an arm's length transaction, having regard to the highest and best use of the assets for which other parties would be willing to pay. 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.

In June 1998, a consortium comprising Gutteridge, Haskins & Davey (GHD), Worley International and Arthur Andersen carried out a valuation of the system property, plant and equipment. This valuation was adopted as of 1 January 2001 and necessary entries were made to the asset values to reflect the new values. The revaluation increment resulting from the recognition of the new values has been recognised and credited to the revaluation reserve.

System land and non-system land and buildings are revalued on a cyclical basis over a three year period. The valuation of system land and non-system land and buildings in 2004-2005 was conducted by Edward Rushton Australia Pty Ltd.

Works of Art are revalued every three years. The valuation of works of art in 2003-2004 was conducted by Lawson Menzies.

### (iv) Depreciation

Depreciation of property, plant and equipment assets is calculated using the straight-line method at rates based on the assets estimated useful economic life. Depreciation is charged on a pro-rata basis for assets purchased or sold during the year. Depreciation rates are shown in note 9(a).

### (v) Disposal of assets

Any gain or loss on the disposal of assets is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds of the disposal, and is included in the Statement of Financial Performance for the year. When a revalued asset is sold, that portion of the asset revaluation reserve is effectively realised and transferred to retained profits in accordance with NSW Treasury Policy and Guidelines Paper TPP 03-02 "Valuation of Physical Non-Current Assets at Fair Value".

### (vi) Capitalisation threshold

Property, plant and equipment assets purchased below \$500 are expensed in the year of acquisition.

### (vii) Sale and lease back of system assets

During 1994-1995, the then Prospect Electricity entered into a sale and leaseback transaction and the leaseback is classified as a finance lease. The resulting lease liability, defeasance, revaluation of the finance lease and loss on the transaction resulted in a zero net effect. The finance lease asset established by the sale and leaseback transactions were consequently capitalised at their optimised deprival value, and are being amortised over the remaining economic life of the assets concerned.

### (k) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership. Finance leases effectively transfer substantially all the risks and benefits incidental to ownership of the leased item, and are capitalised at the present value of the minimum lease payments, and disclosed as property, plant and equipment under lease. A lease liability of equal value is also recognised.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability, with the interest expense calculated using the interest rate implicit in the lease and charged directly to the Statement of Financial Performance.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***(continued)***(l) Other non-current assets**

The purchase method of accounting is used for all acquisitions of assets. Cost is measured as the fair value of the assets given up or liabilities undertaken at the date of the acquisition plus incidental costs directly attributable to the acquisition. The costs of assets constructed or internally generated include the cost of materials and direct labour. Directly attributable costs and other overheads are also capitalised to the asset.

The carrying amounts of non-current assets are reviewed to determine whether they are in excess of the recoverable amount at balance date. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount.

**(m) Payables**

Liabilities for trade creditors and other amounts are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the entity.

**(n) Borrowing 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 lease finance charges.

Loans outstanding at 30 June 2005 are shown in the Statement of Financial Position as either a current or non-current liability, and are net of any unamortised discount and premium.

**(o) Provisions**

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required, and a reliable estimate can be made of the amount of the obligation.

**(p) Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity, and the revenue can be reliably measured.

**(i) Revenue from operating activities**

Revenue from operating activities comprises revenue earned from the provision of energy products and other ancillary services to entities outside the economic entity.

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 1(h)).

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. A developer or customer cash contribution is recognised as revenue when the network is extended or modified consistent with the terms of the contribution.

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) Revenue from non-operating activities**

Surplus or deficit arising out of revaluation of the superannuation pooled funds held by Energy Industries Superannuation Scheme is recognised when notified of such event by the trustees (refer note 1(r)(ii)).

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.

**(q) Taxes****Income Taxes**

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent that timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

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.

## Notes to the Financial Statements

30 June 2005

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
(continued)**Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST except:

- (a) 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
- (b) receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows 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.

Commitments and contingencies are disclosed gross of the amount of GST recoverable from, or payable to, the taxation authority.

**(r) Employee benefits****(i) General**

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date.

Long service leave and maturing allowance provisions have been based on an actuarial assessment undertaken by Cumpston Sarjeant Truslove Pty Limited as at 30 June 2004 and the associated formulae provided for intervening periods between assessments.

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

- (a) Rate of investment return (after tax and investment related expenses) 6%;
- (b) Rate of general salary increase 3.5%

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

Liability for employee benefits (long service leave and maturing allowance) which are not expected to be settled within twelve months are discounted at 6% per annum.

**(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. A letter from the Fund

Secretary dated 11 July 2005 advises a prepaid superannuation contribution of \$34.2m (\$25.9m in 2004). This represents the difference between the gross liability assessed of \$118.8m and the reserve account balance of \$153.0m. The increase in the surplus of \$8.3m has been recognised as income in the books of the Corporation, and has increased the previous balance of prepaid assets.

The actuary adopted the following assumptions:

	2004/2005	Thereafter
Rate of investment return	12.5%	7.5% pa
Rate of salary escalation	4.0%	4.0% pa
Rate of CPI increase	2.5%	2.5% pa

**(s) Financial instruments**

Financial instruments give rise to positions that are a financial asset of either Integral Energy or its counterparty, and a financial liability (or equity instrument) of the other party. For Integral Energy these include cash assets, receivables, other financial assets, payables, other financial liabilities (which includes deposits and retentions), deferred income, interest bearing liabilities and dividends payable. All amounts are recorded at cost and are recognised on an accrual basis. As at 30 June 2005, all derivative instruments related to energy trading and interest rate swaps.

When an interest rate swap is terminated early and underlying hedged transactions remain expected to occur as designated, the gains or losses arising on the swap upon its early termination continue to be deferred, and are progressively brought to account over the period during which the hedge transactions are recognised.

In accordance with AAS33 - "Presentation and Disclosure of Financial Instruments", information in respect of interest rate risk, credit risk and electricity purchase risk is disclosed at note 27.

Deferred gains as at 30 June 2005 were \$3.64m (\$4.91m in 2004). These gains will be recognised as revenue over the following periods:

	2004/2005 \$'000	2003/2004 \$'000
Not later than one year	\$1,157	\$1,274
Later than one year and not later than five years	\$2,302	\$2,884
Later than five years	\$179	\$754
<b>Total</b>	<b>\$3,638</b>	<b>\$4,912</b>

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***(continued)***(t) 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*.

During 2004-2005 a consulting actuary, David A Zaman, undertook the annual investigation of Integral Energy's estimated liability for workers compensation as at 30 June 2005. The liability is measured as the present value of future payments, and as at 30 June 2005, was estimated to be \$5.3m (\$5.6m in 2004), including the liability for dust related diseases which is estimated to be minimal.

**(u) Energy trading operations**

The trading activities of the entity expose it to changes in the market price of electricity. It is the entity's policy to enter into financial transactions in order to protect it from adverse price fluctuations. Energy trading transactions are designated as hedges and accounted for on the same basis as the underlying exposure.

**(v) Rounding of amounts**

Amounts shown in the financial statements are rounded to the nearest thousand dollars whenever figures are presented in tabular form. However, where an amount is quoted within text, the amount is rounded to the nearest whole dollar. Where amounts over \$10m are involved, the values are shown as \$xx.xm except where they are compared to figures below \$10m.

**(w) NSW Treasury exemptions**

NSW Treasury has granted Integral Energy exemptions from certain disclosure requirements of part 3 of the *Public Finance and Audit Act 1983*, to avoid disclosure of commercially sensitive information to external competitors.

Exemptions are as follows:

**(i) Preparation of trading profit and loss statements****(ii) Preparation of notes:**

- (a) Identifying amounts set aside for the renewal or replacement of fixed assets;
- (b) Identifying amounts set aside to any provision for known commitments;
- (c) Identifying amounts appropriated for the repayment of loans, advances, debentures or deposits;
- (d) Identifying excess of non-current asset sale over replacement cost;
- (e) Identifying material items of income and expenditure on a program or activity basis.

**(x) 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.

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.

All purchases of certificates are accounted for as an asset at cost. The surrender of these certificates will be recognised in the underlying purchase commitment as an element of electricity purchase costs.

**(y) Segment Reporting**

Integral Energy operates predominantly in one industry segment, that being the distribution of energy, and within one geographical sector, Australia.

## Notes to the Financial Statements

30 June 2005

	Notes	2005 \$'000	2004 \$'000
<b>2. REVENUE FROM ORDINARY ACTIVITIES</b>			
<b>Revenues from operating activities</b>			
Metered sales of electricity		<b>865,423</b>	871,858
Estimated revenue on unread meters	1(h)	<b>94,747</b>	107,496
Street lighting		<b>1,886</b>	2,434
Total electricity sales		<b>962,056</b>	981,788
Network use of system income		<b>223,373</b>	184,907
Reimbursement of community service obligations		<b>20,720</b>	21,238
<i>Sales revenue from operating activities</i>		<b>1,206,149</b>	1,187,933
Other revenue		<b>80,250</b>	66,189
Interest income		<b>1,791</b>	4,362
Capital contributions		<b>65,634</b>	47,017
<i>Other revenue from operating activities</i>		<b>147,675</b>	117,568
Total revenues from operating activities		<b>1,353,824</b>	1,305,501
<b>Revenues from non-operating activities</b>			
Prepaid superannuation contributions	1(r)(ii)	<b>8,299</b>	5,542
Revenue from sale of non-current assets		<b>7,638</b>	31,003
Total revenues from non-operating activities		<b>15,937</b>	36,545
<b>Total revenues from ordinary activities</b>		<b>1,369,761</b>	1,342,046

Notes	2005 \$'000	2004 \$'000
<b>3. EXPENSES AND LOSSES/(GAINS)</b>		
<b>(a) Expenses</b>		
<i>Amount set aside to provisions</i>		
Doubtful debts	5,273	7,871
Employee benefits	36,521	23,066
Other provisions	46,293	39,940
<b>Total amount set aside to provisions</b>	<b>88,087</b>	<b>70,877</b>
<i>Expenses relating to ordinary activities</i>		
Bad debts written off	6,353	4,913
Consultants	2,033	2,506
Contractors	35,468	32,403
Employee benefits	113,029	107,165
Superannuation contributions	8,702	7,662
Operating lease rentals	2,349	2,060
Other operations and services	692,755	729,969
<b>Total expenses relating to ordinary activities</b>	<b>860,689</b>	<b>886,678</b>
<i>Depreciation of non-current assets</i>		
Buildings	2,276	1,637
System plant and equipment	92,016	86,785
EDP Equipment	24,308	21,511
Motor vehicle, mobile plant, unregistered plant	6,099	5,691
Radio communication equipment	376	416
Other non system equipment	3,310	2,948
<b>Total depreciation of non-current assets</b>	<b>128,385</b>	<b>118,988</b>
<i>Amortisation of non-current assets</i>		
Leased system assets	15,836	15,835
<b>Total amortisation of non-current assets</b>	<b>15,836</b>	<b>15,835</b>
<b>Total depreciation and amortisation expenses</b>	<b>144,221</b>	<b>134,823</b>
<b>Expenses from ordinary activities</b>	<b>1,092,997</b>	<b>1,092,378</b>
<i>Borrowing costs expensed</i>		
Gross interest expense	64,375	61,243
Net amortisation of discounts/premiums on loans	11,563	13,768
Government guarantee	9,423	10,516
<b>Total borrowing costs expensed</b>	<b>85,361</b>	<b>85,527</b>
<b>(b) Losses/(Gains)</b>		
Net loss/(gain) on disposal of property, plant and equipment	2,182	(17,897)

## Notes to the Financial Statements

30 June 2005

Notes	2005 \$'000	2004 \$'000
<b>4. INCOME TAX</b>		
The prima facie tax, using tax rates applicable on profit and extraordinary items differs from the income tax provided in the financial statements as follows:		
Prima facie tax on profit from ordinary activities	57,421	49,242
Tax effect of permanent differences		
Depreciation of buildings	93	(15)
Depreciation on assets not depreciable for tax	9,411	9,229
Prepaid superannuation	(2,490)	(1,663)
Other	-	84
Workers Compensation Claim write-off	111	-
Under/(over) provision of previous year	44	716
Workers Compensation Claim write-off	-	465
Prior period tax adjustment	-	3,759
<b>Income tax expense attributable to ordinary activities</b>	<b>64,590</b>	<b>61,817</b>
<b>Deferred tax assets and liabilities</b>		
Current tax payable	28,846	1,033
Provision for deferred income tax - current	31,653	35,478
Provision for deferred income tax - non-current	130,340	122,758
Future income tax benefit - current	26,824	29,091
Future income tax benefit - non-current	33,393	30,340
This future income tax benefit will only be obtained if:		
(a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;		
(b) the conditions for deductibility imposed by tax legislation continue to be complied with; and		
(c) no changes in tax legislation adversely affect the entity in realising the benefit.		
<b>5. DIVIDENDS PAID OR PROVIDED FOR</b>		
Provision for dividend - NSW Treasury	114,132	102,324
	<b>114,132</b>	<b>102,324</b>
<b>6. RECEIVABLES (CURRENT)</b>		
Trade debtors - electricity	109,482	107,500
Provision for doubtful debts	(12,796)	(14,068)
	<b>96,686</b>	<b>93,432</b>
Other debtors	23,446	21,320
Provision for doubtful debts	(947)	(754)
	<b>22,499</b>	<b>20,566</b>
	<b>119,185</b>	<b>113,998</b>

Notes	2005 \$'000	2004 \$'000
<b>7. OTHER FINANCIAL ASSETS (CURRENT)</b>		
<b>Private sector securities</b>		
Money market securities	40,937	36,481
Term deposits	-	6,000
	<b>40,937</b>	<b>42,481</b>
<b>Public sector securities</b>		
Term deposits	-	-
Unit trust deposits	1,616	165
	<b>1,616</b>	<b>165</b>
	<b>42,553</b>	<b>42,646</b>
<b>Market value of</b>		
<b>Private sector securities</b>		
Money market securities based upon buy back rates	41,003	36,693
Market value of term deposits	-	6,025
	<b>41,003</b>	<b>42,718</b>
<b>Public sector securities</b>		
Market value of term deposits	-	-
Unit trust deposits	1,616	165
	<b>1,616</b>	<b>165</b>
	<b>42,619</b>	<b>42,883</b>
Public sector securities include financial assets invested with NSW Treasury Corporation. Private sector securities include financial assets invested with non Government-owned bodies.		
<b>8. OTHER CURRENT ASSETS</b>		
Prepaid superannuation	8,000	8,000
Prepayments	10,780	7,895
	<b>18,780</b>	<b>15,895</b>

## Notes to the Financial Statements

30 June 2005

	Notes	2005 \$'000	2004 \$'000
<b>9. PROPERTY, PLANT AND EQUIPMENT</b>			
<b>Non system land and buildings</b>			
Freehold land		<b>52,126</b>	43,325
	9(b)	<b>52,126</b>	43,325
Buildings		<b>67,422</b>	64,790
Accumulated depreciation		<b>(4,139)</b>	(1,443)
	9(b)	<b>63,283</b>	63,347
<b>Total non system land and buildings</b>		<b>115,409</b>	106,672
<b>System assets</b>			
Leased system assets		<b>378,629</b>	378,629
Accumulated amortisation		<b>(110,828)</b>	(94,992)
	9(b)	<b>267,801</b>	283,637
System plant and equipment		<b>2,376,266</b>	2,153,874
Accumulated depreciation		<b>(578,235)</b>	(488,318)
	9(b)	<b>1,798,031</b>	1,665,556
System land		<b>175,174</b>	129,883
	9(b)	<b>175,174</b>	129,883
Work in progress		<b>103,867</b>	74,724
	9(b)	<b>103,867</b>	74,724
Capital stores		<b>211</b>	185
	9(b)	<b>211</b>	185
<b>Total system assets</b>		<b>2,345,084</b>	2,153,985

	Notes	2005 \$'000	2004 \$'000
<b>9. PROPERTY, PLANT AND EQUIPMENT (continued)</b>			
<b>Non system plant and equipment</b>			
EDP Equipment		<b>139,356</b>	134,286
Accumulated depreciation		<b>(84,705)</b>	(64,109)
	9(b)	<b>54,651</b>	70,177
Motor vehicle, mobile plant, unregistered plant		<b>67,889</b>	64,031
Accumulated depreciation		<b>(22,658)</b>	(20,186)
	9(b)	<b>45,231</b>	43,845
Radio communication equipment		<b>7,971</b>	7,842
Accumulated depreciation		<b>(7,643)</b>	(7,238)
	9(b)	<b>328</b>	604
Other plant and equipment		<b>54,568</b>	57,718
Accumulated depreciation		<b>(33,333)</b>	(36,771)
	9(b)	<b>21,235</b>	20,947
Work in progress		<b>29,211</b>	13,891
	9(b)	<b>29,211</b>	13,891
<b>Total non system plant and equipment</b>		<b>150,656</b>	149,464
<b>Total property, plant and equipment</b>		<b>2,611,149</b>	2,410,121
Total property, plant and equipment		<b>3,452,690</b>	3,123,178
Accumulated depreciation and amortisation		<b>(841,541)</b>	(713,057)
<b>Total written down amount</b>		<b>2,611,149</b>	2,410,121

- (i) Market valuations for properties are based on independent external consultant's valuation where available (see Note 1(j)).
- (ii) System assets are valued at ODRC (deemed to be fair value in accordance with NSW Treasury Accounting Policy and Guidelines Paper TPP 03-02 "Valuation of Physical Non-Current Assets at Fair Value", as there is no material difference between the two) (see Note 1(j)).
- (iii) Assets other than system assets and land and buildings are valued at depreciated historical cost (deemed to be fair value in accordance with the above policy, as there is no material difference between the two) (see Note 1(j)).

**(a) Depreciation rates**

Buildings	2.50% - 12.38%
System plant and equipment	1.67% - 33.33%
EDP Equipment	10.00% - 50.00%
Motor vehicle, mobile plant, unregistered plant	10.00%
Radio communication equipment	14.28%
Other non system plant and equipment	4.29% - 33.33%

## Notes to the Financial Statements

30 June 2005

	Notes	2005 \$'000
<b>9. PROPERTY, PLANT AND EQUIPMENT (continued)</b>		
<b>(b) Reconciliations</b>		
Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current financial year.		
<b>Freehold land</b>		
Carrying amount at beginning		43,325
Additions		7,391
Disposals		(72)
Revaluations		12,742
Transfers		(80)
Transfers - Land held for sale		(11,180)
<b>Carrying amount at end</b>		<b>52,126</b>
<b>Buildings</b>		
Carrying amount at beginning		63,347
Additions		3,628
Disposals		(1)
Revaluations		(1,919)
Depreciation expense		(2,276)
Transfers		504
<b>Carrying amount at end</b>		<b>63,283</b>
<b>Leased system assets</b>		
Carrying amount at beginning		283,637
Amortisation expense		(15,836)
<b>Carrying amount at end</b>		<b>267,801</b>
<b>System plant and equipment</b>		
Carrying amount at beginning		1,665,556
Additions		228,380
Disposals		(2,830)
Revaluations		(1,362)
Distribution Transformer Obsolescence Provision		303
Depreciation expense		(92,016)
<b>Carrying amount at end</b>		<b>1,798,031</b>
<b>System land</b>		
Carrying amount at beginning		129,883
Additions		10,094
Disposals		(394)
Revaluations		35,511
Transfers		80
<b>Carrying amount at end</b>		<b>175,174</b>
<b>System work in progress</b>		
Carrying amount at beginning		74,724
Additions		202,515
Completed projects		(173,372)
<b>Carrying amount at end</b>		<b>103,867</b>

Notes	2005 \$'000
<b>9. PROPERTY, PLANT AND EQUIPMENT (continued)</b>	
<b>System capital stores</b>	
Carrying amount at beginning	185
Additions/movements	26
<b>Carrying amount at end</b>	<b>211</b>
<b>EDP equipment</b>	
Carrying amount at beginning	70,177
Additions	9,233
Disposals	(500)
Transfers	49
Depreciation expense	(24,308)
<b>Carrying amount at end</b>	<b>54,651</b>
<b>Motor vehicle, mobile plant, unregistered plant</b>	
Carrying amount at beginning	43,845
Additions	14,225
Disposals	(6,740)
Depreciation expense	(6,099)
<b>Carrying amount at end</b>	<b>45,231</b>
<b>Radio communication equipment</b>	
Carrying amount at beginning	604
Additions	93
Transfers	7
Depreciation expense	(376)
<b>Carrying amount at end</b>	<b>328</b>
<b>Other non system plant and equipment</b>	
Carrying amount at beginning	20,947
Additions	4,220
Disposals	(62)
Transfers	(560)
Depreciation expense	(3,310)
<b>Carrying amount at end</b>	<b>21,235</b>
<b>Non system work in progress</b>	
Carrying amount at beginning	13,891
Additions	54,027
Completed projects	(38,769)
Other adjustments	62
Depreciation expense	-
<b>Carrying amount at end</b>	<b>29,211</b>

## Notes to the Financial Statements

30 June 2005

	Notes	2005 \$'000	2004 \$'000
<b>10. OTHER NON-CURRENT ASSETS</b>			
Prepaid superannuation		26,235	17,936
Prepayments		1,097	-
Emission Rights		7,233	-
Assets held for sale		11,180	-
		<b>45,745</b>	17,936
<b>11. PAYABLES (CURRENT)</b>			
Trade creditors		28,682	25,225
Accruals		123,623	130,490
Other		14,237	12,300
		<b>166,542</b>	168,015
<b>12. INTEREST-BEARING LIABILITIES (CURRENT)</b>			
Unsecured - other loans		465,864	290,213
		<b>465,864</b>	290,213
<b>13. PROVISIONS (CURRENT)</b>			
Employee benefits	28	27,043	25,085
Self insurance (i)		23,542	25,438
Other provisions (ii)		18,419	13,518
		<b>69,004</b>	64,041
(i) An amount for the Appin bushfires has been provided in self insurance.			
(ii) Specific other provisions are not detailed due to commercial and legal sensitivity.			
<b>14. OTHER CURRENT LIABILITIES</b>			
Deposits and retentions		10,146	8,991
Unearned income		3,422	1,951
		<b>13,568</b>	10,942
<b>15. INTEREST-BEARING LIABILITIES (NON-CURRENT)</b>			
Unsecured - other loans		730,861	800,756
		<b>730,861</b>	800,756
<b>16. PROVISIONS (NON-CURRENT)</b>			
Employee benefits	28	107,451	97,263
Self insurance		4,366	4,316
		<b>111,817</b>	101,579

Movements in Provisions (excluding employee benefits)	Self insurance	Other	Total
Carrying amount at the beginning of the financial year	29,754	13,518	43,272
Additional provision	469	15,883	16,352
Amounts utilised during the year	(2,315)	(10,982)	(13,297)
Carrying amount at the end of the financial year	27,908	18,419	46,327

	Notes	2005 \$'000	2004 \$'000
<b>17. OTHER NON-CURRENT LIABILITIES</b>			
Deposits and retentions		12,089	13,833
Deferred income		2,481	3,639
		<b>14,570</b>	<b>17,472</b>
<b>18. CONTRIBUTED EQUITY</b>			
Opening balance		335,046	335,046
Movements		-	-
<b>Closing balance (i)</b>		<b>335,046</b>	<b>335,046</b>
(i) Included in contributed equity is issued capital of two \$1 ordinary shares held by the Treasurer and The Special Minister for State.			
<b>19. RESERVES AND RETAINED PROFITS</b>			
Asset revaluation	19(a)	724,700	680,143
Retained profits	19(b)	63,393	50,297
<b>(a) Asset revaluation</b>			
<i>(i) Nature and purpose of reserve</i>			
The asset revaluation reserve arises on the revaluation of non-current assets. Where a revalued asset is sold, that portion of the asset revaluation reserve is effectively realised and transferred to retained profits.			
<i>(ii) Movements in reserve</i>			
Balance at beginning of year		680,143	638,363
Transfers to/(from) reserve		(415)	1,302
Revaluation increments/(decrements) on revaluation of:			
- land		48,253	32,719
- buildings		(1,919)	7,707
- system assets		(1,362)	-
- works of art		-	52
		<b>44,972</b>	<b>40,478</b>
<b>Balance at end of year</b>		<b>724,700</b>	<b>680,143</b>
<b>(b) Retained profits</b>			
Balance at the beginning of year		50,297	51,599
Net profit attributable to members of Corporation		126,813	102,324
Total available for appropriation		177,110	153,923
Dividends provided for or paid		(114,132)	(102,324)
Transfer to/(from) retained earnings		415	(1,302)
<b>Balance at end of year</b>		<b>63,393</b>	<b>50,297</b>

## Notes to the Financial Statements

30 June 2005

	Notes	2005 \$'000	2004 \$'000
<b>20. STATEMENT OF CASH FLOWS</b>			
<b>(a) Reconciliation of the net profit after tax to the net cash flows from operations</b>			
Net profit		<b>126,813</b>	102,324
<i>Non-Cash Items</i>			
Depreciation of non-current assets		<b>128,385</b>	118,988
Amortisation of non-current assets		<b>15,836</b>	15,835
Amortisation of discounts/premiums		<b>11,563</b>	13,768
Asset write off		<b>780</b>	727
Capital contributions		<b>(64,855)</b>	(46,043)
Prepaid super contribution		<b>(8,299)</b>	(5,542)
Net (profit)/loss on disposal of fixed assets		<b>2,182</b>	(17,897)
Provision for obsolete transformers		<b>(303)</b>	1,435
<i>Changes in assets and liabilities</i>			
(Increase)/decrease in trade and other receivables		<b>(5,187)</b>	24,734
(Increase)/decrease in unread meters		<b>12,749</b>	(9,695)
(Increase)/decrease in inventory		<b>(1,202)</b>	(4,151)
(Increase)/decrease in future income tax benefit		<b>(786)</b>	6,119
(Increase)/decrease in prepayments		<b>(11,215)</b>	(5,176)
(Decrease)/increase in payables, provisions and other liabilities		<b>13,452</b>	(17,845)
(Decrease)/increase in current tax liabilities		<b>27,813</b>	(3,796)
(Decrease)/increase in deferred income tax		<b>3,757</b>	18,219
<b>Net cash flow from/(used in) operating activities</b>		<b>251,483</b>	192,004
<b>(b) Reconciliation of cash</b>			
Cash balance comprises:			
- Cash and deposits		<b>(7,081)</b>	(1,265)
- Current investments		<b>42,553</b>	42,646
<b>Closing cash balance</b>		<b>35,472</b>	41,381

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, net of outstanding overdrafts and current investments in the Statement of Financial Position other than current funded investment reserves.

Notes	2005 \$'000	2004 \$'000
<b>20. STATEMENT OF CASH FLOWS (continued)</b>		
<b>(c) Financing facilities available</b>		
At reporting date, the following financing facilities had been negotiated and were available:		
Total facilities		
- Bank overdraft (CBA)	20,000	20,000
- Come and Go facility (NSW Treasury Corp.)	50,000	50,000
- Westpac purchasing card facility	2,000	2,000
- Bank guarantees, cheques encashment, payroll, corporate credit card (CBA)	25,000	25,000
	<b>97,000</b>	<b>97,000</b>
Facilities unused at reporting date		
- Bank overdraft (CBA)	18,535	20,000
- Come and Go facility (NSW Treasury Corp.)	50,000	50,000
- Westpac purchasing card facility	1,974	2,000
- Bank guarantees, cheques encashment, payroll, corporate credit card (CBA)	12,842	12,828
	<b>83,351</b>	<b>84,828</b>
<b>21. EXPENDITURE COMMITMENTS</b>		
<b>(a) Capital expenditure commitments</b>		
Estimated capital expenditure contracted for at reporting date, but not provided for, payable:		
- not later than one year	86,722	64,658
- later than one year and not later than five years	3,388	9,356
	<b>90,110</b>	<b>74,014</b>
<b>(b) Lease expenditure commitments</b>		
Operating leases (non cancellable)		
- not later than one year	4,421	3,863
- later than one year and not later than five years	7,447	7,896
- later than five years	588	319
<b>Aggregate lease expenditure contracted for at reporting date</b>	<b>12,456</b>	<b>12,078</b>
<b>(c) Operating expenditure commitments</b>		
Estimated operating expenditure contracted for at reporting date, but not provided for, payable:		
- not later than one year	124,139	101,387
- later than one year and not later than five years	239,385	172,533
- later than five years	209,798	234,730
	<b>573,322</b>	<b>508,650</b>

## Notes to the Financial Statements

30 June 2005

Notes	2005 \$'000	2004 \$'000
<b>21. EXPENDITURE COMMITMENTS (continued)</b>		
<b>(d) Smithfield energy purchase contract operating expenditure commitments</b>		
Estimated operating expenditure contracted for at reporting date, but not provided for, payable:		
- not later than one year	78,986	75,700
- later than one year and not later than five years	339,253	403,300
- later than five years	1,502,490	1,595,000
	<b>1,920,729</b>	<b>2,074,000</b>
<b>Total expenditure commitments</b>	<b>2,596,617</b>	<b>2,668,742</b>

**Notes**

The entity 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.

Total expenditure commitments include input tax credits of \$235.1m (\$257.6m in 2004) which are expected to be recovered from the Australian Taxation Office. Smithfield energy purchase contract operating expenditure commitments include input tax credits of \$174.6m (\$194.9m in 2004). Remaining input tax credits are included in operating expenditure commitments and total \$60.5m (\$62.7m in 2004). The Smithfield energy purchase contract transition period for GST exemptions ceases on 30 June 2005, resulting in GST included on future commitments.

**22. CONTINGENT ASSETS AND CONTINGENT LIABILITIES****Contingent Assets**

The directors are not aware of any circumstances or information that would lead them to believe there are any contingent assets.

**Contingent Liabilities**

The directors are not aware of any circumstances or information that would lead them to believe that the following liabilities will crystallise and consequently no provisions are included in the accounts in respect of these matters:

- Self Insurance	\$0.4m
- WorkCover Authority	\$1.9m
- Sundry general claims	\$4.9m

The estimated total of these claims is \$7.2m

Notes	2005 \$'000	2004 \$'000
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**23. REMUNERATION OF DIRECTORS****(a) Directors' remuneration**

Income paid or payable, or otherwise made available, in respect of the financial year, to all directors of Corporation, directly or indirectly, from the entity or any related party:

<b>985</b>	<b>957</b>
------------	------------

**The number of directors of Corporation whose income (including superannuation contributions) falls within the following bands is:**

	No.	No.
\$40,000 - \$49,999	1	1
\$60,000 - \$69,999	3	3
\$70,000 - \$79,999	1	1
\$110,000 - \$119,999	1	1
\$520,000 - \$529,999	-	1
\$540,000 - \$549,999	1	-

Directors' remuneration includes salaries paid to Directors who are full time employees of Integral Energy Australia.

Notes	2005 \$'000	2004 \$'000
<b>24. AUDITORS' REMUNERATION</b>		
Amounts paid and payable for audit services by:		
- Auditors of the Corporation - External	289	277
<b>Total external auditor's remuneration</b>	<b>289</b>	<b>277</b>

**25. DIRECTORS' APPOINTMENTS**

The following non-Executive Directors were re-appointed at the completion of their term.

**Re-appointments**

Janice Reid (reappointed 1 March 2005)

Paul Sinclair (reappointed 1 May 2005)

**New Appointments**

Emma Stein (appointed 12 October 2004).

**Continuing Directors**

Richard Powis (Chief Executive Officer)

Terry Downing

John Fahey

Michael McLeod

**26. RELATED PARTY DISCLOSURES****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 25 above.

Details of directors' remuneration is set out in note 23 above.

There were no declared director related party transactions for the 2004/2005 financial year.

## Notes to the Financial Statements

30 June 2005

**27. FINANCIAL INSTRUMENTS****27(a) Interest rate risk**

The entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the reporting date, are as follows:

Financial Instruments	Floating interest rate		Fixed interest rate maturing in:				Non-interest bearing		Total carrying amount as per the Statement of Financial Position		Weighted effective interest average rate	
	2005 \$'000	2004 \$'000	1 year or less	Over 1 to 5 years	More than 5 years	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 %	2004 %	
<i>(i) Financial assets</i>												
Receivables	-	-	-	-	-	-	-	119,185	113,998	119,185	113,998	-
Other financial assets	1,616	165	40,937	42,481	-	-	-	-	42,553	42,646	-	5.2
<b>Total financial assets</b>	<b>1,616</b>	<b>165</b>	<b>40,937</b>	<b>42,481</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>119,185</b>	<b>113,998</b>	<b>161,738</b>	<b>156,644</b>	
<i>(ii) Financial liabilities</i>												
Bank overdraft	7,081	1,265	-	-	-	-	-	-	-	7,081	1,265	4.9
Payables	-	-	-	-	-	-	-	166,542	168,015	166,542	168,015	-
Other financial liabilities	-	-	-	-	-	-	-	28,138	28,414	28,138	28,414	-
Interest bearing liabilities	240,965	225,000	224,899	65,213	417,194	284,323	417,194	-	-	1,196,725	1,090,969	6.3
Dividends payable	-	-	-	-	-	-	-	-	-	-	-	-
Interest rate contracts (a)	(5,000)	(5,000)	(50,000)	(60,000)	5,000	50,000	(60,000)	114,132	102,324	114,132	102,324	-
<b>Total financial liabilities</b>	<b>243,046</b>	<b>221,265</b>	<b>174,899</b>	<b>334,323</b>	<b>451,538</b>	<b>334,323</b>	<b>357,194</b>	<b>308,812</b>	<b>298,753</b>	<b>1,512,618</b>	<b>1,390,987</b>	

(a) Notional principal amount

**27. FINANCIAL INSTRUMENTS** *(continued)***27(b) Net fair values**

The carrying amounts and estimated net fair value of financial assets and financial liabilities held at balance date are detailed below. The net fair value of a financial asset or a financial liability is the amount at which the asset could be exchanged, or liability settled in a current transaction between willing parties after allowing for transaction costs.

Whilst the net fair value of derivative contracts currently indicate an unrealised profit or loss, these derivative contracts are held to hedge interest rate risk and sales to customers. It is expected that no ultimate profit or loss will result from holding these derivative contracts.

	Total carrying amount as per the Statement of Financial Position		Aggregate net fair value	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Financial assets</b>				
Receivables	119,185	113,998	119,185	113,998
Other financial assets	42,553	42,646	42,619	42,883
Net electricity hedge contracts	-	-	-	13,808
<b>Total financial assets</b>	<b>161,738</b>	156,644	<b>161,804</b>	170,689
<b>Financial liabilities</b>				
Bank overdraft	7,081	1,265	7,081	1,265
Payables	166,542	168,015	166,542	168,015
Other financial liabilities	28,138	28,414	28,138	28,414
Interest bearing liabilities	1,196,725	1,090,969	1,232,311	1,115,756
Dividends payable	114,132	102,324	114,132	102,324
Net interest rate contracts	-	-	7,539	7,572
Net electricity hedge contracts	-	-	5,494	-
<b>Total financial liabilities</b>	<b>1,512,618</b>	1,390,987	<b>1,561,237</b>	1,423,346

## Notes to the Financial Statements

30 June 2005

**27. FINANCIAL INSTRUMENTS** *(continued)***27(c) Credit risk exposures**

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 Statement of Financial Position.

Credit risk on derivative contracts which have not been recognised in the Statement of Financial Position 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.

Integral Energy controls risk through the use of credit ratings, limits and monitoring procedures, and does not usually require collateral or other security to support financial instruments with credit risk.

	2005		
	Energy Sales \$000	Other \$000	Total \$000
<b>Financial assets</b>			
Receivables	96,686	22,499	119,185
Short term money market investments	-	42,553	42,553
Electricity hedge contracts	27,308	-	27,308
<b>Total financial assets</b>	<b>123,994</b>	<b>65,052</b>	<b>189,046</b>

	2004		
	Energy Sales \$000	Other \$000	Total \$000
<b>Financial assets</b>			
Receivables	93,432	20,566	113,998
Short term money market investments	-	42,646	42,646
Electricity hedge contracts	40,467	-	40,467
<b>Total financial assets</b>	<b>133,899</b>	<b>63,212</b>	<b>197,111</b>

Integral Energy does not have any significant exposure to any individual customer or counterparty outside Board approved counterparty limits.

**27. FINANCIAL INSTRUMENTS** *(continued)***27(d) Electricity Purchase Risk Exposures**

Integral Energy enters into derivative contracts to manage the exposure of the Corporation to the National Electricity Market (NEM) pool prices. NEM pool exposure arises where Integral Energy requires energy purchases from the pool at the variable pool price, to meet load requirements.

Integral Energy uses a combination of swap, option and futures contracts transacted with generators and energy trading operations in its hedging strategy, to hedge customer load and control its exposure to NEM pool prices.

The remaining terms and face value of Integral Energy's outstanding electricity hedging contracts at the reporting date are detailed in the following table.

	Face values	
	2005 \$'000	2004 \$'000
<b>Derivative contracts</b>		
Not greater than one year	<b>152,749</b>	432,497
Greater than one year	<b>140,136</b>	188,090

These contracts are for the purposes of hedging forecast contracted commercial and industrial customer load, and forecast mass-market customer sales. As such, no ultimate net loss is anticipated. The net unrecognised profit or loss calculated in accordance with the relevant accounting standard has been based on readily available market price estimates, which are usually quoted for small volume contracts. These market price estimates are not necessarily representative of independent market price variations for the exotic and/or larger volume contracts in Integral Energy's electricity hedge portfolio, for which relevant market price valuations are not readily available.

**28. EMPLOYEE BENEFITS**

	Notes	2005 \$'000	2004 \$'000
<b>Aggregate liability for all employee benefits, including oncosts:</b>			
Accrued salary and wages (current)		-	2,578
Provisions (current)	13	<b>27,043</b>	25,085
Provisions (non-current)	16	<b>107,451</b>	97,263
<b>Total Employee Benefits</b>		<b>134,494</b>	124,926

**29. PRUDENTIAL REQUIREMENTS**

An unsecured Bank Guarantee of \$108.3m (\$102.4m in 2004) 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 License.

### 30. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS

Integral Energy will apply the Australian equivalents to International Financial Reporting Standards (AEIFRS) from 1 July 2005. To ensure consistency at the whole of government level, NSW Treasury has advised agencies of options it is likely to mandate for the NSW Public Sector.

To date, Integral Energy Australia has reviewed all the standards, taken note of all the indicative mandates by NSW Treasury, and applied these in preparing the opening balance as on 1 July 2004. Integral Energy Australia has determined the key areas where changes in accounting policy are likely to impact the financial report. Some of these impacts arise because AEIFRS requirements are different from existing AASB requirements. Other impacts are likely to arise from options in AEIFRS.

Shown below are management's best estimates, as at the date of preparing the 30 June 2005 financial report, of the estimated financial impacts of AEIFRS on Integral Energy Australia's equity and profit/loss. Integral Energy Australia does not anticipate any material impacts on its profit/loss or cash flows. The actual effects of the transition may differ from the estimated figures below because of pending changes to the AEIFRS, including the UIG Interpretations and/or emerging accepted practice in their interpretation and application, and any changes to NSW Treasury's indicative mandates. Integral Energy Australia's accounting policies may also be affected by a proposed standard to harmonise accounting standards with Government Finance Statistics (GFS). However, the impact is uncertain because it depends on when this standard is finalised, and whether it can be adopted in 2005-2006.

#### (a) Reconciliation of key aggregates

##### Reconciliation of equity under existing Standards (AGAAP) to equity under AEIFRS:

	Notes	30 June 2005* \$m	1 July 2004** \$m
<b>Total equity under AGAAP</b>		<b>1,123.1</b>	1,065.5
<b>Adjustments to retained earnings</b>			
Defined benefit superannuation adjustment for change in discount rate	1	(43.5)	(28.6)
Tax effect adjustment	2	12.9	8.7
<b>Adjustments to reserves</b>			
Tax effect adjustment	2	(217.1)	(204.0)
<b>Total equity under AEIFRS</b>		<b>875.4</b>	841.6

\* cumulative adjustments as at date of transition plus the year ended 30 June 2005

\*\* adjustments as at the date of transition

##### Reconciliation of surplus/(deficit) under AGAAP to surplus/(deficit) under AEIFRS: Year ended 30 June 2005

	Notes	\$m
<b>Surplus/(deficit) under AGAAP</b>		126.8
Defined benefit superannuation adjustment for change in discount rate	1	(14.9)
Tax effect adjustment	2	4.2
<b>Surplus/(deficit) under AEIFRS</b>		<b>116.1</b>

#### Notes to tables above

- AASB 119 *Employee Benefits* requires the defined benefit superannuation obligation to be discounted using the government bond rate as at each reporting date, rather than the long-term expected rate of return on plan assets. This will increase the defined benefit superannuation liability (or decrease the asset for those agencies in an overfunded position) and change the quantum of the superannuation expense.
- AASB 112 *Income Taxes* uses a balance sheet approach which requires the differences between the accounting and tax value of assets and liabilities to be recognised as deferred tax assets or liabilities. Current AGAAP uses an operating statement method which accounts for tax by adjusting accounting profit for temporary and permanent differences to derive taxable income. The AASB 112 approach alters the quantum and timing of tax assets and liabilities recognised. In particular, the balance sheet approach results in the recognition of a deferred tax liability in relation to revalued assets that are generally not recognised under current AGAAP. This also changes the quantum and timing of the tax expense.

**30. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (continued)****(b) Financial Instruments**

In accordance with NSW Treasury's indicative mandates, Integral Energy Australia will apply the exemption provided in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* not to apply the requirements of AASB 132 *Financial Instruments: Presentation and Disclosures* and AASB 139 *Financial Instruments: Recognition and Measurement* for the financial year ended 30 June 2005. These Standards will apply from 1 July 2005. None of the information provided above includes any impacts for financial instruments. However, when these Standards are applied, they are likely to impact on retained earnings (on first adoption) and the amount and volatility of profit/loss. Further, the impact of these Standards will, in part, depend on whether the fair value option can or will be mandated consistent with Government Finance Statistics.

End of Audited Financial Statements

## Statement by Members of the Board

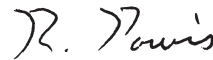
Pursuant to Section 41C of the *Public Finance and Audit Act 1983*, we state that in the opinion of the Directors of Integral Energy Australia:

- (a) The accompanying financial statements and notes on pages 44 to 74 are a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board, the *State Owned Corporations Act 1989*, the *Public Finance and Audit Act 1983* and the *Public Finance and Audit Regulation 2005*, and give a true and fair view of the financial position of Integral Energy Australia as at 30 June 2005 and its 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.

Signed in accordance with a resolution of the Directors:



**Michael McLeod**  
Director  
8 September 2005



**Richard Powis**  
Director  
8 September 2005

**Governance**

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## GOVERNANCE

### DUTIES OF BOARD COMMITTEES

Key responsibilities and objectives of the Board committees are outlined below.

#### Audit and Business Risk Management Committee

The Audit and Business Risk Management Committee emphasis is on audit and business risk matters for the organisation and ensuring that these are dealt with in an independent manner. The Head of Audit & Risk and Manager Corporate Governance have responsibility for supporting the work of this committee. The committee's responsibilities include any matters relating to the financial affairs and business risks of the company and its controlled entities and to internal and external audit that it considers necessary. In addition, the committee examines any other matters referred to it by the Board.

The Committee may consider:

- any matters relating to the financial affairs of the company and its controlled entities and to internal and external audit that it considers necessary;
- the effectiveness and efficiency of business operations;
- the plans, policies, procedures and systems to ensure the effective identification, analysis and treatment of the Corporation's risks;
- reputation issues arising from a failure to comply with laws, regulations, industry standards, internal policy or the expectations of key stakeholders; and,
- the Corporation's culture towards compliance.

Specific duties include:

#### External audit

- reviewing the client service plan and maintaining liaison;
- reviewing key issues in external audit reports to ensure appropriate and prompt action is taken by management;
- seeking the external auditor's assessment of the quality and coverage of internal audit work and the competence of internal audit staff;

#### Internal audit

- reviewing and approving the Internal Audit Charter;
- monitoring the performance of the internal audit function;
- reviewing and endorsing the internal audit financial budget;
- approving the annual and three year audit plan;
- ensuring that the internal audit function is adequately resourced and has appropriate standing;
- ensuring the continued independence, objectivity and integrity of the internal audit function;
- monitoring of progress against the audit plan;
- reviewing internal audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt action is taken by management;
- overseeing effective coordination between the internal auditors and external auditors;
- initiating and supervising special investigations;
- receiving information and recommendations from the Head of Audit & Risk;

#### Financials

- reviewing financial statements and other financial information distributed externally and to the Board;
- assessing the performance of financial management;
- monitoring the establishment of an appropriate internal control framework, encompassing reports to the Board and other information systems;

#### Risk

- endorsing the risk management framework, strategy and policy;
- approving the Risk Management Charter and annual risk management plan;
- endorsing the outputs of the annual risk identification and assessment activity;

- monitoring emerging business issues;
- monitoring the progress of annual risk management plan;
- reviewing risk management reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt action is taken by management;
- reviewing the declaration from the Company Secretary on compliance with financial statutory responsibilities;
- reviewing serious failures to comply with laws, regulations, industry standards or internal policy referred to its attention;

#### Compliance

- ensuring the Corporation has an effective and efficient compliance management framework in place;
- monitoring significant transactions that are not a normal part of the Corporation's business;
- considering the processes in place to ensure compliance with laws, regulations, standards, and best practice guidelines.
- Monitoring any current or pending litigation that has a material financial risk exposure;
- Considering the company's culture towards compliance;

#### Probity

- fostering a culture of ethics in the company by setting a 'tone at the top' that contributes to a culture of healthy questioning, continuous improvement, strategic thinking, and informed judgement;
- overseeing the level of compliance to the Corporation's Code of Ethics and the content of and communication strategy for that Code;
- reviewing and approving the Corporation's Fraud and Corruption Control Plan and monitoring progress;
- reviewing reports on any major defalcations, frauds and thefts from the Corporation and the monitoring of procedures;
- receiving reports on fraud and corruption, monitor trends, and monitor the appropriateness of preventative strategies;

**GOVERNANCE**

**Administration**

- approving the nomination of the externally contracted internal auditors and ensuring they are not used in any other consultancy without the Committee's prior consent;
- reviewing the schedules of delegations at least annually, or whenever there are major changes to the management structure; and

- meeting "in camera" with the external auditor and the internal auditors at least once a year.
- Members of the committee were Mr John Fahey (Chair), Mr Terry Downing, Mr Michael McLeod and Ms Emma Stein. Prof. Janice Reid and Mr Paul Sinclair were rotated off the Committee at the December 2004 review. Mr Richard Powis attends meetings by invitation.

The table below reflects Integral Energy's compliance with the recommendations of the NSW Public Accounts Committee (PAC) published in the April 2005 report on the Review of the Operation of Audit Committees.

#	PAC Recommendations	Comments on Integral Energy's Compliance
1	All NSW Government agencies should have an operating audit committee.	Compliant.
2	Audit committees should have a charter addressing its operations, including their role in undertaking a formal assessment of internal audit, overseeing the preparation of the annual financial report, and assisting the CEO during the external audit process.	Compliant. Charter is in place and reflects best practice recommendations. Last reviewed and updated in June 2005 and approved by the Board. Includes specific clauses in relation to internal audit, financial reporting and external audit.
	Should have external members, with independence to be specified in the charter.	Compliant. In practice, all members of the Committee are external non-executives. And this is mandated in the Committee's charter.
	Neither the Chair of the Board nor the CEO should be chair of the audit committee.	Compliant. In practice, the Chairman of the Committee is a non-executive director, and this is mandated in the Committee's charter. It is also mandated in the charter that the Chairman of the Board cannot chair the Committee.
	The audit committee should refer to good practice guidelines for its operations.	Compliant. The Committee is periodically provided with good practice guidelines. Updates to the Committee's charter reflect better practice guidelines.
	Audit committee should communicate internally and externally about its operations (at least annually) and external communications such as annual report should include details of audit committee operations.	Compliant. Integral Energy's website contains commentary on corporate governance and the role of the Audit Committee. The Committee's charter is on Integral Energy's intranet, and staff were advised of the most recent update to the charter in the daily electronic staff update.
3	Agencies should ensure that members are properly inducted and suitably qualified.	Compliant. Integral Energy has a comprehensive Director's Manual. The Committee's charter allows members to arrange with the Company Secretary to attend technical and professional development courses at Integral Energy expense.

## GOVERNANCE

### Retail Risk Management Committee

The Retail Risk Management Committee considers and makes recommendations to the Board in relation to:

- Board policies and strategies relating to the energy sales and marketing and energy portfolio management business activities;
- determining the appetite for risk in line with the Corporation's business plans and strategic objectives;
- performance measures for energy trading and sales;
- counterparties and their exposure limits;
- the use of financial contracts and the limits associated with their use;
- dealer trading limits;
- delegation of payment limits for settlements;
- reviewing the performance of the trading-related risk management activities;
- credit limit exposure of customers;
- market share targets; and,
- other risks, including retailer of last resort implications.

In addition, the committee examines any other matters referred to it by the Board.

Committee members were Mr Terry Downing (Chair), Mr Michael McLeod, Ms Emma Stein and Mr Richard Powis.

### Remuneration and Human Resources Committee

The Remuneration and Human Resources Committee reviews the development, implementation and effectiveness of Board Policy on Human Resources and Human Resources Strategy. As well, the committee reviews, makes decisions or makes recommendations to the Board on remuneration policies, principles and guidelines applicable to contract staff (including senior executives), and award-based staff.

Committee members were Prof. Janice Reid (Chair), Mr John Fahey, Mr Paul Sinclair and Mr Richard Powis. Mr Michael McLeod and Mr Terry Downing were rotated off the Committee as a result of the December 2004 review,

however, Mr Michael McLeod continues to attend meetings by invitation.

### Transaction Approval Committee

The Transaction Approval Committee has rotating membership but requires at least two but not more than three non-executive directors and the CEO. This Committee is authorised by the Board to approve urgent expenditure up to the amount of \$5 million that might be required between meetings of the Board and that is outside of the standing delegations to the CEO under Board Policies.

### SUMMARY OF LEGISLATIVE CHANGES

Integral Energy Australia's operations are subject to numerous laws, both at a State and at a Federal level. During the financial year ended 30 June 2005, new laws affecting Integral Energy Australia were introduced and a number of the existing laws affecting it were amended or repealed. Sections 1, 2 and 3 of this summary contain an outline of the material changes (if any) to the following Acts, their subordinate legislation and the introduction of new pieces of legislation:

- *Electricity Safety Act 1945 (NSW)*;
- *Electricity Supply Act 1995 (NSW)*;
- *Energy Services Corporations Act 1995 (NSW)*;
- *Environmental Planning and Assessment Act 1979 (NSW)*;
- *Independent Pricing and Regulatory Tribunal Act 1992 (NSW)*;
- *Occupational Health & Safety Act 2000 (NSW)*;
- *Protection of the Environment Operations Act 1997*;
- *Public Authorities (Financial Arrangements) Act 1987 (NSW)*;
- *Renewable Energy (Electricity) Act 2000 (Cth)*;
- *State Owned Corporations Act 1989 (NSW)*;
- *Sustainable Energy Development Act 1995 (NSW)*; and
- *Trade Practices Act 1974 (Cth)*.

Integral Energy Australia considers these to be amongst the principal Acts affecting it or the users or services provided by it. Section 4 of this summary concerns significant judicial decisions.

## 1. CURRENT AMENDED ACTS

### NEW SOUTH WALES

#### *Electricity Supply Act*

The *Electricity Supply Act 1995* was amended by the *Electricity Supply Amendment Act 2005 (NSW)* (which was assented to on 18 March 2005, but which has not yet commenced) to:

- clarify the authority of the Independent Pricing and Regulatory Tribunal (IPART) to audit and enforce compliance with endorsements attached with licences;
- enable related entities of large customers to be a greenhouse gas benchmark scheme (GGBS) participant and subject to benchmark obligations, and provide participating entities with the option to withdraw from the GGBS at any time;
- require electricity distributors and suppliers to comply with a notice from IPART regarding the keeping of specified records or the provision of specified information;
- authorise the relevant Minister to require certain information from the National Electricity Market Management Company in relation to "retailer last resort arrangements";
- provide for the regulation of electricity prepayment meters; and
- clarify the boundary of the electricity distribution system and make other minor and consequential amendments.

The Act was also amended by the *Statute Law (Miscellaneous Provisions) Act (No 2) 2004* and by the *Energy Administration Amendment (Water and Energy Savings) Act 2005*. The amendments made to the *Electricity Supply Act 1995* by the *Energy Administration Amendment (Water and Energy Savings) Act 2005* related to the "Energy Savings Fund", which was established to provide funding to encourage energy saving measures. Distribution network service providers may be required by the Minister to make

## GOVERNANCE

annual contributions to this fund. The amendments allow for the cost of these contributions to be passed on to consumers, subject to certain exceptions listed in the amendments.

### *Occupational Health and Safety Act 2000*

The *Occupational Health and Safety Act 2000* (NSW) (the OH&S Act) was amended by the *Workers Compensation and Other Legislation Amendment Act 2004*. This amendment provides that if a worker is to instigate workers compensation proceedings, it must be done within 2 years of the occurrence of the incident or within 6 months of WorkCover becoming aware of the incident.

The OH&S Act has also been amended by the *Occupational Health and Safety Amendment (Workplace Deaths) Act 2005* (NSW) (which commenced on 15 June 2005). This amendment provides that in circumstances where reckless conduct in a workplace leads to the death of another person, the person causing the death may be found guilty of an offence if they owed that person a duty with respect to their health and safety under Part 2 of the OH&S Act. The proposed offence will carry a maximum penalty of \$1,650,000 in the case of a corporation and in the case of an individual, imprisonment for 5 years or \$165,000, or both.

### *Sustainable Energy Development Act 1995* (NSW)

The *Sustainable Energy Development Act 1995* (NSW) was repealed by the *Sustainable Energy Development Repeal Act 2004* (NSW) (the Repeal Act) (which commenced on 1 July 2004). The Repeal Act abolishes the Sustainable Energy Development Authority (SEDA) by repealing the *Sustainable Energy Development Act 1995* (NSW) and transferring SEDA's staff, assets, rights and liabilities to the Crown.

## COMMONWEALTH

### *Trade Practices Act 1974* (Cth)

The *Trade Practices Act 1974* (TPA) has been amended by the *Trade Practices Amendment (Australian Energy Market) Act 2004* (the Amending Act). The Act was assented to on 30 June 2004 (all provisions are either now operative or will become operative on 1 July 2005). The Amending Act is part of a package of

legislation to provide for the operation of an Australian energy market. The Australian Energy Regulator has been established through amendments to the TPA. Some consequential amendments to other legislation are also required. The AER will have responsibility for economic regulation of Australian energy markets and will perform functions and exercise powers as conferred by the Commonwealth, State and Territory legislation.

## 2. NEW ACTS

### NATIONAL ELECTRICITY MARKET LEGISLATION

#### *National Electricity (South Australia) (New National Electricity Law) Amendment Act 2005 No. 14* (SA)

The *National Electricity (South Australia) (New National Electricity Law) Amendment Act 2005 No. 14* (SA) was assented to on 21 April 2005. The Act is part of a package of legislation which will implement the new national electricity regime as follows:

- prescribing the roles and responsibilities of the Australian Energy Market Commission (AEMC), including the authority to make and alter Rules relating to the operation of the national electricity market and system;
- requiring the AEMC to establish the Reliability Panel and prescribe the functions of the Panel, including the "monitoring, reviewing and reporting on the safety, security and reliability of the national electricity system";
- prescribing the enforcement, compliance monitoring and the economic regulatory functions of the Australian Energy Regulator;
- abolishing the National Electricity Code Administrator and transfer its functions to the AEMC and the AER;
- requiring the AEMC to make certain Rules in relation to transmission revenues and pricing by 1 July 2006;
- replacing the current civil penalties scheme with a maximum civil penalty for a body corporate of \$100,000 and \$10,000 for each day that the breach continues, and for a natural person \$20,000 and \$2,000 for each day that the breach continues;

- making certain transitional and savings provisions; and
- making other minor and technical amendments.

The National Electricity Code will be re-framed as the National Electricity Rules with effect from 1 July 2005 as a result of amendments made by the amending Act. The amending Act will be supported by Regulations which are also intended to come into force on 1 July 2005.

The *Australian Energy Market Commission Establishment Act (SA) 2004* and the *Australian Energy Market Commission Establishment Regulations (SA) 2005* commenced on 1 July 2005. The Act establishes the Australian Energy Market Commission and details its responsibilities for rule-making and market development across the Australian energy sector. The Regulations set out the disclosure and annual reporting requirements of the AEMC.

## 3. NEW SUBORDINATE LEGISLATION, CODES AND DETERMINATIONS

### COMMONWEALTH

#### *Australian Energy Market Regulations 2005* (Cth)

The *Australian Energy Market Regulations 2005* (Cth) have been made under the *Australian Energy Market Act 2004* (Cth). The Regulations specify that the "National Electricity Law", as set out in the Schedule to the *National Electricity (South Australia) Act 1996* (SA), is the applicable Commonwealth law in respect of existing access undertakings which have been submitted to the ACCC.

#### *Renewable Energy (Electricity) Regulations 2005* (Cth)

The *Renewable Energy (Electricity) Amendment Regulations (No. 1) 2004*, (No. 1) 2005 (No. 5) and (No. 2) 2005 No. 72 (Cth) amend the *Renewable Energy (Electricity) Regulations 2001* No. 2 (Cth). The amending Regulations:

- prescribe further models of solar water heaters and their corresponding eligibility for renewable energy certificates; and
- amend a component of the formula used to calculate the number of renewable energy certificates that liable parties have to surrender to the Renewable Energy Regulator in 2005 to avoid a penalty.

## GOVERNANCE

### *Trade Practices Amendment Regulations (No. 1) 2005 (Cth)*

The *Trade Practices Amendment Regulations (No. 1) 2005 (Cth)* (which commenced on 10 June 2005) amend the *Trade Practices Regulations 1974(Cth)*. Section 44AG of the TPA provides that upon application by the Australian Energy Regulator, the Federal Court may make an order to declare a person in breach of a "uniform energy law" as an applied law of the Commonwealth, or State or Territory law. Where the Federal Court has made a declaration under s. 44AAG(2)(e) of the TPA that a person has breached such an energy law, the order may include certain directions as prescribed by the principal Regulations. The amending Regulations insert s.6AA into the principal Regulations to allow the Federal Court to make certain directions under the Act. The inserted directions are:

- that an order may include instruction for the disconnection of the relevant person's loads; and
- a direction suspending the person from the purchase or supply of electricity through the wholesale electricity exchange operated by the National Electricity Market Management Company.

The insertion of s. 6AA will provide the Federal Court with the jurisdiction to make these directions under s. 44AAG(2) of the TPA within all participating jurisdictions. The amending Regulations will also clarify the reference to "rules" in s. 6AA(1) includes the National Electricity Rules.

### NEW SOUTH WALES

	2004/05	2003/04	2002/03	2001/02
Numbers of requests received	30	16	12	2
Requests granted in full	25	7	10	1
Requests partially granted	5	4	1	1
Requests ongoing as at 30 June	-	4	1	-
Requests withdrawn/not proceeded with	-	1	-	-
Requests transferred out	-	-	-	-
Requests not granted	-	-	-	-

### *Electricity Safety (Equipment Efficiency) Regulation 1999*

This Regulation was amended by the *Electricity Safety (Equipment Efficiency) Amendment (Performance Standards) Regulation 2004* in respect of performance standards and labelling requirements of certain electrical products. Specifically, these Regulations:

- made certain amendments to the energy labelling requirements relating to single phase air-conditioners and heat pumps;
- made certain amendments to the minimum energy performance standards applicable to refrigerating appliances, three phase air-conditioners, heat pumps and rotating electrical machines;
- provided that certain registrations for electrical articles that extend beyond the date of commencement of the changes to the standards cease to have effect;
- introduced minimum energy performance standards for single phase air-conditioners and heat pumps, linear fluorescent lamps and refrigerated display cases;
- made certain amendments for recognition of any approval, registration and any other authorisation granted for electrical articles under equivalent laws of other States and Territories;

- made certain amendments that test results will accompany applications for registration if required by the relevant standard; and
- enabled the cancellation of the registration of an electrical article specified in Schedule 3 to the Regulation if the article does not comply with the energy efficiency or performance criteria of the relevant standard.

### *Electricity Supply (General) Regulation 2001*

The *Electrical Supply (General) Regulation 2001* was amended by the *Electricity Supply (General) Amendment (Reduction of Greenhouse Gas Emissions) Regulation 2004*.

This amendment provides for elective participation for only part of a person's electricity load in the scheme relating to greenhouse benchmarks in Part 8A of the Electricity Supply Act. The amendments also provide for the accreditation of abatement certificate providers.

### 4. SIGNIFICANT JUDICIAL DECISIONS

Integral Energy is unaware of any significant judicial decisions during the financial year that may affect it in its capacity as an energy service corporation, or affect the users of its services, in their capacity as customers of an energy services corporation.

### FREEDOM OF INFORMATION

#### Summary

The following table provides a summary of the responses to requests pursuant to the Freedom of Information Act 1989 (FOI Act):

**GOVERNANCE**

The FOI requests have been received from members of the public, media, members of Parliament, lawyers and investigators.

There were no internal reviews sought during the 2004-2005 financial year.

The Ombudsman was not involved in any matters involving requests under the FOI Act during the 2004-2005 financial year.

There were no appeals to the Administrative Decisions Tribunal in relation to any requests under the FOI Act.

The impact of the requirements of the FOI Act on Integral Energy's activities was minor and no major issues arose in connections with Integral Energy's compliance with the requirements of the FOI Act.

**Access to documents under the FOI 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.

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.

**AUSTRALIAN FINANCIAL SERVICES LICENCE**

Prior to 11 March 2004, the trading of electricity derivatives was exempt from the Corporations Act financial services licensing requirements through the Commonwealth Exempt Futures Market Declaration – National Wholesale Electricity.

After this date, NSW Government – owned electricity businesses would have required an Australian Financial Services Licence if they had desired to trade energy derivatives outside NSW.

However, prior to the expiry of this Declaration, NSW Treasury sought and obtained from the Australian Securities and Investment Commission (ASIC), on behalf of NSW Government – owned

electricity businesses, an exemption from the licensing requirements in relation to the trading of electricity and related derivatives. This was due to expire on 11 March 2005 but was extended until 30 June 2005.

On 1 July 2005 the Australian Financial Services Licence, required by Integral Energy Australia to continue trading electricity derivatives and miscellaneous financial risk products limited to value risk products, was granted by ASIC.

Following the first full year of operations under this licence Integral Energy Australia will be required to lodge, as an annual licence condition, a profit and loss statement and balance sheet under ASIC form FS70 and an audit report under ASIC form FS71.

## GOVERNANCE

### DISCLOSURE OF APPROVED EXEMPTIONS

Approval was granted for the following reporting exemptions for this annual report following changes to legislation. The expanded list of exemptions, some with conditions attached, was approved by NSW Treasury to overcome concerns of statutory State Owned Corporations (SOCs) about the loss of commercial confidentiality in the increasingly competitive electricity market in NSW.

Reference	Requirement	Comment
s41B(c) PF&AA	Financial statements	Exemption from preparing manufacturing, trading and profit and loss statements. Required to prepare a summarised Operating Statement (ie summarising major categories of revenues and expenses).
Schedule 1, Part 1: PF&FA (General) Reg Item 2	Notes - Income & 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/deposits	
Item 13	Material items of income and expenditure on a program or activity basis	Required to summarise the items of revenues and expenses on a program or activity basis.
S.7(1)(a)(iii)ARSBA	Budgets - detailed budget for the year reported on - outline budget for next year	
cl 6 ARSBR	- 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 a condition. The condition is that comments and information relating to the summary review of operations are to be disclosed in a summarised form.
Schedule 1 ARSBR	Management & Activities	Exemption subject to a condition. The condition is that comments and information relating to "management & activities" are to be disclosed in a summarised form.
Schedule 1 ARSBR	Research & Development	
Schedule 1 ARSBR	Human Resources	Exemption subject to a condition. The condition is that overseas visits with the main purposes highlighted are required to be disclosed.
Schedule 1 ARSBR	Consultants	Exemption subject to a condition. The condition is that the total amount spent on consultants is to be disclosed along with a summary of the main purposes of the engagements, together with a list of single consultancies with a value exceeding \$30,000.

**GOVERNANCE**

DISCLOSURE OF APPROVED EXEMPTIONS (CONTINUED)

Reference	Requirement	Comment
Schedule 1 ARSBR	Land Disposal	
Schedule 1 ARSBR	Consumer Response	Exemption subject to a condition. The condition is that comments and information relating to consumer response are to be disclosed in a summarised form.
Schedule 1 ARSBR	Payment of accounts	This exemption only applies to Statutory SOCs as they are not subject to the payment of accounts provisions in s18 of the Public Finance and Audit Regulation.
Schedule 1 ARSBR	Time for Payment of Accounts	As above
Schedule 1 ARSBR	Report on Risk Management & Insurance Activities	Exemption subject to a condition. The condition is that the comments and information are to be disclosed in a summarised form.
Schedule 1 ARSBR	Disclosure of Controlled Entities	Exemption subject to a condition. The condition is that the names of the controlled entities are to be disclosed along with a summarised disclosure of the controlled entities' objectives, operations and activities and measures of performance.
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. Required to prepare a summarised Operating Statement (ie summarising major categories of revenues and expenses).

## ECONOMIC

### NETWORK REGULATORY DETERMINATION 2004-2009

The Independent Pricing and Regulatory Tribunal (IPART) regulates Integral Energy's network revenue and network pricing.

In June 2004, IPART handed down its NSW Electricity Distribution Pricing 2004-2005 to 2008-2009 Determination. This Determination sets the network revenue that Integral Energy will be allowed to earn over the regulatory period.

The determination allows for system capital expenditure in excess of \$1.2 billion over the period from 2004-2005 to 2008-2009.

The Tribunal's 2004 report and determination also set out actions and decisions designed to provide incentives for network demand management.

As part of the new determination, the Tribunal has introduced a D-factor into the price cap formula that allows Integral Energy and the other NSW distributors to recover:

- approved non-tariff based demand management implementation costs, up to a maximum value equivalent to the expected avoided distribution costs (as defined in the determination);
- approved tariff-based demand management implementation costs; and
- approved revenue foregone as a result of non-tariff based demand management activities.

To provide greater clarity and to assist stakeholders to assess the feasibility of demand management projects, the Tribunal established working groups to develop principles and guidelines on the implementation of the D factor. Integral Energy was an active member of the working groups and put forward case studies and examples of our experience to assist in the development of the principles and guidelines. These guidelines will be used for the first year of implementation of the D factor in 2006-2007.

Integral Energy is supportive of the Tribunal's decision on the introduction of a D factor and believes that this provides a positive signal for the implementation of cost-effective demand management programs. Integral Energy will continue to work with the Tribunal and other stakeholders to assist in the development of a demand management market and to increase the effectiveness and awareness of demand management activities.

From 1 July 2004, Integral Energy introduced an increasing block tariff structure in its domestic and business network tariffs. This two-part structure charges a premium for energy consumption above a threshold. In 2004-2005, the second "block" in the network tariff was around 5% more than the first "block". The thresholds were set at 7,000 kWh per annum for residential customers and 21,000 kWh per annum for general supply customers.

In May 2005, IPART approved our 2005-2006 pricing proposals as being in line with the regulatory requirements and other pricing principles and methodologies outlined in the Determination. As part of the pricing for 2005-2006 Integral Energy increased the differential on the increasing block structure to 10%. The thresholds at which the second block price commences remained unchanged. As the network price accounts for approximately half a customer's overall bill, this 10% differential will translate to approximately a 5% difference between blocks at the retail level.

The 10% differential is considered conservative and it provides Integral Energy with the ability to monitor customer reaction to this relatively small price signal. Over time it is intended that the price difference between blocks will be increased so that a greater price signal is delivered to those users who are placing most strain on the network.

Integral Energy is keen to pursue more innovative tariff reform, but remains concerned about the uncertainty of the net economic benefits to be realised. Much of this uncertainty relates to existing knowledge gaps in relation to the price responsiveness of customers in Integral Energy's franchise area.

To resolve these knowledge gaps, Integral Energy is currently considering undertaking a large-scale price experiment during the current determination period. The first step in this research process is undertake a small scale pilot study to learn more about how to conduct an experiment in a statistically robust manner. This pilot study commenced in December 2004 and involved a small sample of 47 customers in Integral Energy's franchise area voluntarily agreeing to be placed on one of the following experimental tariffs:

- ToU Tariffs with significant peak/off-peak price differentials; or
- IBT Tariffs with significant first block price/second block price differentials.

Importantly, customers involved in this pilot study will not be exposed to financial distress as Integral Energy has provided appropriate incentives to participants.

The challenge for Integral Energy will be to design these voluntary price experiments in a manner that provides sufficient incentive for customers to participate without distorting the behaviour of customers once they are placed on these experimental tariffs.

Integral Energy will actively seek the support of IPART in undertaking these price experiments during the current regulatory period.

### RETAIL REGULATORY DETERMINATION 2004-2007

The Independent Pricing and Regulatory Tribunal (IPART) regulates the electricity prices that Integral Energy can charge customers supplied under a standard form customer supply contract.

In June 2004, the Independent Pricing and Regulatory Tribunal (IPART) handed down its NSW Regulated Retail Tariffs 2004-2005 to 2006-2007 Determination.

IPART has set target tariffs, that it considers are at cost-reflective levels, calculated by summing the network component (which represent network charges) and the retail component (which represent retail costs).

Some of Integral Energy's regulated retail tariffs are currently below these target levels. IPART's Determination requires

**ECONOMIC**

Integral Energy to move these tariffs toward the target levels, subject to limitations in annual price increases. The final Determination means that Integral Energy's regulated tariffs should achieve target levels by 2006-2007.

Retail tariff reform has also been a key activity during the year. Mirroring the introduction of an increasing block tariff into the domestic and general supply network tariffs from 1 July 2004, Integral Energy's regulated retail tariffs for domestic and general supply tariffs also adopted the same two part structure from 1 July 2004.

In June 2005, IPART approved our 2005-2006 pricing proposals as being in line with the regulatory requirements and the Determination. As part of the pricing

for 2005-2006 Integral Energy increased the differential on the increasing block structure to 10% at the Network level. The thresholds at which the second block price commences remained unchanged. As the network price accounts for approximately half a customer's overall bill, this 10% differential will translate to approximately a 5% difference between blocks at the retail level.

While this price signal is conservative, Integral Energy will monitor and analyse customer reaction to this relatively small price signal with a view to increasing the price differential between blocks so that, over time, an effective price signal is delivered to large users.

Integral Energy will continue to investigate other pricing initiatives

including time of use metering, interruptible tariffs and projects aimed at testing customer response to greater price signalling within tariffs.

**REVIEW OF CONTESTABLE BUSINESS**

In 2004-2005 Integral Energy continued to refocus the workforce on network infrastructure projects and, in so doing, continued to reduce its involvement in customer-funded projects that were open to competition. The table below shows the percentage of contestable projects won by external service providers. These projects involved 69 design contractors and 52 construction contractors currently accredited and active within Integral Energy's franchise area.

**Percentage (%) of contestable projects undertaken by external service providers**

Category	Design		Construction	
	2004-2005	2003-2004	2004-2005	2003-2004
URD	96	76	98	92
Non-urban extensions, industrial & commercial	93	90	94	71
Asset relocation	91	82	93	92
Public lighting	96	100	100	100

**INTEGRAL ENERGY BUSINESS UNITS**

**InfoMet**

Integral Energy's metering branch, InfoMet, is now integrated into the Engineering Performance business unit as the Meter Data branch. The branch continues to provide metering services within the National Electricity Market, including meter installation, maintaining remote metering assets, meter data retrieval and data forwarding services to retailers.

**Integral Energy Nightwatch**

Integral Energy Nightwatch service installs and maintains security and promotional lighting for customers with premises in the Integral Energy franchise area. Existing Integral Energy assets (wooden poles and metal columns) provide the means for the installation of luminaires to illuminate a wide range of customer premises from dusk to dawn at reasonable rates.

The business again performed extremely well during the year, combining innovative approaches to lighting with internal process improvement to attract new customers throughout the franchise area.

The total number of lights installed as part of the Integral Energy Nightwatch service at the end of the 2004-2005 financial year was 3,262 (3,018 in 2003-2004), servicing approximately 1,600 customers (1,540 in 2003-2004). These include security lighting at factories, promotional and car park lighting at licensed clubs, and security lighting for small business premises.

## ECONOMIC

## FIVE YEAR STATISTICAL TABLE

	(1)	2000-01	2001-02	2002-03	2003-04	2004-05
<b>EFFICIENCY</b>						
Employment	(2)	1,765	1,944	2,050	2,176	2,298
Output/employee (GWh)	(3)	8.8	8.1	7.6	7.4	7.6
Sales revenue (\$'000)	(4)	1,013,028	1,012,394	1,077,964	1,166,695	1,185,429
Customer/employee ratio	(5)	443.4	411.8	400.3	385.3	364.2
Operating cost/unit sold (\$/MWh)	(6)	25.6	27.1	29.1	26.1	26.2
Operating cost/customer	(7)	507.5	530.9	554.0	499.1	543.8
System loss index (%)	(8)	5.0	5.6	5.1	5.1	5.1
Days sick leave/employee	(9)	6.1	5.8	6.4	6.1	6.3
Lost time injury frequency rate	(10)	12.8	13.3	8.0	7.2	6.3
<b>EFFECTIVENESS</b>						
Output (GWh)	(11)	15,100	14,975	15,212	15,570	16,903
Supply reliability (minutes)	(12)	96.0	99.3	119.8	116.7	86.3
Nominal average price		67.1	67.6	70.9	74.9	73.3
Real average price						
Real price index (89-90=1.00)						
Customer service indicator	(13)					
Target		n/a	45.0%	56.0%	60.0%	80.0%
Result		n/a	50.3%	55.1%	56.0%	78.0%
<b>FINANCIAL INDICATORS</b>						
EBIT (\$m)	(14)	182.6	181.5	162.2	249.7	276.8
Operating profit after tax (\$m)	(15)	73.5	56.3	43.0	102.3	126.8
Revenue (\$m)	(16)	1,145.4	1,140.8	1,219.4	1,342.0	1,369.7
Return on net operating assets (%)	(17)	8.2	7.0	6.1	9.2	9.6
Return on equity (%)	(18)	7.6	5.2	4.2	9.8	11.6
Asset base (\$m)	(19)	2,558.8	2,658.9	2,674.4	2,781.4	3,007.4
Asset sales (\$m)	(20)	11.4	10.6	6.4	31.0	7.6
Financial distribution (\$m)	(21)	269.3	283.5	77.0	164.1	178.7
Tax equivalent (\$m)	(22)	16.5	42.9	34.0	61.8	64.6
Dividend payment (\$m)	(23)	52.8	90.6	43.0	102.3	114.1
Payment of capital from equity (\$m)	(24)	200.0	150.0	0.0	0.0	0.0
Gross external debt (\$m)		908.3	1,069.5	1,078.6	1,091.0	1,196.7
Gearing ratio (debt/assets)	(25)	35.5	40.2	40.3	39.2	39.8
Times interest earned	(26)	2.5	2.4	2.0	2.9	3.3
Social programs (\$m)	(27)	14.2	17.0	19.4	21.2	20.7

See notes overleaf

**ECONOMIC**

- (1) All dollar amounts are reported in real dollars.
- (2) Full time equivalent staff as at 30 June.
- (3) GWh sold per average number of electricity employees.
- (4) Sales revenue includes total electricity sales and network use of system income only.
- (5) Average network customers per average number of employees. Prior to 2004-2005, average customers were based on retail customer numbers.
- (6) Operating expenditure including depreciation and amortisation but excluding borrowing expenses, divided by number of units sold.
- (7) Operating expenditure including depreciation and amortisation but excluding borrowing expenses, divided by the average number of customers. For 2004-2005 onwards, average number of customers based on network customers. Prior year customer numbers based on retail customer numbers.
- (8) Energy purchased less energy sold, divided by energy purchased.
- (9) Total sick leave days per average number of electricity employees.
- (10) Number of lost time accidents per million hours worked.
- (11) Electricity sales (GWh) for 2004-2005 excludes accruals, but now includes off peak bulk transfers. Previous years' electricity sales (GWh) exclude accruals and off peak bulk transfers. Output for 2002-2003 slightly adjusted.
- (12) Average minutes per customer per year without supply for unplanned outages.
- (13) 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.
- (14) EBIT is defined as profit from ordinary activities before income tax expense (including items previously treated as abnormals and capital contributions), less borrowing expenses.
- (15) Operating profit after tax is defined as profit from ordinary activities after income tax expense (including items previously treated as abnormals and capital contributions).
- (16) Revenue includes revenue from operating activities and revenues from non-operating activities, including capital contributions and any revenue items previously treated as abnormals.
- (17) EBIT (including capital contributions), divided by the average asset base.
- (18) Operating profit after tax (including capital contributions), divided by average equity.
- (19) Asset base includes all current and non-current assets.
- (20) Total proceeds from asset sales.
- (21) Financial distribution includes tax equivalent, dividend payment and payment of capital from equity.
- (22) From 1995-1996 onwards, the tax equivalent has been defined as income tax payable (after taking into account deferred income tax and future income tax benefits). From 2002-2003 onwards, the tax equivalent has been defined as income tax expense, in line with NSW Treasury's change in the definition of "total distribution".
- (23) Includes special dividends.
- (24) Involves a special payment to the Government.
- (25) Debt divided by the asset base.
- (26) Times interest earned calculated by adding the net interest expense to the profit from ordinary activities before income tax (including abnormals and capital contributions), and dividing by the net interest expense.
- (27) Based on reimbursement of CSO's.

**CONSULTANTS**

Consultancy projects in 2004-2005 cost a total of \$2.03m compared to \$2.51m in 2003-2004. Major projects costing a total of \$1.66m were:

**RETAIL**

- Farrier Swier Consulting – support deployment of Retail initiatives, preparation of response to Green Paper (NSW Government's Energy Directions), investigation of Retail separation functions – \$0.28m.
- KPMG – analysis and implementation of the Dual Fuel Offer – \$0.24m.
- Deloitte Touche Tohmatsu – undertake business valuation to assist in response to Green Paper, Retail Cost-to-Serve Project – \$0.22m.
- Charles River & Associates – study implications of Retail competition and effectiveness of Network tariff reform, review existing Demand Management strategy and recommend improvements, best practice pricing review in support of Retail strategic initiatives – \$0.15m.
- L.E.K. Consulting – Demand Management Project – \$0.12m.

**NETWORK**

- Wedgewood White Ltd – consulting re. site specific customer tariffs and reasonable estimates data – \$0.05m.

**MANAGEMENT SERVICES AND ORGANISATIONAL STRATEGY**

- Gavin Anderson and Company – Strategic management support for community relations and corporate affairs – \$0.28m.
- L.G. Gregory and Associates – Conduct strategic review of Werrington Training School – \$0.15m.
- Scaffidi Hugh-Jones – Development of internal communication strategy focusing on safety, and providing support for its implementation – \$0.10m.
- The Allen Consulting Group – Undertaking strategic reputation and issues mapping review of stakeholders and opinion leaders – \$0.07m.

## ECONOMIC

### OVERSEAS TRAVEL

NAMES DATES	DESTINATION	PURPOSE	
Craig James	23/7/04 – 5/08/04	US, Switzerland, UK	Industry consultations, insurance
Rob Corke	27/7/04 – 1/8/04	New Zealand	Industry conference
Richard Powis	19/10/04 – 24/10/04	China	Industry conference
Gary Brennan	26/10/04 – 29/10/05	New Zealand	Industry conference
Virender Malik	14/11/04 – 16/11/04	New Zealand	Industry consultations
Peter Norrie	4/1/05 – 9/1/05	Thailand	Equipment inspection and testing
Peter Norrie	17/1/05 – 21/1/05	Thailand	Equipment inspection and testing
Richard Powis	5/3/05 – 10/3/05	China	Industry conference
Peter Cunningham	19/3/05 – 3/4/05	Thailand	Equipment inspection and testing
Keith Oliver	12/6/05 – 14/6/05	Malaysia	Quality assurance inspection of supplier
Mark Harley	12/6/05 – 14/6/05	Malaysia	Quality assurance inspection of supplier

### CUSTOMER SERVICE GUARANTEES (CSG)

The Electricity Supply (General) Amendment Regulation, gazetted on 12 June 1998, required the standard form customer contracts of NSW network and/or retail electricity licence holders to contain guaranteed customer service standards. The standards included 24-hour telephone hotlines, and introduced monetary penalties for failure to meet requirements for planned interruptions, connection and disconnection, faulty streetlights and punctuality in keeping appointments.

The new guarantees took effect from 12 September 1998 and were communicated to staff and customers in September and October 1998. They were included in standard form customer contracts from 12 December 1998.

A payment of \$20 is made to a customer where:

- insufficient notice is provided to the customer of a planned outage; or,
- the outage is for a longer period than that indicated in the notification.

During the year, CSG payments of \$3,260 were made in response to complaints, mostly associated with planned outages. This compares with \$3,760 paid in 2004-2005.

Integral Energy continues its efforts to reduce the impact of significantly higher capital expenditure on the network, which had resulted in more planned customer interruptions.

From 1 August 2005, additional conditions of reliability and service standards are being required of NSW distributors. The requirements spell out design, reliability and performance standards for distributors which must be reported to the Minister for Utilities.

The reliability standards include SAIDI and SAIIFI average standards and define minimum average reliability performance by feeder type. Customer service standards are also defined. Distributors will be required to pay \$80 to a customer where standards of interruption duration and frequency are not met up to a maximum of \$320 a year. Customers will need to apply for the payments, and distributors must advertise their availability.

### CUSTOMER CONNECTIONS

New customer connections decreased by 19% in 2004-2005, with 4,765 applications comprising 1,335 subdivisions and 3,151 connections of load.

A total of 59,765 notifications of electrical service work by contractors

were processed, representing more than 15,000 new premises.

Although registered by the NSW Department of Energy, Utilities and Sustainability, the standards of work and methods of Accredited Service Providers (ASPs) are monitored and inspected by Integral Energy to ensure compliance with its standards and to protect the safety of its customers and the public.

The organisation held seminars to broaden awareness of the organisation's expectations of Level 2 ASPs, and to provide orientation for new Level 3 ASPs. Integral Energy also issued safety, procedure and equipment notices, and a further information session on network connection policy.

During the year, 20 Level 2 ASPs (service connectors) were suspended from working on Integral Energy's network for breaches of safety and related work practices.

Integral Energy has introduced regular Level 3 ASP training sessions to improve Level 3 ASP competency in the market.

The breakdown of CSG payments is as follows:

	No. of occasions	Customers affected	Payments
Late restoration	12	12	\$240
Early interruption	5	5	\$100
No notification	141	141	\$2,820
Late notification	5	5	\$100
Total	163	163	\$3,260

**ECONOMIC**

**EXECUTIVE MANAGEMENT REMUNERATION**

<b>Title</b>	<b>Name</b>	<b>Remuneration paid to 20 June 2004</b>	<b>Performance* pay</b>	<b>Total Earnings</b>	<b>Comments</b>
Chief Executive Officer	R Powis	\$458,000	\$81,600	\$539,600	Continued overall improvement in business performance.
General Manager Asset Management	A Flett	\$258,804	\$36,690	\$295,494	Maintenance and capital targets achieved.
General Manager Capital Solutions	R Howard	\$261,028	\$37,000	\$298,028	Co-ordinated delivery of record network capital spend.
General Manager Engineering Performance	J Wallace	\$243,875	\$34,460	\$278,335	Co-ordinated engineering expertise to deliver improvement in reliability.
General Manager Finance and Company Secretary	C James	\$272,095	\$38,570	\$310,665	Delivered greater improvement in financial and supply management.
General Manager Human Resources	A Priestley	\$264,775	\$37,550	\$302,325	Ensured a consistent approach to HR management across the organisation.
General Manager Regulatory and Corporate Affairs	K Waldman	\$256,282	\$47,380	\$303,662	Co-ordinated regulatory and strategic issues across the organisation.
General Manager Retail and Customer Services	B Rowley	\$244,916	\$24,150	\$269,066	Ensured the retail contribution was above budget.
General Manager Trading and Major Accounts	S Lowe	\$254,525	\$25,110	\$279,635	Worked with retail to ensure a competitive retail price.

\*Relates to performance in 2003-2004, but paid in 2004-2005

**PROFILE OF CHIEF EXECUTIVE OFFICER AND SENIOR EXECUTIVES**

<b>Integral Energy</b>	<b>Number at June 2005</b>	<b>Number at June 2004</b>
Chief Executive Officer	1	1
Executive Officers	8	8
Number of executive officers with remuneration equal to or exceeding equivalent SES Level 1 at 30 June 2005	85	92
Number of these positions filled by women	14	18

## SOCIAL

### ETHNIC AFFAIRS PRIORITY STATEMENT (EAPS)

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

Out of respect to all customers, the organisation strives to ensure appropriate services are offered to our diverse multicultural customer base and that customers are not disadvantaged because of their cultural background.

Integral Energy aims to provide the same level of service to each of its more than 800,000 customers, who can contact the organisation 24 hours a day, seven days a week.

Data collected from the 2001 census indicates that 30% 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 27% of our franchise population come from a non-English speaking background. The top three languages, excluding English, spoken in our franchise are Chinese (13%), Arabic (12%) and Vietnamese (8%).

As a requirement of the *Electricity Supply Act 1995* Integral Energy provides an interpreter service that allows customers to speak their own language when dealing with Integral Energy. The interpreter service is supplied by the Department of Immigration and Multicultural and Indigenous Services. Contact numbers are printed on the back of customer bills and the front page of the Standard Service contract.

In 2004-2005, in recognition of the diverse range of cultures and nationalities in NSW, we launched marketing activities specifically targeting different cultures, starting with a Chinese language marketing campaign. Advertisements were placed in the Chinese press, letters written in Chinese were sent to customers and Chinese-speaking call centre operators were recruited to assist customers with campaign enquiries.

Also during the year, Integral Energy sponsored the National Multicultural Marketing awards for the first time. The awards are designed to encourage and reward businesses and organisations that promote their products and services to those from culturally and linguistically diverse backgrounds.

The needs of customers of differing ethnic and cultural backgrounds are considered from time to time by Integral Energy's Customer Consultative Committee (CCC), which provides valuable feedback and advice regarding the organisation's policies and services. The CCC helps in the effort to deliver a standard of service that meets customer expectations and exceeds the service provided by competitors. Committee membership includes representatives of the Community Relations Commission and the Illawarra Aboriginal community.

All customers have access to the organisation's Customer Care unit that deals with complaints and sets out to resolve disputes as quickly as possible. Interpreter services are also available as part of the complaints handling process.

Customers who are dissatisfied with the outcome of their complaint have the right to contact the Energy and Water Ombudsman of NSW.

#### Employment practices

The cultural diversity and ethnic mix of the organisation's customer base is reflected in the make-up of Integral Energy's staff, with employees or their families representing more than 30 overseas countries.

Integral Energy and its subsidiaries are committed to recruiting staff (permanent, temporary, casual or contract) in accordance with the legislative and award requirements. Procedures are in place to ensure that staff are recruited on merit regardless of sex, race, religion or disability or other irrelevant grounds as detailed in employment legislation.

This policy aims to provide Integral Energy with a highly competent, flexible and competitive workforce, and to provide managers and employees with guidelines to follow for recruitment, selection and the appointment process so that equity and diversity are maintained.

In 2004-2005, Integral Energy continued to develop a procedure on diversity in the workplace.

#### PUBLICATIONS

Integral Energy publishes an extensive range of publications to keep a range of stakeholders well informed of our operations. These publications are available by calling 131 002 or by visiting our website [www.integral.com.au](http://www.integral.com.au).

#### For staff:

Code of Ethics  
Customer service standards

Employee assistance program  
Equal employment opportunity

Harassment

I care! (workplace giving brochure)  
Incident response card  
Inside Integral (staff newsletter)

Reward and recognition scheme

Welcome to Integral Energy

#### For suppliers:

Statement of Business Ethics

#### Information for the public:

Annual Performance Report  
Assistance for users of life support machines  
At home – residential newsletter

Customer Consultative Committee annual report  
Customer Service Standards  
Customer Service Charter

Electric and magnetic fields fact sheet  
Electricity concessions for pensioners  
Electricity negotiated supply agreement: conditions  
Energy efficiency products and services  
Energy price guide  
Environmental policy

**SOCIAL**

General terms and conditions for underground residential distribution of electricity

How to get your electricity connected (1 and 2)

INbiz newsletter

Integral Energy easements

Keep your business in the spotlight

Master billing – information sheet

Network 2015 (Annual planning statement)

Nightwatch information sheet

Now you have the power to choose your electricity supplier (business brochure)

**Safety brochures**

- Avoid the risk of reverse polarity
- Electrical safety in vegetation management
- Electrical safety for plumbers
- Electrical safety for tradespeople
- Electrical safety at home
- Electrical safety around damaged electrical infrastructure

Safety switches

Saving energy at home

Services and information guide

Solutions to heating problems

Standard form customer contract for electricity connection and supply

Standard form contract: summary information

The energy efficient home

Vineyard to Rouse Hill community newsletter

Why you should switch to Integral Energy (residential brochure)

Your guide to the operating costs of electrical appliances in the home

**Fact sheets**

Cooling your home

Heating your home

Hot water systems

Insulation, lighting

Solar energy systems

Fact sheets for business

Power factor correction

Downstream metering

Energy management

Pricing analysis

Quality of supply

Energy studies

**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 corporation lends support to selected community organisations that meet a set of predetermined criteria outlined in the Board policy. Support falls into three key categories:

- Commercial - business excellence.
- Environment - a responsible approach to all issues.
- Social - youth and family empowerment.

The organisation's sponsorship criteria are available on the Internet, with a self-assessment tool for applicants to test how well their proposal fits with requirements. This is a transparent process that treats all applications equally.

Organisations that met the criteria in 2004-2005 included a number of regional business awards, sporting and community events; environment programs; the Australia Day Council of NSW; a regional arts program; NSW Sports Council for the Disabled; the Department of Education and Training's School Sport Foundation, ArtExpress, Schools Spectacular and Southern Stars; and, sustainability initiatives, including Penrith City Council's Sustainability Street and Wollongong City Council's Sustainable Homes project.

## OUR VALUES

### CODE OF ETHICS AND CORPORATE VALUES

A review of the Code of Ethics was conducted in mid-2005 and a new booklet was printed in the second half of 2005.

The Code continues to be built around the organisation's values, which provide a set of principles that guide staff behaviour and business operations. In pursuit of the organisation's corporate goals, the Board, management and staff have adopted seven key statements to describe the core values of Integral Energy. They are:

#### 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 is a condition of employment; not taking shortcuts; not accepting unsafe behaviour; and, expecting personal accountability for safety from everyone. We will be expected to live this value by learning appropriate safety and health requirements and how to work safely; maintaining awareness in all tasks; having a clear and orderly work area; checking for, and fixing, hazards; coming to work free of drugs and alcohol that could impair you doing your job or cause danger to yourself or others; taking action when you see unsafe working practices; looking for opportunities to improve safety and health performance; taking part in safety and health activities; 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 policy with no exceptions, and maintaining soundness of moral principle and character, thus enhancing the organisation's image and reputation among all stakeholders. We each have a responsibility to ensure there is no misuse of Integral Energy's resources; that our business dealings do not lead to any compromise or conflict of interest; that we take ownership and responsibility for our actions; and that we demonstrate outstanding leadership as an example to others.

The Board, Executive and staff will be guided at all times by the principles set out in the organisation's Code of Ethics.

#### Management by fact

Management by fact forms the backbone of our approach to planning and decision making. It encompasses the use of all available information to make objective, impartial and confident business decisions and open and honest disclosure of relevant information to shareholders and customers. We also respect the confidentiality of certain business information and do not use this inappropriately.

#### 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 customer 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; and continually review our safety standards to ensure a healthy and safe environment **for our staff, customers and the community.**

#### Sustainability and commercial success

Integral Energy recognises the significant corporate responsibilities we carry as a leading energy business. As a responsible corporate citizen we must set and achieve goals for a sustainable future. Sustainability means balancing "triple bottom line" interests of financial, environmental and social responsibilities in order to ensure long-term business success. We will therefore operate in a way that meets the needs of the present

without compromising the ability of future generations to meet their own needs.

In valuing commercial success on behalf of our shareholders, our people, our customers and the community, we ensure a sustainable economic future for all stakeholders.

Commercial success is also an important measure of how efficiently we are managing the business on behalf of our shareholders. Commercial success means satisfying the needs of our customers in a manner which delivers ongoing business profitably. Profitability for the network business can be measured as our return on regulated assets. Profitability for the retail business can be measured as the margin we make between the cost of supplying electricity and the price we can sell it for to customers.

#### Accountability and responsibility

Complementing the value of "Respect for people", and the personal and professional workplace standards it demands, our people are expected to take responsibility and accountability for their actions, and to maintain the integrity of performance within their area of responsibility. In all our business dealings, we will promote trust, openness, teamwork, professionalism and pride in what we do. This includes an expectation that our people will accept accountability for any gaps in their performance, and will raise their standards by seeking advice or appropriate training.

#### Privacy

In response to the Privacy and Personal Information Protection Act 1998, Integral Energy has developed a policy and procedure on retention and access of personal files. The policy requires the organisation to maintain accurate and up-to-date records of personnel and hold them in a central, secure area.

The organisation also ensures that access to personal files is restricted to those managers and human resources staff authorised to access them.

The procedure highlights the importance of creating and maintaining employee's personal files in a centralised area and ensuring that staff's privacy is upheld.

The policy and procedure are reviewed periodically to ensure full compliance with the Act.

Separate policy and procedure documents ensure that staff have access to appropriate avenues, internal and external, for consideration and resolution of grievances or complaints.



## Abbreviations

### GLOSSARY

ARSBA	Annual Reports (Statutory Bodies) Act 1984
ARSBR	Annual Reports (Statutory Bodies) Regulation 1995
PF&AA	Public Finance & Audit Act 1983

### ABBREVIATIONS

#### General

ACCC	Australian Competition and Consumer Commission
CSG	Customer Service Guarantees
CSS	Customer Service System
DIFR	Disabling injury frequency rate (lost time accidents per million hours worked).
DSM	Demand side management (utilising existing infrastructure to increase supply capacity as an alternative to capital investment in network assets)
EWON	Energy and Water Ombudsman New South Wales
FRC	Full Retail Contestability (final stage in the development of the electricity market to include residential customers in NSW)
GIS	Geographic Information System (data base of all physical assets)
GST	Goods and services tax
IAIMS	Integrated Asset Information Management Strategy
IPART	NSW Independent Pricing and Regulatory Tribunal
ICT	Information and communications technology
LTI	Lost time incident (one which results in the loss of at least one full shift)
LTIFR	Lost time injury frequency rate
LTISR	Lost time injury severity rate
SAMP	Strategic Asset Management Plan
SCADA	Supervisory control and data acquisition (computer program for remote control of the supply network)

#### Electrical

A	Ampere (or amp) - unit in which electrical current flow is measured
Ohm	unit in which the resistance to the flow of an electric current is measured
V	volt - the unit of electrical potential or electromotive force
W	watt - a measure of the power present when a current of one ampere flows under a pressure of one volt through a resistance of 1 ohm
KW	kilowatt - one kW = 1,000 watts
KWh	kilowatt hour - the standard unit of energy which represents the consumption of electrical energy at the rate of one kilowatt over a period of one hour
KV	kilovolt - one kV = 1,000 volts
KVA	kilovolt ampere a unit of apparent power in an alternating current circuit, equal to 1,000 volt amperes
MVA	megavolt ampere - a unit commonly used when expressing the rating of a transformer
MW	megawatt - one MW = 1,000 kilowatts or one million watts
MWh	megawatt hour - one MWh = 1,000 kilowatt hours
GWh	gigawatt hour - one GWh = 1,000 megawatt hours or one million kilowatt hours

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## Location of operations

### Integral Energy's franchise area

Integral Energy's network franchise area spans 24,500 square kilometres and forms the organisation's platform into the National Electricity Market for energy and energy related products and services.

The franchise includes some of Australia's fastest-growing residential and commercial areas, spread across Sydney's greater west, the Illawarra and Southern Highlands.

Field service depots are located at key points, helping meet the needs of customers and the network.

The expertise and skill of staff not only help repair, maintain and develop the network: they also enable Integral Energy to win construction and maintenance contracts and engineering consultancies in Australia.

The Retail business plays a pivotal role in meeting the needs of more than 822,000 Integral Energy customers located within the scope of operations, as well as customers beyond the franchise.

### Transmission details

Drawing on arrangements with generators in NSW and Victoria – along with supply generated by independent sources such as cogeneration, coal bed methane extraction plants, wind and water plants – Integral Energy purchases wholesale electricity in bulk for customers.

Supply is taken from TransGrid's transmission network at either 132,000 or 66,000 volts and reduced to 33,000, 22,000 or 11,000 volts through a network of transmission and zone substations. Distribution substations further reduce the supply to 415/240 volts to suit customer requirements.





The power is in your hands

#### MAIN OFFICE

51 Huntingwood Drive  
Huntingwood NSW 2148

#### SOUTH COAST OFFICE

Bridge Street, Coniston  
NSW 2500

#### POSTAL ADDRESS

PO Box 6366, Blacktown  
NSW 2148

#### TELEPHONE

*General inquiries*  
131 081

*24-hour emergency service*  
131 003

*Account enquiries,  
connections, disconnections*  
131 002

#### FACSIMILE

02 9853 6000

#### E-MAIL

[integral@integral.com.au](mailto:integral@integral.com.au)

#### WEBSITE

[www.integral.com.au](http://www.integral.com.au)

#### CUSTOMER SERVICE HOURS

*Account enquiries*  
131 002  
(24 hours, cost of a local call)

#### CREDIT CARD PAYMENTS

1300 361 104  
(24 hours, cost of a local call)

#### 24-HOUR EMERGENCY SERVICE

131 003  
(cost of a local call)

#### HOT WATER HOTLINE

131 003

#### TO REPORT STREETLIGHTS OUT

131 003

#### CUSTOMER COMMENTS OR COMPLAINTS

1800 806 698

#### ETHIS HOTLINE

1800 ETHICS  
1800 384 427

#### FIELD SERVICE DEPOTS

##### *Northern region*

**Penrith**  
Blaikie Road, Jamisontown

**Katoomba**  
Cnr Camp and Whitton Streets

**Bowenfels**  
Coerwull Drive

**Kandos**  
Cnr Davies Road and  
White Crescent

**Seven Hills**  
Powers Road

**Parramatta**  
Cnr Fennell and  
Macarthur Streets

**Windsor South**  
Ham Street

**Central Logistics Facility  
Glendenning**  
Glendenning Road

*Central region*  
**Hoxton Park**  
Hoxton Park Road

**Bowral**  
Bong Bong Street

**Narellan**  
McPherson Avenue,  
Smeaton Grange

**Picton**  
Henry Street

*Southern region*  
**Shellharbour**  
Buckley Road

**Springhill**  
Five Islands Road

**Nowra**  
Cnr Yalwa and Depot Roads

**Ulladulla**  
Deering Street

#### ABOUT THIS REPORT

Integral Energy's Annual Performance Report for 2004-2005 presents critical information about the organisation's activities in a candid, transparent and reader-friendly manner. In addition to meeting the requirements of a broad range of legislation, our report is also prepared against Global Reporting Initiative guidelines, and the criteria set out by the Australasian Reporting Awards, Inc. The report is also benchmarked against reports from other leading organisations.

We printed 3,000 copies of the 2004-2005 Annual Performance Report at a total cost for external services of \$68,100 (GST inclusive).

The Annual Performance Report was produced by the Corporate and Government Affairs Branch.

The report is available on the Integral Energy website: [www.integral.com.au](http://www.integral.com.au)

#### Design/production

Versa 02 9438 1711  
Designer: Ken Haywood

#### Photography

Henderson-Kelly  
NPB Photographics