
New South Wales Auditor-General's Report

Financial Audit

Volume Five 2014

Focusing on Electricity and Water



The role of the Auditor-General

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

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

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

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

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

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

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Pursuant to the *Public Finance and Audit Act 1983*,
I present Volume Five of my 2014 report.

A handwritten signature in black ink, appearing to read 'Grant Hehir'.

Grant Hehir
Auditor-General
11 November 2014

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Part One

Section One

Electricity



Executive Summary

Introduction

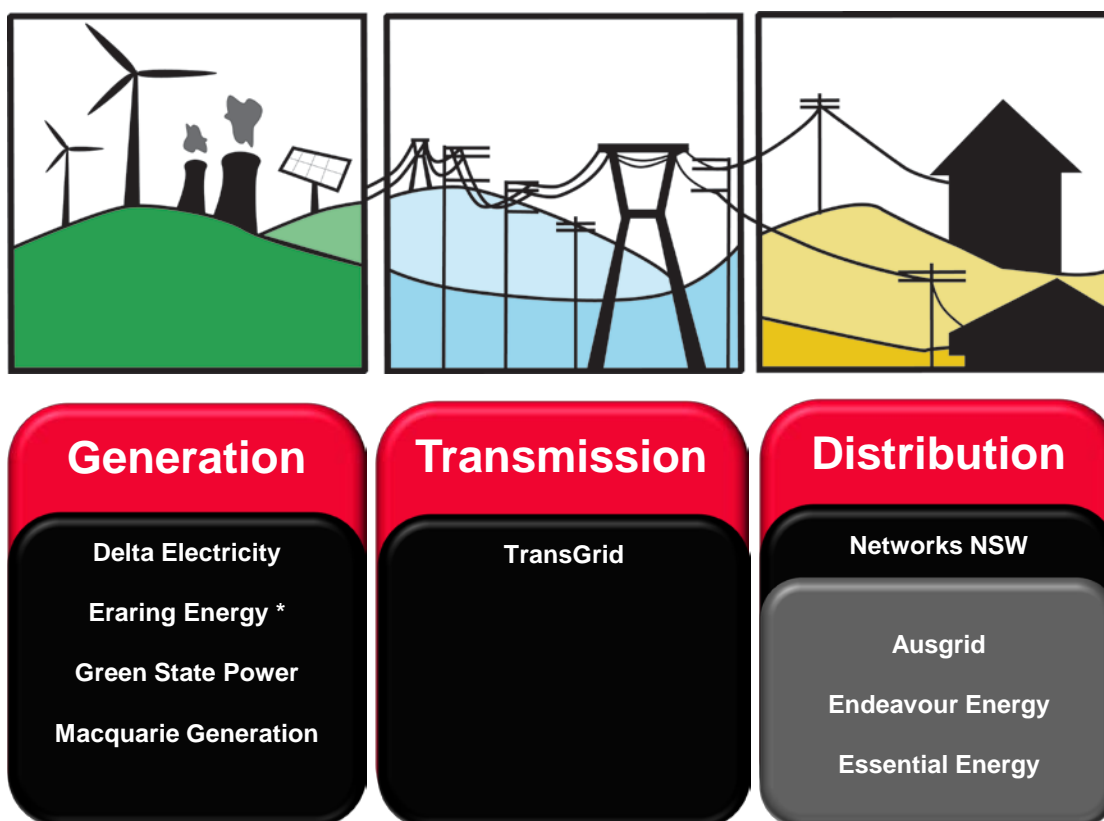
This report sets out the results of the financial statement audits of the NSW Government electricity businesses and their controlled entities for the year ended 30 June 2014.

Unqualified audit opinions were issued on all financial statements for the year ended 30 June 2014, with the exception of Delta Electricity as its financial statements are yet to be issued. The financial statements will be issued once the Government has completed negotiating the sale of Delta's remaining assets.

The report also provides Parliament and other users of the financial statements with an analysis of the NSW Government electricity businesses' results and key observations in the following areas:

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

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



* Eraring Energy was sold on 1 August 2013.

Industry Snapshot

A snapshot of the NSW Government electricity businesses (excluding Delta Electricity) for the year ended 30 June 2014 is shown below.



Financial and Performance Reporting

Financial and performance reporting is an important aspect of good governance. Government decision-making requires accurate and timely reporting to be effective and to allow efficient delivery of services. Enhanced transparency and accountability ensures Government businesses demonstrate their use of available resources to produce the best possible results for the community.

Quality and Timeliness of Financial Reporting

Total annual reported misstatements have fallen from 24 to eight over the past five years.

The NSW Government electricity businesses were broadly successful in performing early close procedures and submitted the financial statements earlier in 2014.

Financial Results

Revenue generated by the NSW Government electricity businesses totalled \$9.0 billion (\$9.6 billion during 2012-13) and achieved a combined net profit of \$1.5 billion (\$1.6 billion).

The value of the NSW Government's investment (equity or net assets) in these entities totalled \$11.5 billion (\$11.8 billion at 30 June 2013), comprising total assets of \$40.1 billion (\$40.5 billion) less total liabilities of \$28.6 billion (\$28.7 billion).

Profitability and Distributions to Government

The Distributors and TransGrid generated revenue of \$7.7 billion (\$288 million higher than the Statement of Corporate Intent (SCI) target) and also exceeded the net profit after tax target of \$1.2 billion by \$208 million.

The electricity businesses accrued and paid \$1.7 billion (\$1.7 billion in 2012-13) in distributions to the NSW Government, comprising:

- \$829 million (\$580 million) in income tax equivalents
- \$872 million (\$1,158 million) in dividends.

Industry Wide Reforms

The financial results have been impacted by industry wide reforms and events following decisions made by the NSW Government, such as the sale of electricity businesses and assets.

The Distributors reported total savings of \$3.0 billion over the last three financial years from the network reform program, mainly due to savings in capital and operating expenditure.

Financial Sustainability

As with any well run business, electricity entities must manage their finances so they can meet current and future spending commitments, invest in future growth, adapt quickly to emerging threats and remain financially sustainable. To achieve these goals, entities must generate sufficient operating results so they can respond to changes in economic conditions, and government policy.

Some financial ratios indicate short term sustainability concerns for the NSW Distributors and TransGrid. In particular, the Distributors are operating with gearing ratios above those considered desirable by the national regulator.

Several mitigating factors have enabled the entities to support ongoing operations with ratios at these levels.

Financial Controls

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

Internal Controls

The audits did not identify any high risk internal control weaknesses. The number of information technology issues increased by 91 per cent, to 21 in 2013-14. The increase is mainly due to the loss of the IT security manager at one of the businesses. However, the entities have strong IT service delivery management processes.

Human Resources

The NSW Government electricity businesses have continued to improve the management of overtime and associated allowances. Overtime and associated allowances paid by the electricity businesses during the year totalled \$130 million (\$171 million in 2012-13), a 23.9 per cent decrease.

External Debt

The electricity businesses' (excluding Delta Electricity) external debt has increased by \$2.2 billion over the last two years to \$20.6 billion at 30 June 2014. The Distributors and TransGrid are required to repay/refinance \$8.7 billion of debt over the next five years, 43.5 per cent of their total debt.

Governance

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

Governance Frameworks

Three key entities play important roles in the regulation of Australia's electricity markets: the Australian Energy Regulator, Australian Energy Market Operator and the Australian Energy Market Commission.

Treasury also plays a governance role through its commercial policy framework. The framework guides government businesses towards efficient commercial practices employed by private sector businesses.

In April 2013, the NSW Government formed a Steering Committee to review the *State Owned Corporations Act 1989* (SOC Act) and eight enabling Acts that establish SOCs. The purpose of the review is to improve the SOCs' commercial performance and streamline and strengthen the accountability and governance framework.

Risk Management

The NSW Government electricity businesses advised the Audit Office they comply with the Risk Management Standard AS/NZS/ISO 31000:2009 'Risk management – Principles and guidelines'.

Fraud Control

The NSW Government's electricity businesses (excluding Delta Electricity) referred 36 incidents to and from the Independent Commission Against Corruption (ICAC). This was equivalent to around one incident per 400 employees.

Service Delivery

Electricity Retail Prices

New South Wales has the highest electricity costs (across New South Wales, Queensland, Victoria, and South Australia), with a typical annual electricity bill of \$1,925 (30.0 per cent more than the lowest in South Australia). In 2014, external consultants engaged by Treasury found the network costs component of NSW consumer electricity bills increased the most over the period, increasing by 122 per cent in real dollar terms between 1996-97 and 2012-13.

Capital Expenditure

Capital expenditure reported by the Distributors and TransGrid for the 2009-2014 regulatory period was \$3.7 billion (20.5 per cent) lower than the allowance approved by the Australian Energy Regulator (AER). The underspend is expected to flow to customers during the 2014-2019 regulatory period through reduced electricity prices.

Customer Demand for Electricity

Demand for electricity is decreasing. The possibility of demand exceeding supply in New South Wales is now forecast to occur after 2023-24 due to declining demand and additional generation capacity.

Renewable Energy Use

The NSW Government has set a target of 20 per cent renewable energy consumption by 2020. Black coal continues to be the major source of energy representing over 80 per cent of electricity generation in New South Wales. Approximately 11.6 per cent of energy generated is derived from renewable sources.

Ownership of State-owned Electricity Businesses

In 2013-14, the NSW Government continued to divest its interest in electricity businesses and announced plans for further sales and transfers of ownership.

On 10 June 2014, the NSW Government announced its intention to transfer 49 per cent of its ownership of a range of electricity transmission and distribution businesses to the private sector. The transactions are expected to consist of long term (99 year) leases with the proceeds to directly fund Rebuilding NSW.

NSW 2021 Performance

The Distributors and TransGrid broadly met the targets set out in NSW 2021 in 2013-14, with all maintaining investment grade credit ratings and meeting or exceeding the Weighted Average Cost of Capital (WACC) set by the regulators.

Industry Benchmarks

NSW Government electricity businesses performed well against industry benchmarks. In 2013-14, all the Distributors performed better than target by reducing the total number of minutes on average that customers are without electricity. Significant reportable electrical network incidents were also better than target and better than the 2012-13 results for all Distributors. TransGrid's transmission network availability was marginally lower than target by 0.7 percentage points.

Financial and Performance Reporting

Financial and performance reporting is an important aspect of good governance. Government decision-making requires accurate and timely reporting to be effective and to allow efficient delivery of services. Enhanced transparency and accountability ensures Government businesses demonstrate their use of available resources to produce the best possible results for the community.

Quality of Financial Reporting

Unqualified audit opinions were issued on all the NSW Government electricity businesses' financial statements for the year ended 30 June 2014, with the exception of Delta Electricity as its financial statements are yet to be issued.

Delta Electricity's financial statements will be issued once the Government has completed negotiating the sale of Delta's remaining assets.

Entity	Audit Result		Reported Misstatements for the year ended 30 June				
	Modified Opinion	Number of Significant Matters	2014	2013	2012	2011	2010
Ausgrid	No	--	1	1	10	4	5
Ausgrid Pty Limited	No	--	--	--	--	--	--
Endeavour Energy	No	--	2	1	9	2	6
Essential Energy	No	--	--	2	5	--	6
Green State Power Pty Limited	No	--	--	--	--	--	--
Macquarie Generation	No	--	4	1	2	--	3
Networks NSW Pty Limited	No	--	--	--	--	--	--
TransGrid	No	--	1	2	1	2	4
Total		--	8	7	27	8	24

Over the past five years, reported misstatements have fallen from 24 in 2009-10 to eight in 2013-14.

The highest number of misstatements (27) occurred in 2011-12. In 2011-12, Treasury introduced mandatory early close procedures for all agencies to improve the quality and timeliness of agencies' annual financial statements. This followed pilot programs in 2009-10 with fifteen agencies, and 2010-11 with fifty agencies. The early close procedures resulted in improvements to the quality of the financial statements, as shown by a consistently lower number of misstatements since 2011-12 and early resolution of significant matters.

Timeliness of Financial Reporting

Entity	Early Close Procedures		Financial Statements		Audit	
	Received by Statutory Date	Days Late	Received by Statutory Date	Days Late	Completed by Statutory Date	Days Late
Ausgrid	Yes	--	Yes	--	Yes	--
Ausgrid Pty Limited	Yes	--	Yes	--	Yes	--
Endeavour Energy	Yes	--	Yes	--	Yes	--
Essential Energy	Yes	--	Yes	--	Yes	--
Green State Power Pty Limited	Yes	--	Yes	--	Yes	--
Macquarie Generation	Yes	--	Yes	--	Yes	--
Networks NSW Pty Limited	Yes	--	Yes	--	No	11
TransGrid	Yes	--	Yes	--	Yes	--

Consistent with its practice of the last four years, Treasury issued TC 14/02 'Mandatory early close procedures for 2014'. The circular is designed to achieve continuous improvement in the quality and timeliness of agencies' annual financial statements.

The NSW Government electricity businesses were broadly successful in performing early close procedures and submitted the financial statements earlier in 2014.

The audits for seven of the NSW Government electricity businesses were finalised within the eight week reporting timetable set out in TC 14-02. The Networks NSW Pty Limited audit was finalised 11 days after the statutory due date.

Networks NSW Pty Limited is a vehicle for a joint venture agreement between the three Distributors as a result of the Government's network reform program.

Key Issues arising from Financial Audits

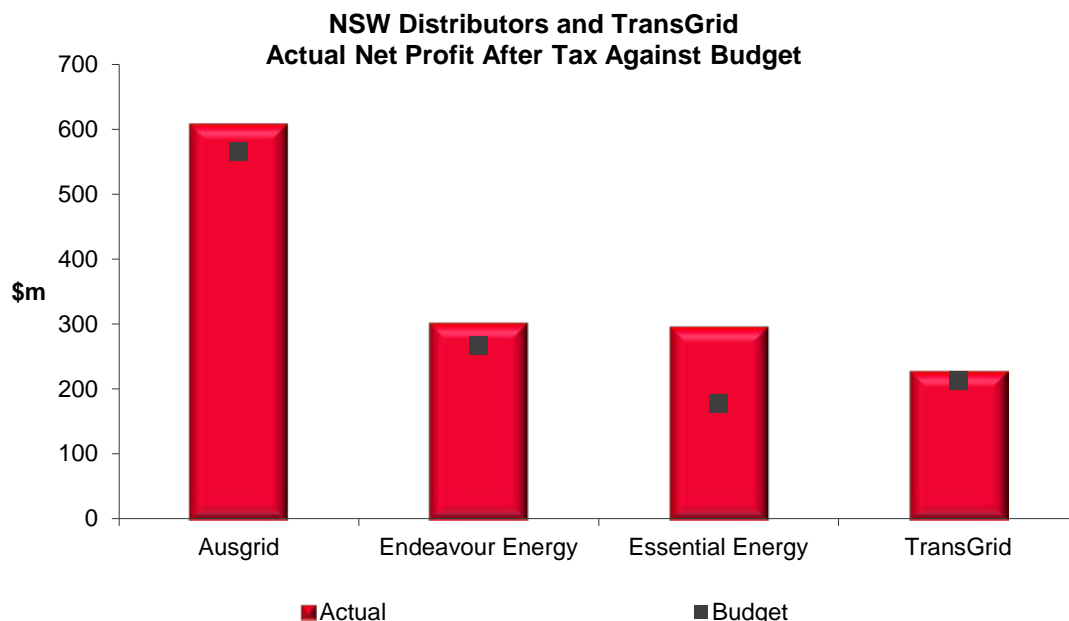
The most significant issues impacting NSW Government electricity businesses are the industry wide reforms and events following decisions made by the NSW Government. These issues are discussed in further detail later in this section of this report.

Performance against Budget (Target)

In 2013-14, the Distributors, TransGrid, Delta Electricity and Macquarie Generation prepared Statements of Corporate Intent (SCI), which included performance targets.

Appendix Two compares the actual results against the SCI-approved targets.

In 2013-14 the Distributors and TransGrid generated revenue of \$7.7 billion (\$288 million higher than the SCI target). The Distributors and TransGrid also exceeded the net profit after tax target of \$1.2 billion by \$208 million.



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

Ausgrid achieved a net profit after tax of \$608 million (\$41.4 million higher than the SCI target). The higher profit was mainly attributable to revenue from transitional services agreements that were extended past their expected end date, lower than budgeted borrowing costs, the sale of Ausgrid's head office building, and a change in the tax treatment of certain assessable income (\$60.4 million).

Endeavour Energy achieved a net profit after tax of \$301 million (\$34.0 million higher than the SCI target). The higher profit was mainly attributable to a change in the tax treatment of certain assessable income (\$36.5 million), lower borrowing costs due to reduced borrowings, lower than expected operating expenditure, and higher other sources of income.

Essential Energy achieved a net profit after tax of \$295 million (\$118 million higher than its SCI target). The higher profit was mainly attributable to a change in the tax treatment of certain assessable income (\$50.0 million), lower than budgeted borrowing costs (\$23.6 million), lower than expected capital and operating expenditure, and increased demand for electricity from the industrial sector.

TransGrid achieved a net profit after tax of \$227 million, (\$13.9 million higher than the SCI target). The higher profit is mainly attributable to higher than budgeted transmission and other services and interest revenue (\$26.0 million).

Key Financial Information

For the year ended 30 June 2014, NSW Government electricity businesses generated \$9.0 billion (\$9.6 billion during 2012-13) in revenue and achieved a combined net profit of \$1.5 billion (\$1.6 billion).

The value of the NSW Government's investment (equity or net assets) in the electricity businesses totalled \$11.5 billion (\$11.8 billion at 30 June 2013), comprising total assets of \$40.1 billion (\$40.5 billion) less total liabilities of \$28.6 billion (\$28.7 billion).

	Electricity Generators [^]		Electricity Transmitters		Electricity Distributors		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Total Assets	2,372	3,931	6,578	6,229	31,196	30,345	40,146	40,505
Total Liabilities	1,350	2,038	4,347	4,056	22,923	22,621	28,620	28,715
Net Assets	1,022	1,893	2,231	2,173	8,273	7,724	11,526	11,790
Total Revenue*	1,334	1,724	911	888	6,797	7,003	9,042	9,614
Total Expense**	1,227	1,654	684	652	5,594	5,674	7,504	7,980
Net Profit	108	69	227	236	1,204	1,329	1,538	1,634

[^] Excluding Delta Electricity

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

** Includes loss on disposals, financial instruments fair value losses, and income tax expense.

Note: Table does not add due to rounding.

Source: Financial statements (audited).

Appendix One provides a summary of key financial results for the NSW Government electricity businesses included within this report.

Distributors

The Distributors' revenue decreased to \$6.8 billion in 2013-14 (\$7.0 billion). Expenses totalled \$5.6 billion in 2013-14 (\$5.7 billion). The total net profit for the Distributors in 2013-14 was \$125 million lower than in 2012-13. The 'NSW Electricity Distributor Profits' section of this report provides further explanation for the movements in Distributor results.

At 30 June 2014, Distributor assets totalled \$31.2 billion, an increase of \$851 million from 30 June 2013. The increase was primarily due to capital expenditure, partially offset by depreciation expenses. None of the Distributors recognised significant asset revaluation movements in 2013-14.

Total liabilities remained fairly stable, increasing \$302 million in 2013-14. Increased borrowings to fund capital expenditure at the Distributors contributed to the increase in liabilities, but this was partially offset by decreases in dividend provisions, deferred tax liabilities and employee benefit provisions.

Net assets increased 7.1 per cent during 2013-14 to \$8.3 billion.

Generators (excluding Delta Electricity)

The Generators (excluding Delta Electricity) recorded \$1.3 billion in revenue in 2013-14, a decrease of \$390 million over 2012-13. Revenue was lower mainly due to the sale of Eraring Energy's operations in August 2013 (\$606 million revenue in 2012-13). This was partially offset by increased revenue by Macquarie Generation (\$190 million).

Macquarie Generation's revenue increased mainly due to an income tax benefit (\$126 million), a higher gain in the fair value of its financial instruments (\$53.0 million), and proceeds from insurance settlements (\$17.0 million).

Expenses incurred by Generators decreased by \$427 million in 2013-14 to \$1.2 billion. The decrease was mainly attributable to the sale of Eraring Energy's operations in August 2013 (\$568 million expenses in 2012-13). Other expenses increased by \$85.0 million for Macquarie Generation, but this was partially offset by a \$13.3 million decrease in income tax expense.

The total net profit for the Generators in 2013-14 was \$38.2 million more than 2012-13.

Total assets held by the Generators at 30 June 2014 decreased by \$1.6 billion and liabilities decreased by \$688 million from 30 June 2013. This was mainly due to the sale Eraring Energy, and the adjustment to Macquarie Generation's asset and liability values ahead of its sale in September 2014.

Net assets decreased 46.0 per cent during 2013-14 to \$1.0 billion.

TransGrid

TransGrid's net profit in 2013-14 was \$9.0 million lower than 2012-13, mainly driven by a \$32.0 million increase in expenditure. This was mainly attributed to a \$11.0 million increase in finance costs and a \$10.0 million increase in maintenance costs during 2013-14. The increase in expenditure was partially offset by higher transmission and other services revenue (\$23.0 million).

TransGrid's assets totalled \$6.6 billion at 30 June 2014, an increase of \$349 million from 30 June 2013. The increase was mainly due to additions to property, plant and equipment, and the construction of a TransGrid-occupied office accommodation and investment property.

Net assets increased 2.7 per cent during 2013-14 to \$2.2 billion.

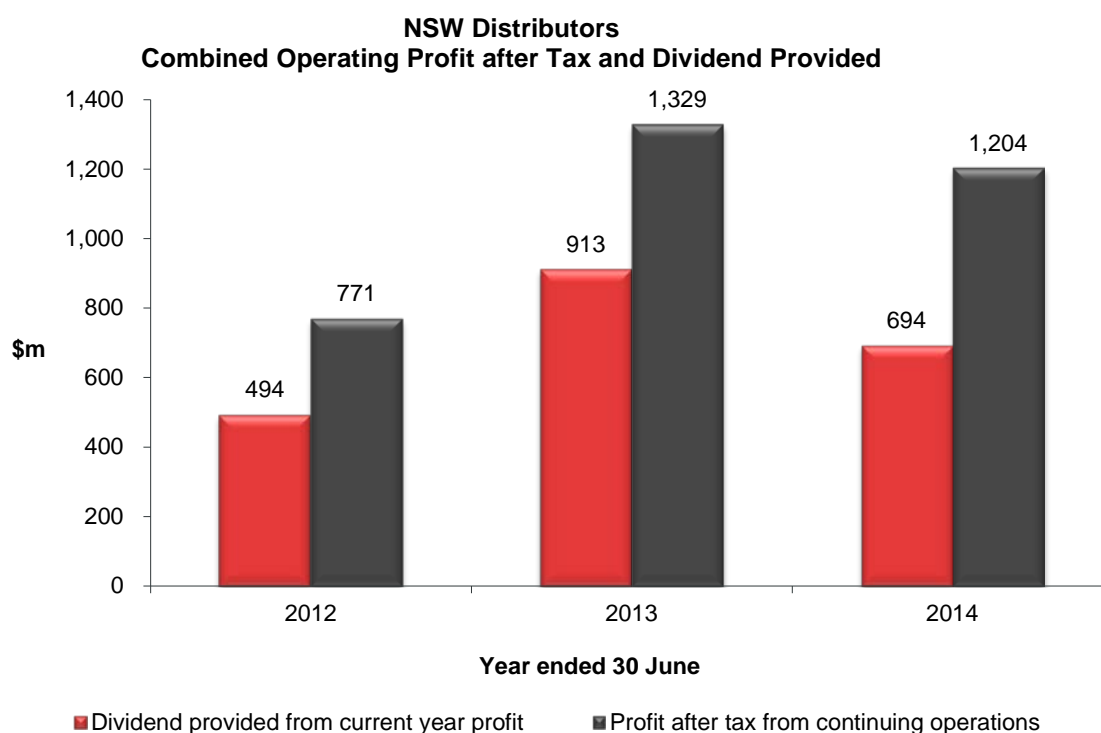
NSW Electricity Distributor Profits

The combined profit after tax for NSW Distributors decreased to \$1.2 billion in 2013-14. The Distributors' revenues decreased by \$205 million to \$6.8 billion in 2013-14. This was mainly due to lower network revenue. Essential Energy experienced the greatest decrease in network revenue (\$142 million), while Endeavour Energy and Ausgrid experienced decreases of \$24.8 million and \$23.6 million respectively.

The decrease in network revenue was due to declining demand, lower consumption by residential and commercial customers associated with milder weather conditions, economic impacts, and energy efficiency measures, and an increase in the number of customers using solar energy. Despite a decrease in 2013-14, network revenue continued to remain high due to higher electricity prices determined by the Australian Energy Regulator (AER) in previous years. Customers responded to increased electricity prices during the year by reducing their use of electricity and seeking alternative energy sources.

Expenses decreased by \$79.9 million to \$5.6 billion in 2013-14. This largely occurred in Essential Energy and Ausgrid's costs of distributing electricity and the change in the tax treatment of certain assessable income for all Distributors. The decrease in expenditure was partially offset by increased depreciation and amortisation costs and higher employee costs due to redundancy costs incurred.

Under Treasury's Financial Distributions Policy for government businesses, dividend targets are negotiated annually between the shareholders and the board of each Distributor and agreed in the Statement of Corporate Intent. Generally, a dividend payout ratio of 70 per cent of post-tax profits (adjusted for non-cash items) was agreed.



Source: NSW Distributors (audited).

Total dividends payable by Distributors to the State Government decreased by 24.0 per cent in 2013-14 from \$913 million to \$694 million, primarily driven by the decrease in Distributor profits.

Distributions to Government

NSW Government electricity businesses accrued and paid \$1.7 billion (\$1.7 billion in 2012-13) in distributions to the Government, comprising:

- **\$829 million (\$580 million) in income tax equivalent payments**
- **\$872 million (\$1,158 million) in dividends accrued.**

Dividends provided during the year and income taxes paid for the year ended 30 June	2014 \$m	2013 \$m	2012 \$m	2011 \$m	2010 \$m
Generators (excluding Delta Electricity)	24 ¹	156 ¹	223 ¹	253	409
TransGrid	260	247	189	156	186
Distributors	1,417	1,335	945	698*	710
Total	1,701	1,738	1,357	1,107	1,305

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

¹ Includes notional dividend for Eraring Energy.

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

Impact of Events on Financial Information

The financial results of the NSW Government electricity businesses have been impacted by industry wide reforms and events following decisions made by the NSW Government, such as the sale of electricity businesses and assets.

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

Sale of Electricity Businesses and Assets

Sale of Generation Businesses

The *Electricity Generator Assets (Authorised Transactions) Act 2012* (the Act) was assented to on 5 June 2012. This Act authorised the privatisation of NSW Generator assets and directed that the sale proceeds be paid directly to the State Government into the Restart NSW Fund. This fund was established in June 2011 to support a range of high priority future infrastructure projects.

Sale of Macquarie Generation

On 2 September 2014, the NSW Government completed the sale of Liddell and Bayswater power stations to AGL Energy for \$1.5 billion. The transaction was delayed when the Australian Competition and Consumer Commission (ACCC) opposed AGL Energy's offer in March 2014, due to concerns the transaction would substantially reduce competition in the NSW retail electricity market. In June 2014, the Australian Competition Tribunal overturned the decision by the ACCC, allowing the transaction to be completed.

Sale of Delta Electricity assets

On 25 July 2013, the NSW Government executed a sale and purchase agreement with EnergyAustralia to sell the Mount Piper and Wallerawang (Delta West) power stations for \$160 million. The transaction was completed on 2 September 2013. In early 2014, Delta's renewables assets, Chichester and Dungog (mini-hydros), were transferred to Hunter Water Corporation.

In December 2013, the sale process for Delta Electricity's Vales Point and Colongra (Coastal) power stations commenced with a request for expressions of interest. The final phase of the sale process has commenced and is expected to be completed before the end of 2014.

Sale of Green State Power assets

Green State Power Pty Limited was established by the NSW Government on 4 June 2013 to operate the State's renewable energy assets (wind and hydro), which were previously owned by Eraring Energy. Eraring Energy was sold to Origin Energy on 1 August 2013.

On 23 June 2014, the NSW Government executed a sale agreement with Trustpower, a New Zealand electricity generation and electricity retailing company, to sell a portion of Green State Power's renewable assets for \$72.2 million. These assets included Hume, Keepit and Burrinjuck hydro power generators, Blayney wind farm and 80 per cent of Crookwell wind farm. The transaction was completed on 18 July 2014.

Transfer of Ownership of Distribution and Transmission Businesses

On 10 June 2014, the NSW Government announced its intention to transfer 49 per cent of its ownership of a range of electricity transmission and distribution businesses to the private sector. The transactions are expected to consist of long term (99 year) leases with the proceeds to directly fund Rebuilding NSW. Rebuilding NSW is a \$20.0 billion program aimed at improving infrastructure to meet the needs of the State and a growing population.

On 14 July 2014, the NSW Government appointed UBS and Deutsche Bank to oversee a scoping study for the long-term leasing of the State's electricity network. The financial advisors will help determine the best structure for the transactions and are expected to report back to the NSW Government later this year.

Expressions of Interest – Cobbora Coal Mine

On 6 August 2014, the NSW Government called for expressions of interest for the sale of the Cobbora Coal Mine located in the state's Central West. The mine was formed to provide subsidised coal to the NSW Government-owned Generators before the Cobbora Coal Supply Agreement was terminated in 2013. The expressions for interest were open to prospective bidders until early September 2014.

Sale of Ausgrid's head office building

On 7 March 2014, the NSW Government announced the sale of Ausgrid's head office building located in the Sydney CBD for \$152 million. The net proceeds are expected to be used to fund essential services and infrastructure across the State.

Electricity Distribution Business Reform

In March 2012, the NSW Government announced a network reform program aimed at saving \$400 million in operating expenditure. The NSW Distributors expect the reform program will save \$5.4 billion in capital and operating expenditure over the five years to 30 June 2016. The reforms are intended to improve efficiency and reduce costs to keep average network electricity price increases at or below the Consumer Price Index over the five-year period.

On 1 July 2012, Ausgrid, Essential Energy and Endeavour Energy underwent a restructure. The State Government implemented interim governance arrangements for all three Distributors with a shared group management model called 'Networks NSW'. This included appointment of common board members and also provided for a common chief executive officer and senior management structure. Each Distributor continued to operate as a separate legal entity throughout 2013-14.

Over the last three financial years, the Distributors reported total savings of \$3.0 billion in capital and operating expenditure.

NSW Distributor	Savings			
	2014 \$m	2013 \$m	2012 \$m	Total \$m
Ausgrid	1,139	791	166	2,096
Endeavour Energy	141	141	14	296
Essential Energy	395	207	33	635
Total savings for the year ended 30 June	1,675	1,139	213	3,027

Source: NSW Distributors (unaudited).

The Distributors advise the savings were achieved through reduced capital expenditure programs (in light of declining consumer demand), common organisational management structures implemented across the Distributors, reduced employee numbers, management of overtime and targeted sales of non-system assets. The fall in employees was achieved through natural attrition, reduced hiring and voluntary redundancies.

The State Government's interim governance arrangements were amended and assented to on 3 June 2013 through the *Energy Services Corporation Amendment (Distributor Efficiency) Act 2013*. This amendment formally provides for a single board of directors as the joint board of each of the energy Distributors. Under the Act, the board must act in the best interests of all the Distributors as if the individual businesses were operating as a combined operation.

NSW Distributors' Stranded Cost Provision

The sale of the electricity retail operations in March 2011 resulted in stranded cost liabilities for staff redundancies, data migration and rebranding costs. At 30 June 2014, two Distributors, Ausgrid and Essential Energy, recognised provisions totalling \$88.5 million for stranded costs. These are expected to be settled over the next three years.

Year ended 30 June	Ausgrid \$m	Endeavour Energy \$m	Essential Energy \$m	Total \$m
Stranded cost provision at 30 June 2013	47.3	--	37.9	85.2
Additional provision during 2013-14	9.3	--	12.4	21.7
Payments/adjustments during 2013-14	(9.9)	--	(8.5)	(18.4)
Stranded cost provision at 30 June 2014	46.7	--	41.8	88.5

Source: NSW Distributors (audited).

Ausgrid's provision of \$46.7 million primarily relates to individually agreed employee redundancies at 30 June 2014 arising from restructuring and the end of the Transition Services Agreement (TSA) expiring in December 2014.

Essential Energy's provision of \$41.8 million mainly relates to costs associated with having to continue paying retail staff after the TSA period ended (i.e. when they became surplus to business needs) and restructuring through the network reform program.

Endeavour Energy did not recognise stranded costs as affected staff exited the business or were redeployed in the ongoing network business.

Transitional Service Arrangements

TSAs were entered into as part of the Sale and Purchase Agreements for the electricity retail businesses in March 2011. All award staff affected by the sale were given a five year job guarantee from the sale date.

Ausgrid continued providing services to EnergyAustralia during 2013-14. This service arrangement expires on 19 December 2014. Ausgrid will supply transitional services to EnergyAustralia until 24 February 2015.

In total, \$7.2 million (\$7.7 million) was paid to permanent retail employees accepting voluntary redundancies during the financial year.

NSW Distributor	TSA	Expiry date of TSA	Number of permanent retail employees accepting voluntary redundancy	Redundancies \$m
Ausgrid	EnergyAustralia	19 December 2014	28	3.2
Endeavour Energy	Origin	January 2013	7	0.8
Essential Energy	Origin	4 October 2013	40	3.2
Total			75	7.2

Source: NSW Distributors (unaudited).

Financial Sustainability

As with any well run business, electricity entities must manage their finances so they can meet current and future spending commitments, invest in future growth, adapt quickly to emerging threats and remain financially sustainable. To achieve these goals, entities must generate sufficient operating results so they can respond to changes in economic conditions, and government policy.

Financial Sustainability Indicators at 30 June 2014

Overall Assessment

The table below shows some performance indicators for the NSW Government electricity businesses for the year ended 30 June 2014. The liquidity (current ratio) and gearing ratios indicate there may be short term sustainability concerns at the electricity transmitter and distributors. However, several mitigating factors have enabled these entities to support ongoing operations with ratios at these levels, including:

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

The Distributors and TransGrid maintained investment grade credit ratings during the year.

	Underlying Result	Liquidity	Self-Financing	Gearing	Capital Replacement*	Overall Assessment
Electricity Generators (excluding Delta Electricity)						
Green State Power Pty Limited	30%	10.0	98%	0%	1.9	●
Macquarie Generation	14%	1.7	10%	44%	0.4	●
Electricity Transmitters						
TransGrid	25%	0.2	51%	55%	2.5	●
Electricity Distributors						
Ausgrid	18%	0.5	27%	66%	1.3	●
Endeavour Energy	20%	0.4	22%	69%	2.8	●
Essential Energy	15%	0.4	23%	69%	1.8	●

* Capitalised depreciation has been excluded.

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

Refer to Appendix Three for descriptions of ratios and the risk assessment criteria.

Source: Financial statements (audited).

Underlying Result

An entity's underlying result reflects the profit from its ongoing activities. All electricity businesses achieved favourable underlying results. Further analysis of revenue and net results is included in the 'Financial and Performance Reporting' and 'Service Delivery' sections of this report.

Liquidity

The NSW Distributors' and TransGrid's liquidity ratios were less than one at 30 June 2014, the lowest being TransGrid's ratio of 0.2. A liquidity ratio of one is generally considered an appropriate level of liquidity to support business operations. However, in circumstances where businesses have access to regulated revenue streams, regulated rates of return and strong cash inflows, businesses can operate at lower levels of liquidity.

Gearing

The NSW Distributors are operating with gearing ratios greater than 60 per cent (60 per cent debt: 40 per cent equity) at 30 June 2014. The Australian Energy Regulator (AER) uses this benchmark as the efficient gearing ratio (proportion of debt in total financing) for NSW Government electricity businesses to ensure customers do not bear costs associated with inefficient financing structures.

TransGrid is operating below the AER's benchmark, while Ausgrid, Endeavour Energy and Essential Energy are all above it. Essential Energy has the highest gearing ratio of 68.9 per cent.

Capital Replacement Ratio

All entities, except Macquarie Generation, recorded capital replacement ratios greater than one at 30 June 2014. A ratio greater than one indicates capital expenditure is greater than the rate of depreciation. Further analysis of the capital replacement ratio for NSW Government electricity businesses is included in the 'Financial Controls' section of this report.

Long Term Sustainability Trends for the Consolidated Electricity Sector

The following ratios are derived from the consolidated operations of the NSW Government electricity businesses (excluding Delta Electricity).

Year ended 30 June	2014	2013	2012	2011	2010
Return on equity (%)	13.7	15.9	12.3	4.1*	12.1
Return on assets (%)	7.9	9.6	8.6	5.8*	8.4
Interest Coverage ratio (times)	2.2	2.7	2.1	1.6*	2.4
Gearing ratio (%)	64.1	62.1	66.3	61.0	60.3
Liquidity ratio (times)	0.7	0.6	0.6	0.6	0.7

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

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

Refer to Appendix Three for definitions of the ratios.

Source: Financial statements (audited).

Total revenue generated by NSW Government electricity businesses decreased by \$389 million to \$9.0 billion in 2013-14. Profit after tax decreased to \$1.5 billion for the year (\$1.6 billion in 2012-13).

Return on equity and return on assets fell in 2013-14 mainly due to an overall decrease in net profit driven by declining demand within the electricity market and an increase in average asset and equity balances due to asset revaluations.

The gearing ratio increased in 2013-14 mainly due to a decrease in the net asset values of generators by \$871 million.

Long Term Sustainability for each Electricity Sector

The following table shows key financial ratios by electricity sector:

Year ended 30 June	Generators (excluding Delta Electricity)		TransGrid		Distributors	
	2014	2013	2014	2013	2014	2013
Return on equity (%)	10.1	3.7	10.3	10.9	15.1	21.2
Return on assets (%)	1.5	3.6	7.6	7.8	8.5	10.9
Interest Coverage ratio (times)	0.7	2.5	2.7	3.0	2.2	2.6
Gearing ratio (%)	41.1	27.1	55.1	52.9	67.5	67.7
Liquidity ratio times	1.8	2.7	0.2	0.2	0.4	0.5

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

Refer to Appendix Three for descriptions of ratios.

Source: Financial statements (audited).

Distributors and TransGrid

Return on Equity

Return on equity ratios decreased for the Distributors and TransGrid in 2013-14 as all entities, except Endeavour Energy, experienced decreases in profit after tax. Endeavour Energy had the highest return on equity ratio in 2013-14 (18.2 per cent), while TransGrid had the lowest (10.3 per cent).

Return on Assets

Return on assets ratios decreased for the Distributors and TransGrid in 2013-14 as all entities experienced decreases in earnings before interest and tax. Endeavour Energy had the highest return on assets ratio in 2013-14 (8.7 per cent), while TransGrid had the lowest (7.6 per cent).

Gearing

At 30 June 2014, total external debt for Distributors and TransGrid was \$19.9 billion (\$18.6 billion). Gearing ratios remained relatively stable in 2013-14 across the Distributors. During the year, TransGrid reported a \$303 million increase in borrowings, resulting in a higher gearing ratio.

Generators (excluding Delta Electricity)

Return on equity increased and return on assets decreased. The movement in the ratios is due to the 2013-14 profit after tax arising largely from income tax benefits. Return on equity is calculated using profit after tax, while return on assets is calculated using profit before interest and tax.

The Generators (excluding Delta Electricity) recorded profits after tax of \$108 million (\$69.4 million in 2012-13).

In 2013-14, Macquarie Generation's profit after tax increased to \$154 million. The increase was mainly due to a \$135 million income tax benefit from the derecognition of a deferred tax liability. The derecognition related to the sale of its operations to AGL Energy in September 2014.

Gearing ratios increased for the Generators at 30 June 2014, mainly due to last year's ratio including Eraring Energy, which had no debt at 30 June 2013.

Financial Controls

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

Internal Controls

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

The audits of the NSW Government electricity businesses' financial statements for the year ended 30 June 2014 did not identify any high risk internal control weaknesses.

Over the past three years the audits have identified common lower level risks in the areas of information technology, procurement, segregation of duties and approval, asset management, accounting policy and procedures manuals, and human resource management.

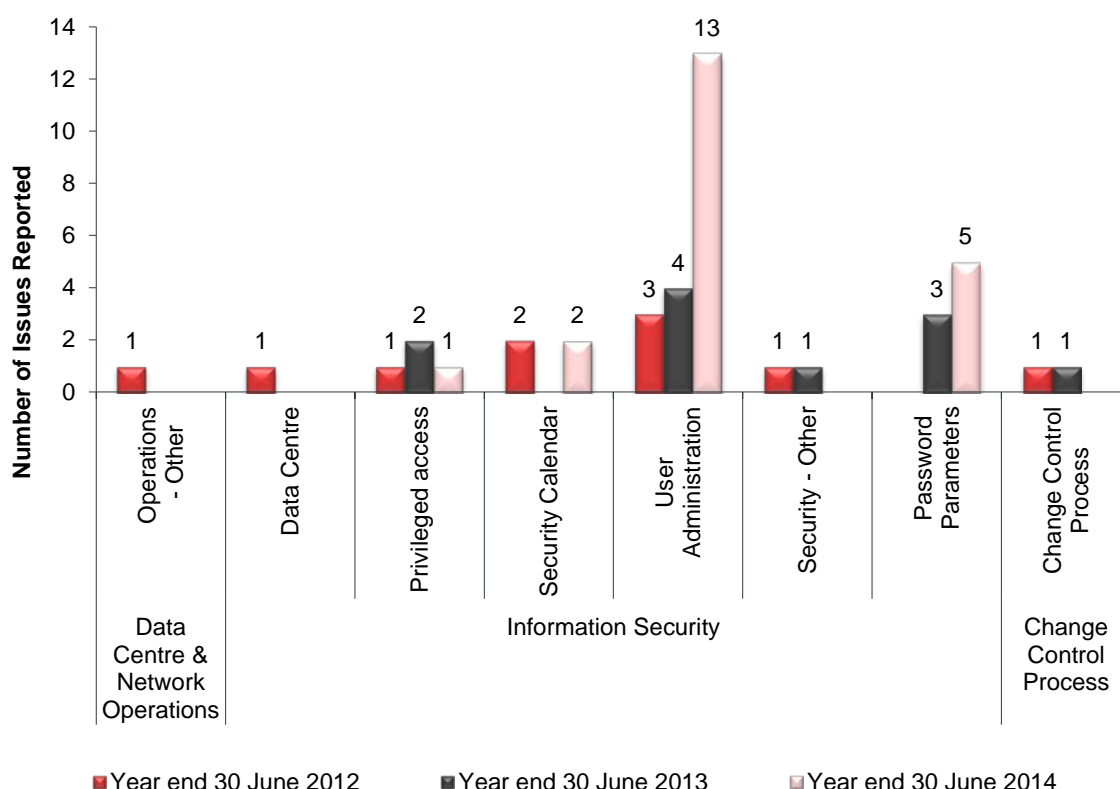
Information Technology

Information system audits focus on the information technology (IT) processes and controls supporting the integrity of financial data used to prepare the financial statements.

The 2014 audits identified 21 IT issues in the NSW Government electricity businesses, a 91 per cent increase from 2013. The increase is mainly due to the loss of the IT security manager at one of the businesses.

All but one of the 11 issues reported in 2013 were addressed in 2014.

IT Issues Reported by Category



All IT issues identified in 2014 related to information security. The number of user administration process issues increased significantly, particularly around the timely removal of user access, which increases the risk of unauthorised access to the financial systems. Five password parameter issues were identified, which also increase this risk.

The audits found the electricity businesses all have strong IT service delivery management processes in place.

Disaster Recovery Planning

In 2014, six of the electricity businesses completed a self-assessment of their disaster recovery planning and testing capabilities. The assessments indicate all entities had formal disaster recovery plans in place for the financial systems. While the level of testing performed in 2014 improved over previous years, some entities had only partially tested their plans.

Human Resources

Overtime and Associated Allowances

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

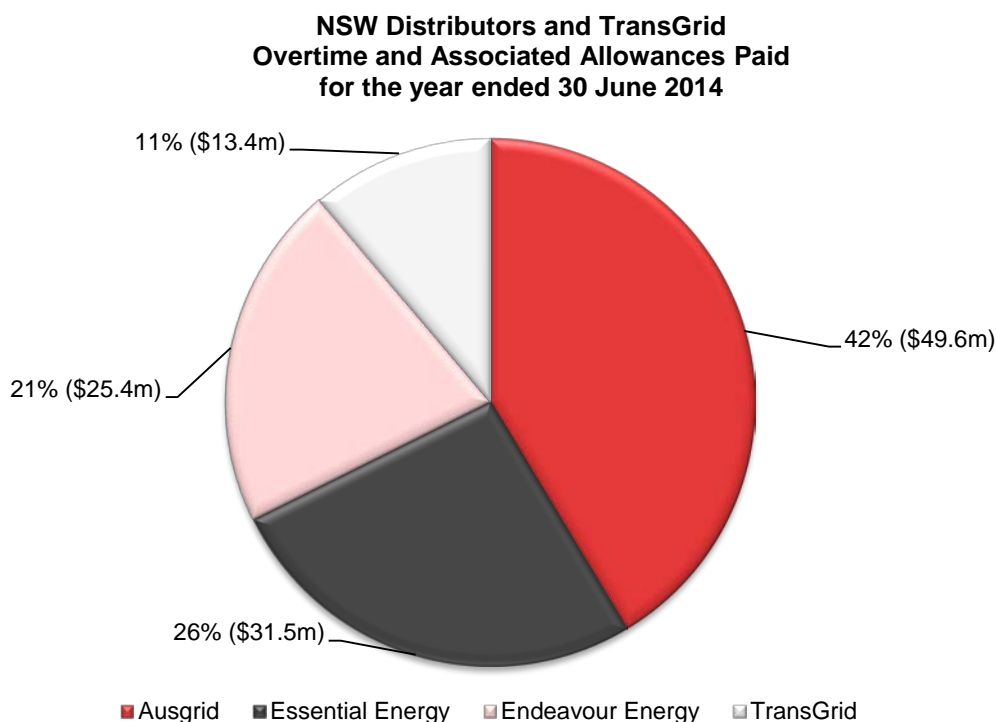
Overtime is paid at a premium rate and, if not effectively managed, can result in higher than necessary expenditure and increased work, health and safety issues, particularly when fatigued employees perform high-risk tasks. Previous Reports to Parliament have identified the need to closely monitor overtime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

In 2013-14, overtime and associated allowances paid by the electricity businesses totalled \$130 million (\$171 million in 2012-13), a 23.9 per cent decrease.

Associated allowances include expenses for travel, meals and other incidental costs.

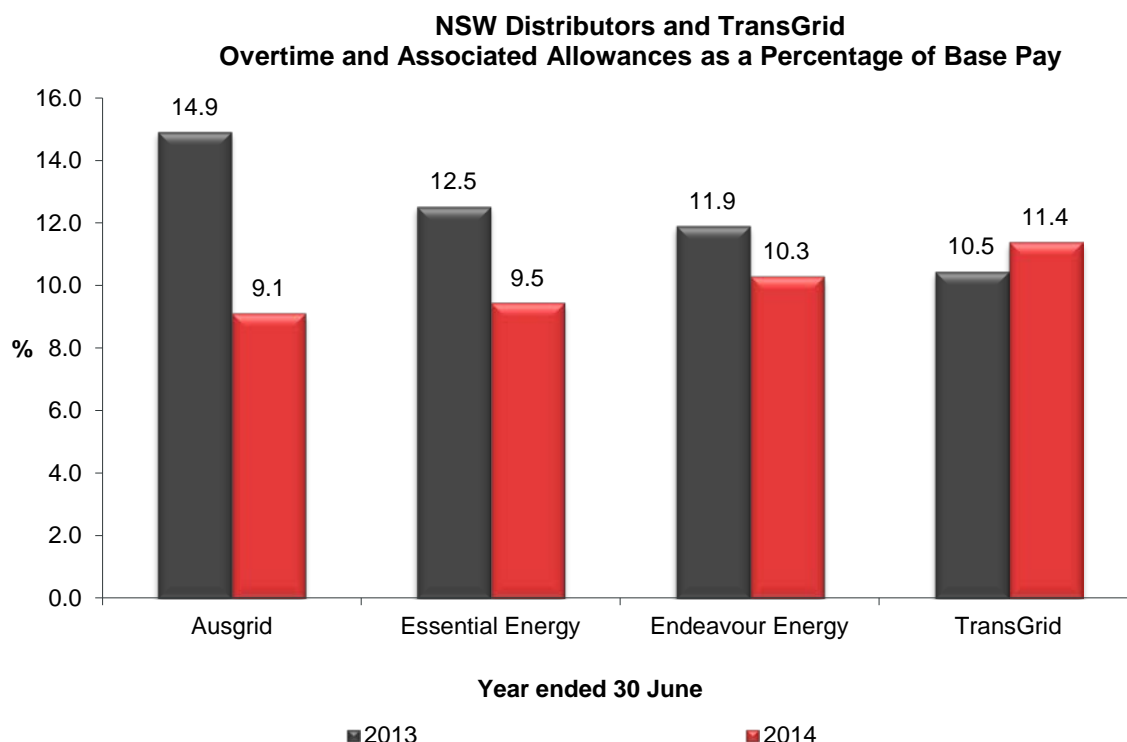
NSW Distributors and TransGrid

Total overtime and associated allowances paid by Distributors and TransGrid decreased to \$120 million in 2013-14 (\$150 million). Ausgrid, the largest Distributor, paid \$49.6 million (42 per cent) of the total overtime expense.



Source: NSW Distributors and TransGrid (audited).

The graph below shows overtime and associated allowances as a percentage of base pay fell for all Distributors during 2013-14 compared to the previous year. TransGrid's overtime increased marginally.



Source: NSW Distributors and TransGrid (unaudited).

In 2013-14, total overtime and associated allowances as a percentage of total base pay ranged from 9.1 per cent for Ausgrid to 11.4 per cent for TransGrid. Ausgrid and Essential Energy experienced the largest reductions in overtime and associated allowances, which fell by \$18.6 million and \$13.3 million respectively.

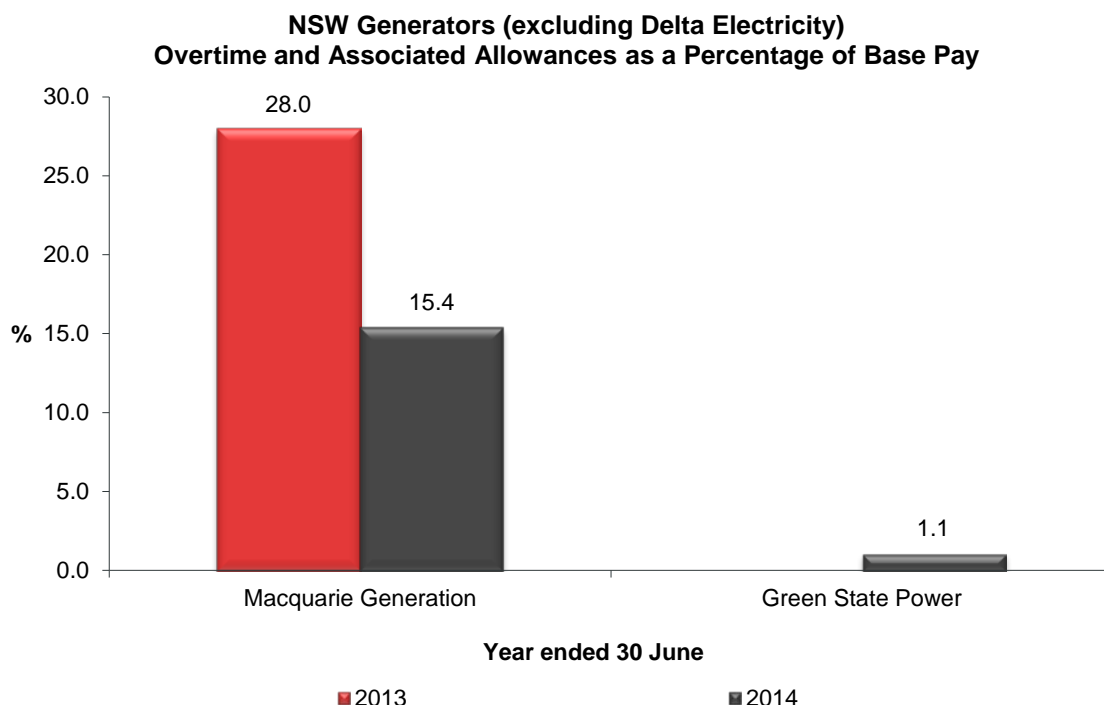
In 2013-14, 217 employees were paid more than 50 per cent of their base salary in overtime and associated allowances, compared to 417 in the prior year. This represents an overall decrease of 48 per cent.

Number of employees receiving more than 50% of their base salary in overtime and associated allowances			
Year ended 30 June	2014	2013	Increase/(decrease) %
Ausgrid	169	245	(31.0)
Endeavour Energy	6	17	(64.7)
Essential Energy	32	144	(77.8)
TransGrid	10	11	(9.1)
Total	217	417	(48.0)

Source: NSW Distributors and TransGrid (unaudited).

Generators (excluding Delta Electricity)

Total overtime paid by Generators in 2013-14 decreased by \$10.9 million to \$10.4 million or 51.3 per cent compared to the previous year. Macquarie Generation incurred the highest overtime of \$10.1 million (\$16.0 million), and Green State Power incurred overtime of \$270,000 in its first year of operations.



Source: NSW Generators (unaudited).

The Generators attribute the overtime incurred to the need to respond to peak workloads, emergency repairs, maximise upgrades and maintenance and minimise interruptions to electricity generation.

Asset Management

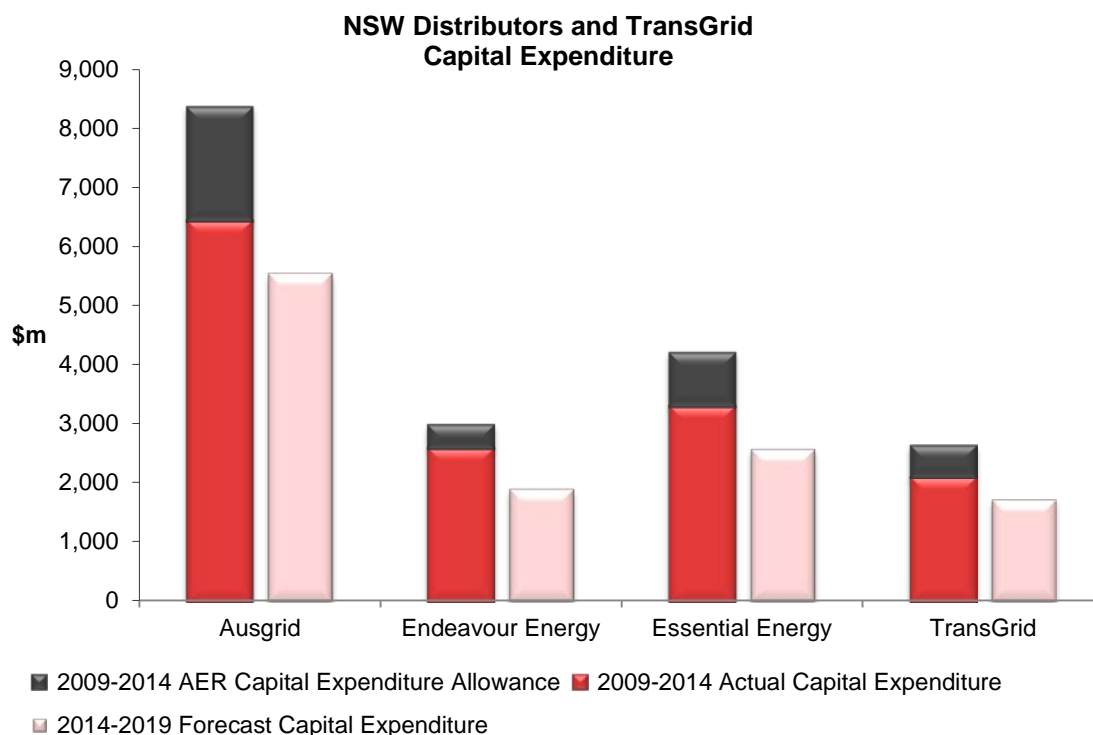
Capital Expenditure Program

The Distributors and TransGrid forecast a capital expenditure program of \$11.7 billion over the next five years.

During the 2009-2014 regulatory period, the Distributors and TransGrid spent \$14.4 billion on capital works, \$3.7 billion less than the Australian Energy Regulator's (AER) capital expenditure allowance.

The impact of the capital underspend on electricity retail prices is discussed in the 'Service Delivery' section of this report.

The graph below shows that forecast capital expenditure during the 2014-2019 regulatory period is lower than actual capital expenditure during the 2009-2014 regulatory period for all Distributors and TransGrid.



Source: NSW Distributors and TransGrid (unaudited).

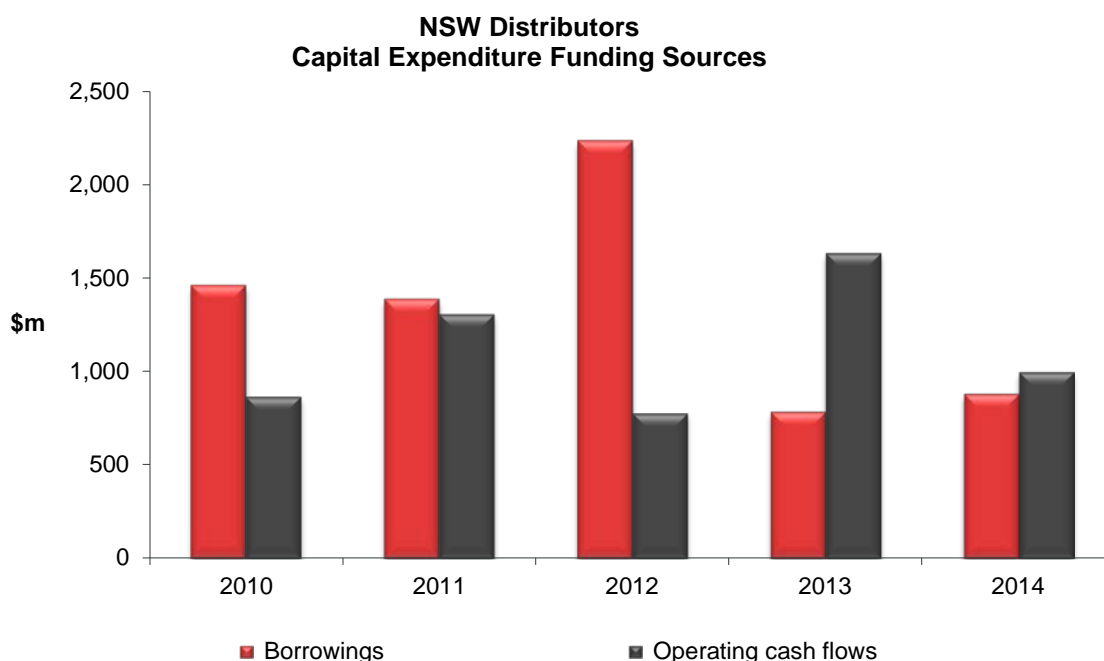
The Distributors' regulatory proposals for 2014-2019, gave the following reasons for the decrease in forecast capital expenditure:

- increased investment in the 2009-2014 regulatory period allowed the Distributors to maintain network reliability and security at adequate levels
- strategies and initiatives developed in the latter part of the 2009-2014 regulatory period enabled the Distributors to deliver the capital program without using their full expenditure allowance. These strategies and initiatives are expected to continue to apply in the 2014-2019 regulatory period
- a shift in focus to replacement and renewal of ageing and deteriorated assets, and targeting investment in areas of greatest need for additional network capacity.

Capital Funding Sources

Over the past five years, the Distributors have funded \$12.3 billion in capital works programs through borrowings and operational cash flows.

Borrowings funded 54.7 per cent of the capital works while operational cash flows funded 45.3 per cent.



Source: NSW Distributors (unaudited)

Borrowings were the primary source of funding for capital works in the first three years of the 2009-2014 regulatory period, while operating cash flows were the primary source over the last two years. Use of borrowings was highest in 2011-12 due to the capital expenditure program peaking in that year.

TransGrid funded 51.0 per cent (\$1.1 billion) of its capital works through borrowings, with 65.4 per cent (\$700 million) of the borrowings spent over the past three years.

Borrowings

The electricity businesses' (excluding Delta Electricity) external debt has increased by \$2.2 billion over the last two years.

However, annual borrowing costs decreased by \$15.4 million over the same period due to more favourable interest rates.

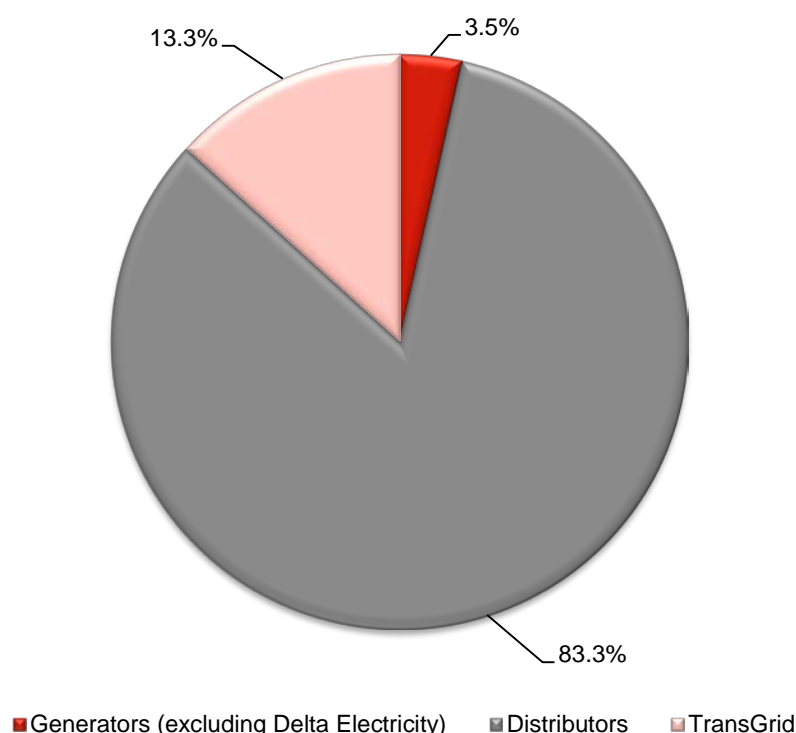
Total borrowing costs (including capitalised interest) were \$1.5 billion in 2013-14, 1.9 per cent higher than 2012-13. External debt at 30 June 2014 was \$20.6 billion (\$19.3 billion).

Year ended 30 June	2014 \$m	2013 \$m	2012 \$m
Generators			
Borrowing costs	57	58	76
External debt	714	711	792
Distributors			
Borrowing costs	1,237	1,220	1,236
External debt	17,161	16,197	15,351
TransGrid			
Borrowing costs	177	166	175
External debt	2,738	2,436	2,263
Total borrowing costs	1,471	1,444	1,487
Total external debt	20,613	19,344	18,406

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

The following graph shows Distributors account for 83.3 per cent of the total external debt held by NSW Government electricity businesses (excluding Delta Electricity) at 30 June 2014.

Share of Total External Debt at 30 June 2014

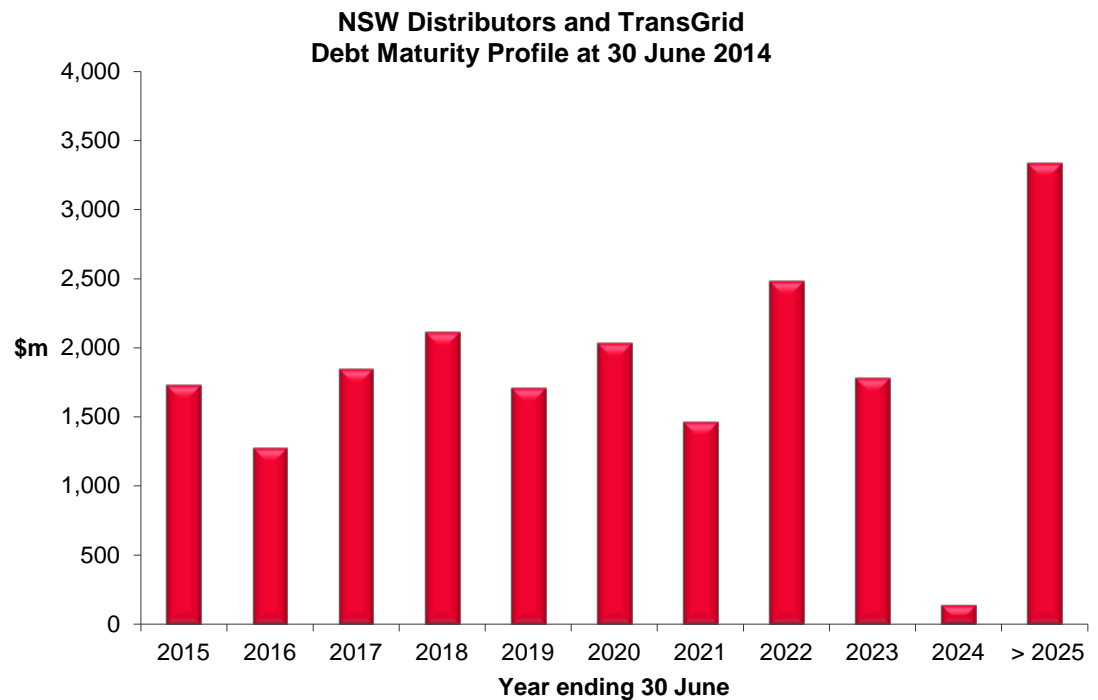


Note: Graph composition does not add due to rounding.

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

The Distributors' total external debt increased to \$17.2 billion at 30 June 2014 (\$16.2 billion at 30 June 2013), an increase of 6.2 per cent. Ausgrid accounted for 40.9 per cent of the total debt with borrowings of \$8.7 billion (\$8.5 billion). It has the largest capital investment program of the Distributors.

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



Note: > 2025 includes all debt maturing in the financial year ending 30 June 2025 and beyond.

Source: NSW Distributors and TransGrid (audited).

The Distributors and TransGrid are required to repay/refinance \$8.7 billion of debt over the next five years, 43.5 per cent of total debt.

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

Further analysis of the NSW Government electricity businesses external debt appears in the 'Financial Sustainability' section of this report.

Asset Maintenance

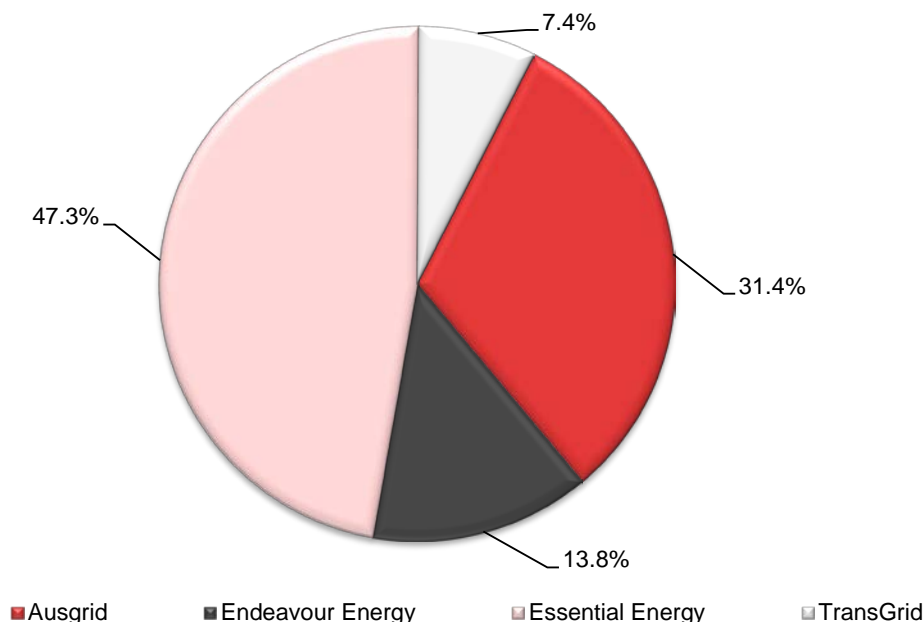
Over the past five years, the Distributors and TransGrid have incurred \$4.4 billion in maintenance expenses.

The following graph shows Essential Energy incurred 47.3 per cent of total maintenance expenditure over the five years to 30 June 2014. It maintains the electricity distribution network in regional New South Wales, servicing 95 per cent of the State.

Ausgrid incurred 31.4 per cent of total maintenance expenditure. It maintains the electricity distribution network in Sydney, Newcastle, the Hunter Valley and Central Coast of New South Wales.

Endeavour Energy incurred 13.8 per cent of total maintenance expenditure. It maintains the electricity distribution network in Sydney's Greater West, the Blue Mountains, Southern Highlands, Illawarra and South Coast of New South Wales.

**NSW Distributors and TransGrid
Maintenance Expense over the five years to 30 June 2014**



Note: Graph composition does not add due to rounding.

Source: NSW Distributors and TransGrid (audited).

The following table shows the value of the Distributors and TransGrid's property, plant and equipment (PPE) increased 44.6 per cent (\$10.7 billion) over the past four years. The increases in PPE values were mainly due to capital expenditure/growth (\$12.7 billion) and asset valuation changes (\$2.9 billion), offset by depreciation expenses (\$4.4 billion).

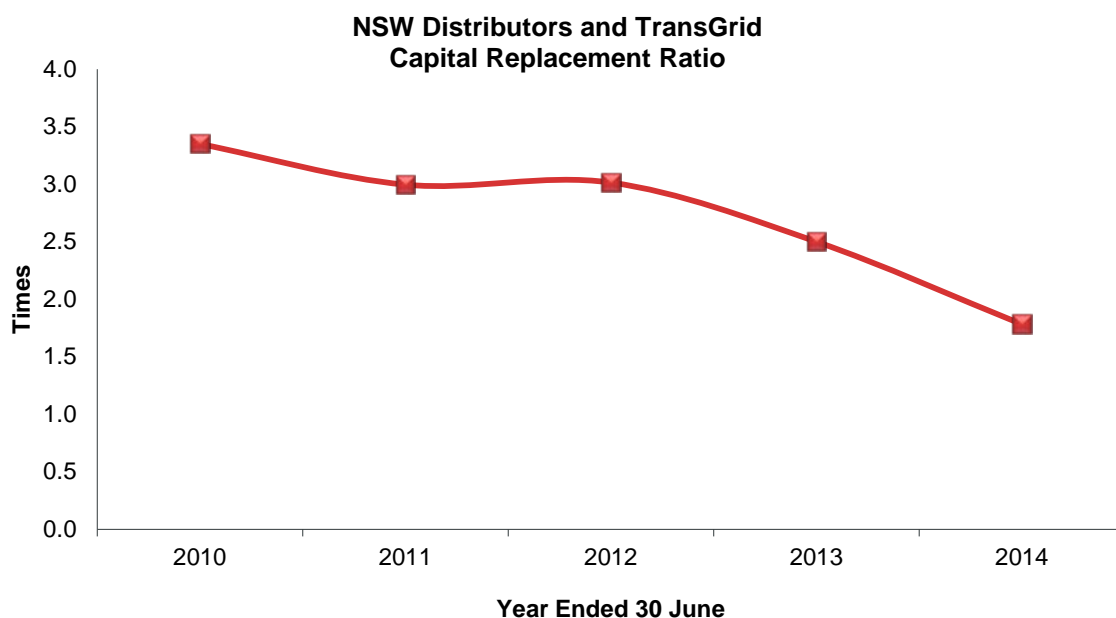
The ratio of maintenance expenditure to PPE values has decreased from 3.4 per cent in 2009-10 to 2.5 per cent in 2013-14.

Year ended 30 June	2014	2013	2012	2011	2010
Maintenance expenditure (\$m)	864	918	901	882	810
PPE values at 30 June (\$b)	34.7	33.5	29.1	26.3	24.0
Maintenance expenditure/PPE values (%)	2.5	2.7	3.1	3.3	3.4
Depreciation expense (\$m)	1,246	1,088	1,044	977	778

Source: NSW Distributors and TransGrid (audited).

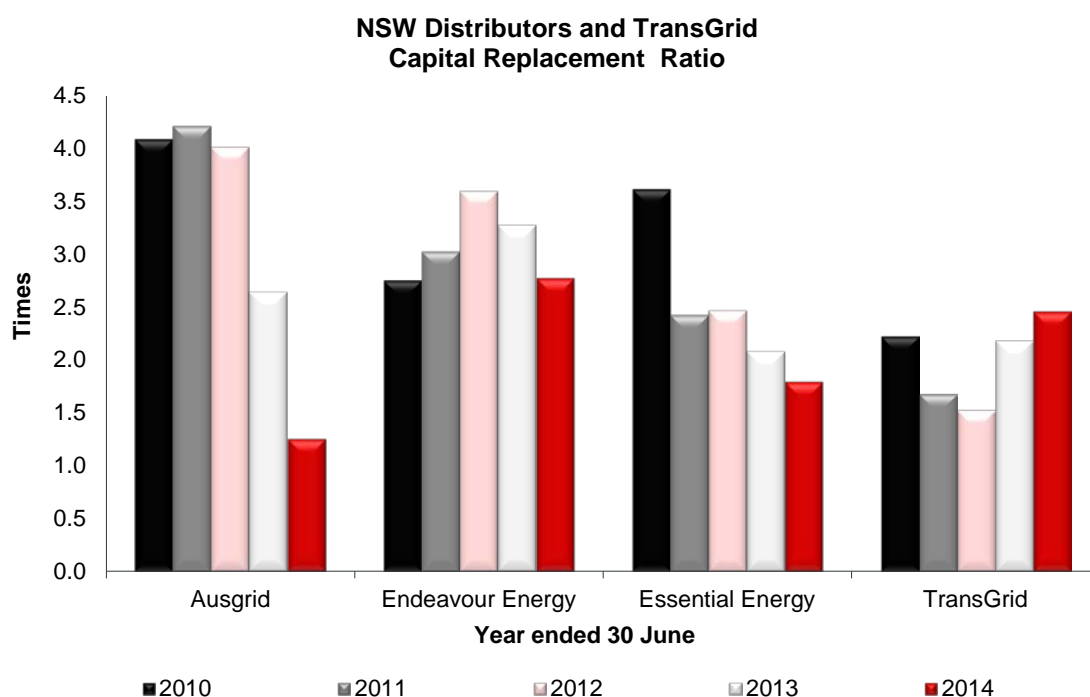
Capital Replacement Ratio

In 2013-14, capital expenditure across the Distributors and TransGrid was 1.8 times greater than depreciation charges, down from 2.5 in 2012-13. The capital replacement ratio calculates the extent to which an organisation renews or grows its physical assets. This is especially important to NSW Government electricity businesses, which have significant capital bases. The ratio remained above one over the past five years and reflects the high investment in physical assets. The decreasing trend in the ratio over the period reflects more moderate levels of capital expenditure.



Source: NSW Distributors and TransGrid (audited).

The capital replacement ratio for each Distributor and TransGrid over the five years is shown below. The lowest ratio recorded in the period was 1.3 by Ausgrid in 2013-14, while the highest of 4.2 was also recorded by Ausgrid in 2010-11.



Source: NSW Distributors and TransGrid (audited).

Governance

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

Governance Frameworks supporting Service Delivery

Legislative Framework

The electricity Distributors, TransGrid, Macquarie Generation and Delta Electricity are NSW State Owned Corporations (SOC) established under the *Energy Services Corporations Act 1995* and the *State Owned Corporations Act 1989* (SOC Act). The SOC Act is the overarching governance framework for SOC's and the governance structures of SOC's are closely aligned with publicly listed companies. The Government, as owner or shareholder, is independent of the board and management of a SOC.

The legislative accountability framework for SOC's involves:

- compliance with relevant legislation, including the *Public Finance and Audit Act 1983*
- establishing objectives and performance targets through an annual Statement of Corporate Intent
- reviewing performance against objectives and targets set through half yearly and annual board reports to voting shareholders
- performance and financial auditing by the Auditor-General of New South Wales
- oversight by the NSW Parliament Public Accounts Committee
- providing additional information on request to Parliament.

Green State Power Pty Limited (Green State Power) was established in June 2013 to facilitate the sale of renewable energy assets previously operated by Eraring Energy. Green State Power must comply with the *Electricity Generator Assets (Authorised Transactions) Act 2012* and the *Corporations Act 2001*.

Regulatory Framework

The National Electricity Market (NEM) is an interconnected power system that services all states and territories of Australia excluding Western Australia and the Northern Territory.

Three key entities play important roles in the regulation of Australia's electricity markets:

- **Australian Energy Regulator**
- **Australian Energy Market Operator**
- **Australian Energy Market Commission.**

The **Australian Energy Regulator (AER)** regulates energy markets and networks. It administers the National Electricity Rules (Rules) including the rules determining the revenue regulated network businesses operating in the NEM can collect. The AER sets a ceiling on the revenue the network businesses can earn or charge in each regulatory period.

Regulatory periods are typically set for a five year period. The Distributors and TransGrid, as regulated network businesses, submit proposals to the AER for their proposed capital and operating plans and the revenue required to recover the costs of planned network investment and operations. The AER forecasts revenue to provide a commercial return on capital and recover the costs of operating an efficient electricity network. The AER issues a revenue pricing determination in response to the network businesses' proposals.

The NSW determination process for the 2014-2019 regulatory period was due for completion in 2014. The AER deferred the full determination process so customers can receive the benefit of new network rules and the AER's development of its Better Regulation guidelines. The AER separated the regulatory period into two parts:

- the transitional regulatory period (1 July 2014 – 30 June 2015)
- the subsequent regulatory period (1 July 2015 – 30 June 2019).

The results of the 2014-15 transitional regulatory period determination for the Distributors and TransGrid are analysed in the 'Service Delivery' section of this report.

The **Australian Energy Market Operator (AEMO)** is responsible for managing the flow and consumption of electricity. Generators compete with each other to supply the NEM with electricity. AEMO manages the supply of electricity by instructing generators to produce and supply enough electricity to match demand, ensure reliability standards are met and the electricity dispatch system stays secure.

The AEMO also ensures customers are able to choose their electricity supplier through its role in operating the retail electricity markets.

The **Australian Energy Market Commission (AEMC)** is responsible for making the National Electricity Rules (Rules), which govern the operation of the NEM.

It is also responsible for assessing changes to the Rules, performing energy market reviews, and providing governments with advice on improvements to regulatory and market arrangements.

The AEMC's target is to provide customers with reliable energy services in the most cost efficient way.

Commercial Policy Framework

Treasury is responsible for advising the NSW Government on state financial management policy, and reporting and monitoring the performance of the State's commercial agencies.

Treasury has implemented a commercial policy framework to guide government businesses towards efficient commercial practices employed by private sector businesses.

The Statement of Corporate Intent (SCI) is an important performance management and accountability tool in Treasury's commercial policy framework. The SCI is a performance agreement between the board and management of a SOC and its shareholders. Performance measurement and benchmarks are clearly detailed in the SCI, as well as the SOC's strategic direction and shareholder expectations. SCIs are prepared annually and must be signed by the voting shareholders, the chairperson of the board and the Chief Executive Officer. SCIs are public documents tabled in Parliament. SOC's also prepare annual Business Plans that provide greater detail supporting the SCI. Business Plans are commercial-in-confidence documents and are not released publicly.

SOCs' Annual Reports must include a comparison of performance against SCI targets (including financial targets) and explain variances.

The Distributors and TransGrid prepared SCI's for the 2013-14 financial year, while Green State Power, which was not required to prepare an SCI, did prepare a Business Plan.

The 'Financial and Performance Reporting' section of this report includes an analysis of the SOC's performance against their SCI.

Review of State Owned Corporations' Governance and Accountability Legislative Framework

In April 2013, the NSW Government formed a Steering Committee to review the SOC Act and eight enabling Acts that establish SOCs.

The purpose of the review is to improve the SOCs' commercial performance and streamline and strengthen the accountability and governance framework. This will help the Government improve the efficiency and effectiveness of its oversight function and achieve the NSW 2021 target of improving the performance of public trading enterprises.

In November 2013, the Steering Committee released an issues paper presenting its research and consultation on key areas impacting the performance of SOCs and the operation of the SOC accountability and governance framework. The paper addresses:

- non-commercial objectives, functions and operations that reduce a SOCs ability to operate like a private sector entity
- clarifying roles and responsibilities of the voting shareholders, the portfolio Minister, the board and the Chief Executive Officer
- clarifying the arrangements for government intervention and control of SOCs
- improving board appointment procedures and processes
- the ability of shareholders to respond to poor performance of a SOC
- aligning practices with private sector best practice
- improving consistency between SOC Act and enabling Acts.

The issues paper included an invitation for stakeholders' views on 55 specific questions arising from the Steering Committee's research and consultation process. The Committee's secretariat advises the Committee is considering the stakeholders' views in forming the recommendations it will make to Cabinet.

The Steering Committee comprises three independent members, and the Secretaries of the Department of Premier and Cabinet, and The Treasury.

Removal of Electricity Price Regulation

In April 2014, the Minister for Resources and Energy informed the Independent Pricing and Regulatory Tribunal (IPART) of the NSW Government's decision to deregulate electricity prices from 1 July 2014. The decision was made following separate reviews by IPART and AEMC in 2013.

The reviews concluded that the NSW electricity market is competitive and regulation is unnecessary as increased competition would ensure households would not be disadvantaged if price regulation was removed. AEMC's report suggested regulation may have been preventing price competition and that discounts offered by electricity retailers could save customers \$220 (11 per cent) per year on an average electricity bill.

The reviews also highlighted increased competition in the NSW electricity market will provide households with more choice when selecting a retailer, putting downward pressure on electricity prices.

Repeal of Carbon Tax

On 17 July 2014, the *Clean Energy Legislation (Carbon Tax Repeal) Act 2014* was passed by federal parliament. *The Competition and Consumer Act 2010* was also amended to enhance the monitoring role of the Australian Competition and Consumer Commission (ACCC). The ACCC's powers now include the ability to intervene if businesses exploit businesses or customers by failing to pass through all carbon tax cost savings or make false or misleading claims.

Analysis of the impact repealing the carbon tax had on household electricity bills and NSW government businesses appears in the 'Service Delivery' section of this report.

Risk Management

Risk Management is a process of identifying, assessing and prioritising risks to minimise, monitor and control the impact of unforeseen events or to maximise the realisation of opportunities.

Risk management across the NSW government electricity businesses is broadly mature. NSW Generators, Distributors and TransGrid have established risk management frameworks and the effectiveness of the frameworks is reviewed by the board or the board's audit and risk committee.

During 2013-14, the Distributors implemented a common risk framework to identify and manage business risks posed by employees, customers, the community, the environment, assets and financial resources. Action plans were developed and implemented to manage major risks across nine strategic risk categories.

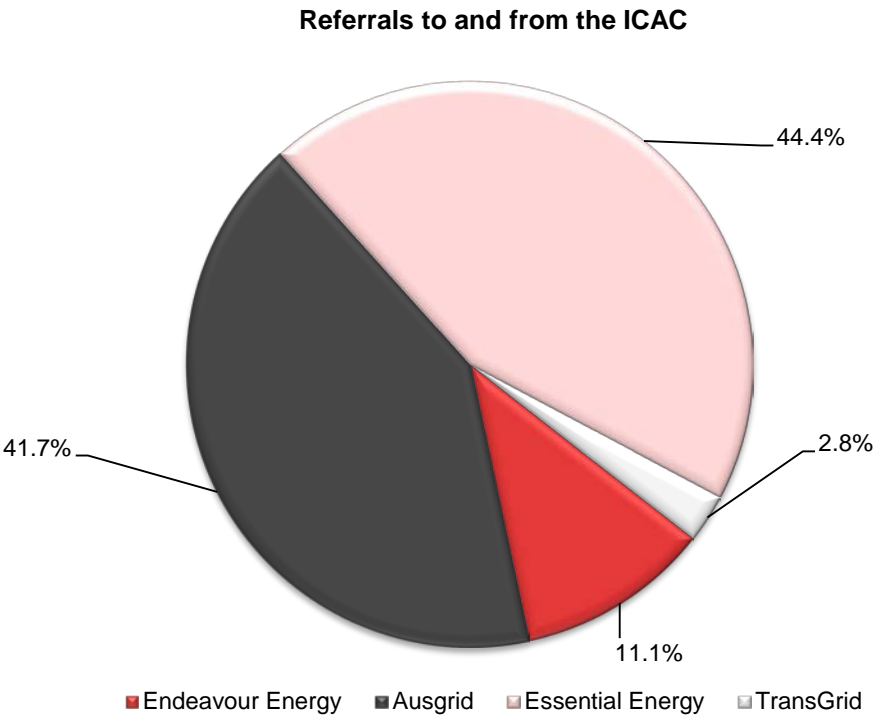
At June 2014, the NSW Government electricity businesses advised the Audit Office they comply with the Risk Management Standard AS/NZS/ISO 31000:2009 'Risk management – Principles and guidelines'.

Fraud Control

In 2013-14, the NSW Government’s electricity businesses (excluding Delta Electricity) referred 36 incidents to and from the Independent Commission Against Corruption (ICAC) for consideration.

The businesses employed over fourteen thousand employees during the financial year (equivalent to around one incident per 400 employees).

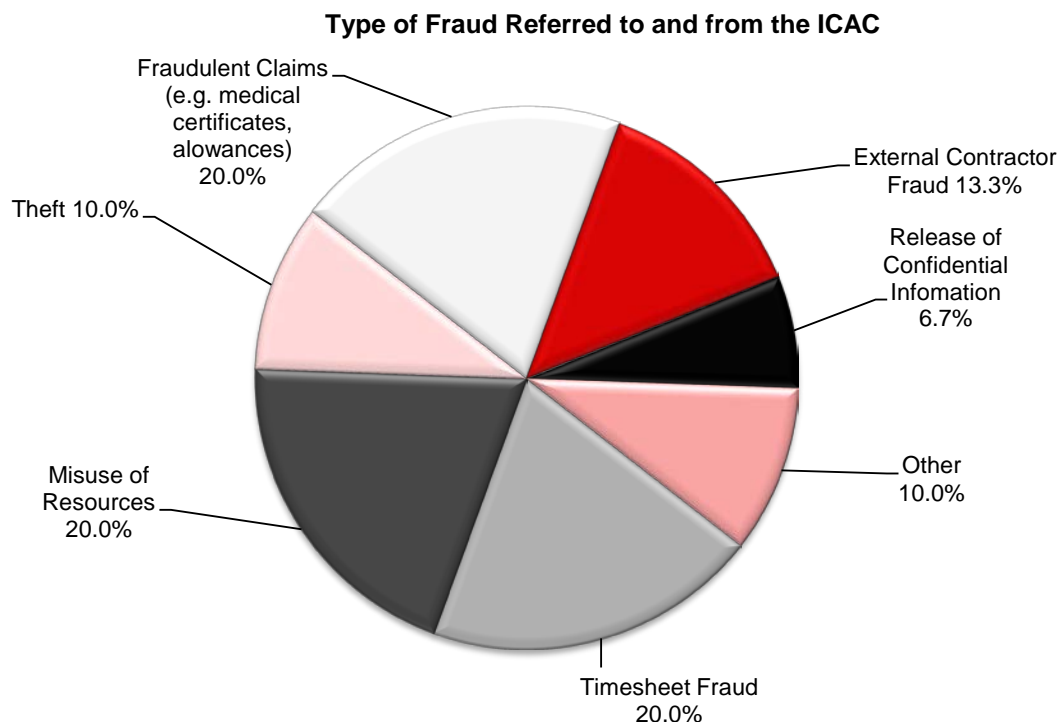
The following graph shows Essential Energy referred the most incidents to and from ICAC, while Macquarie Generation and Green State Power did not refer any incidents to ICAC in 2013-14.



Source: NSW Government electricity businesses (excluding Delta Electricity) (unaudited).

The NSW Distributors advise the referral of incidents to and from ICAC reflects the roll out of a common Fraud and Corruption Control Plan across their businesses.

The following graph shows the nature of the incidents referred to and from the ICAC. Misuse of resources, timesheet fraud and fraudulent claims represented the main types of fraudulent incidents during 2013-14. These included intentional violation of rules or values, lack of understanding of policy or procedure, culture and lack of supervision. The substantiated frauds resulted in termination (40 per cent), counselling (20 per cent), formal warnings (20 per cent) and resignation (13 per cent) of the employees or contractors.



Source: NSW Government electricity businesses (excluding Delta Electricity) (unaudited).

The Distributors have strong frameworks in place to prevent, identify, investigate and report suspected and actual fraud.

The Distributors conducted the following fraud and corruption activities during 2013-14:

- developed a common Fraud and Corruption Control Plan (FCCP). The three-year FCCP was approved by the boards' audit and risk committees, and is structured to align with the Auditor-General's 'Ten Attributes of best practice for Fraud Control' and the Australian Standard for Fraud and Corruption Control. The FCCP requires a company-wide Fraud Risk Assessment (FRA) be conducted every two years, and control compliance assessments to be conducted for fraud risks every alternate year
- engaged external consultants to conduct FRAs to help understand fraud and corruption risks and the adequacy of controls to manage those risks. The results of the fraud risk assessments were reported to the boards' audit and risk committees
- delivered ethical sessions to employees to discuss the Code of Conduct, values and improve employee general awareness of fraud and corruption and how to respond to any detected or suspected fraud activities
- provided the boards' audit and risk committees with half yearly reports on disclosures of wrongdoing and criminal conduct received and investigated.

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

Service Delivery

The achievement of Government outcomes can be improved through the effective commissioning of the right mix of services, whether from the public, private or not for profit sectors. Commissioning involves entities assessing their needs, determining priorities, designing and sourcing appropriate services, and monitoring and evaluating performance.

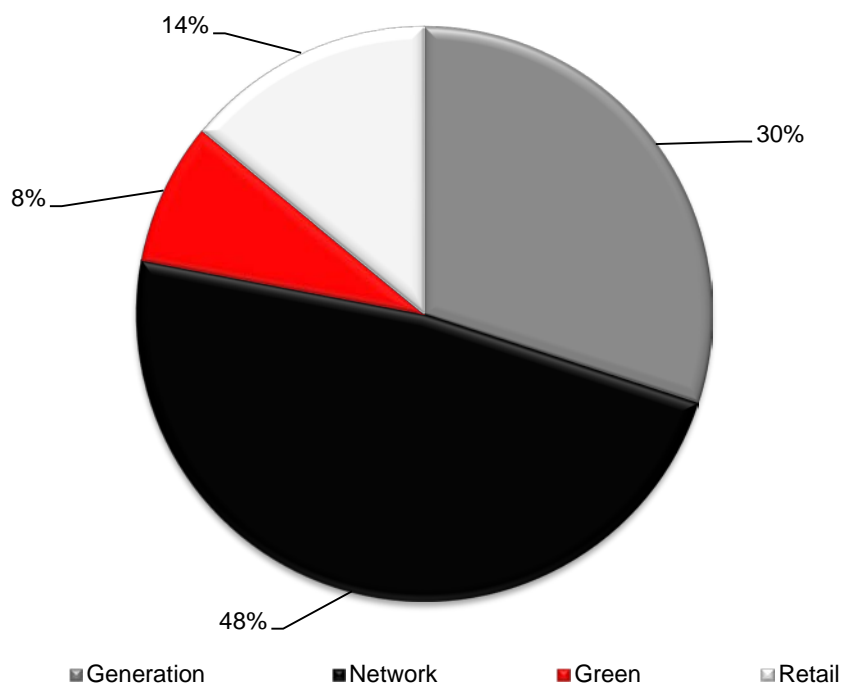
Changes in the Industry and the impact of NSW Government decisions

NSW Government electricity businesses operate in the broader electricity industry. They are impacted by regulator reforms and decisions, changes to legislation, changes in customer demand, and use of alternative energy sources. Decisions by the NSW Government on the future path for NSW electricity businesses also impact these entities.

Electricity Retail Prices

The components of an average residential electricity bill reflect the cost of delivering electricity. Generation costs are the costs incurred to produce electricity from raw materials such as coal. Network charges represent the cost of delivering electricity through poles and wires. Green costs include the costs of carbon and other schemes to promote reductions in greenhouse gas emissions. Retail costs are costs attributable to managing customers' electricity connections, accounts and billing customers for electricity used. The following graph shows that network costs are the largest components of an average annual residential electricity bill.

Average Annual Electricity Bill for Residential Customers in New South Wales 2013-14

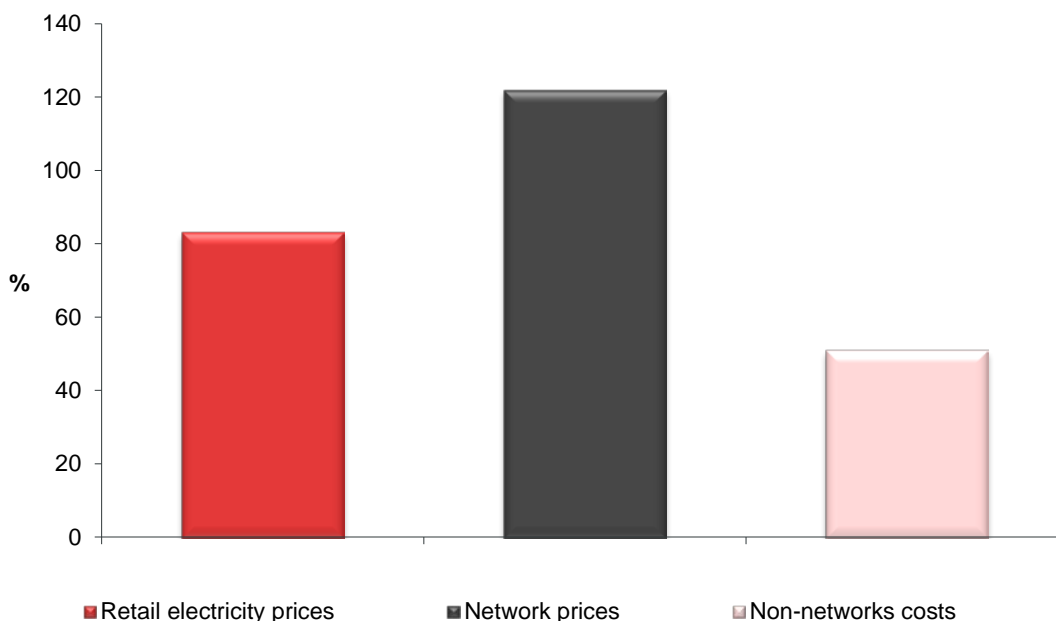


Source: Rebuilding NSW – Electricity and Prices Services Fact Sheet (unaudited).

In 2014, Treasury engaged an external consultant to analyse the long term trends in electricity prices and the cost to deliver electricity network services.

The report prepared for Treasury found the network costs component of NSW consumer electricity bills has increased the most over the long term, increasing by 122 per cent in real dollar terms between 1996-97 and 2012-13.

Increase in electricity bill components from 1996-97 to 2012-13



Source: Ernst & Young: Electricity network services – Long-term trends in prices and costs.

Network charges have increased on the back of significant capital investment programs by the Distributors and TransGrid to:

- meet forecast growing loads and rising peak growth demand as the State's population grows and patterns of energy use change
- replace ageing assets
- meet licensing conditions intended to improve network security and reliability.

Network charges are determined by the Australian Energy Regulator (AER) based on the revenue the Distributors and TransGrid reasonably need to recover costs. In early 2014, the AER did not approve the transitional regulatory revenue proposals submitted by the Distributors and TransGrid for 2014-15. While the AER adopted most of the cost inputs within the revenue proposals, they did not accept the indicative rates of return proposed by the businesses.

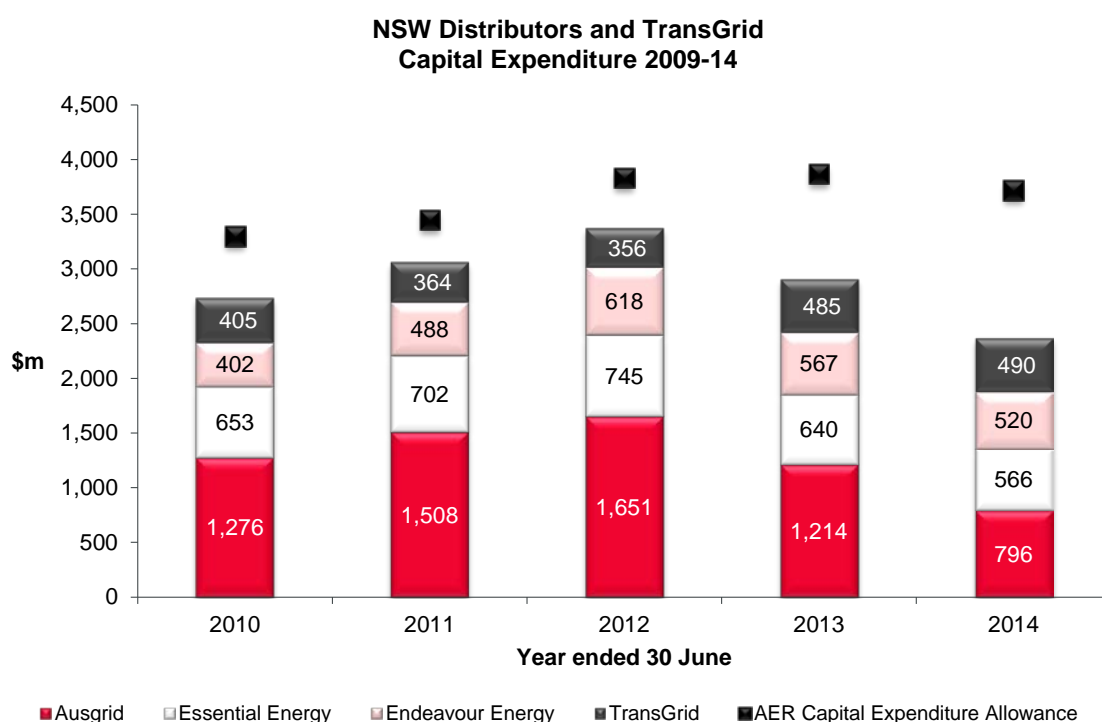
The AER estimated the impact of this decision on average residential customers to be a 1.9 per cent reduction in charges for 2014-15. For average electricity customers, with total annual charges of \$2,227, this would reduce their annual electricity bill by \$43. As the AER does not establish retail electricity prices, the reduction will only apply if the lower charges are passed onto customers.

While network costs have been the key price driver over time, non-network charges such as the carbon tax have contributed to an increase in electricity prices. The removal of the carbon tax on 17 July 2014 should deliver cost savings to customers if the savings are passed through. The Australian Energy Markets Commission (AEMC) estimated that for 2014-15, carbon costs represented 9.0 per cent of the national average electricity bill. However, the percentage of carbon costs in an average customer's annual bill will vary depending on consumption, location, distribution area, contract type and time period.

Actual spend against the AER 2009-14 Capital Expenditure allowance

The AER approved a \$18.2 billion capital expenditure allowance for the 2009-2014 regulatory period for the Distributors and TransGrid. Actual capital expenditure reported by these entities over the period was \$14.4 billion, \$3.7 billion (20.5 per cent) lower than the AER allowance.

The following graph shows actual capital expenditure for all Distributors and TransGrid remained below AER approved expenditure allowance for each financial year. The highest level of underspend was \$1.3 billion in 2013-14. Reduced levels of capital expenditure during 2009-2014 occurred in response to reduced levels of energy demand, and strategies and initiatives developed in the latter part of the regulatory period enabling the Distributors to deliver the capital program without using their full expenditure allowance.



Source: NSW Distributors and TransGrid (unaudited).

Ausgrid's capital expenditure is the highest across all five years mainly due to it being the largest NSW Distributor and Australia's oldest electricity network. TransGrid's capital expenditure is the lowest.

The AER's transitional regulatory period took effect from 1 July 2014 for the Distributors and TransGrid. The determination resulted in lower forecast capital expenditure levels mainly attributable to lower than expected growth in demand and the application of strategies and initiatives developed to reduce expenditure.

The Distributors and TransGrid's capital expenditure underspend is expected to flow to customers during the 2014-2019 regulatory period through reduced electricity prices.

Customer Demand for Electricity

Demand for electricity is decreasing.

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

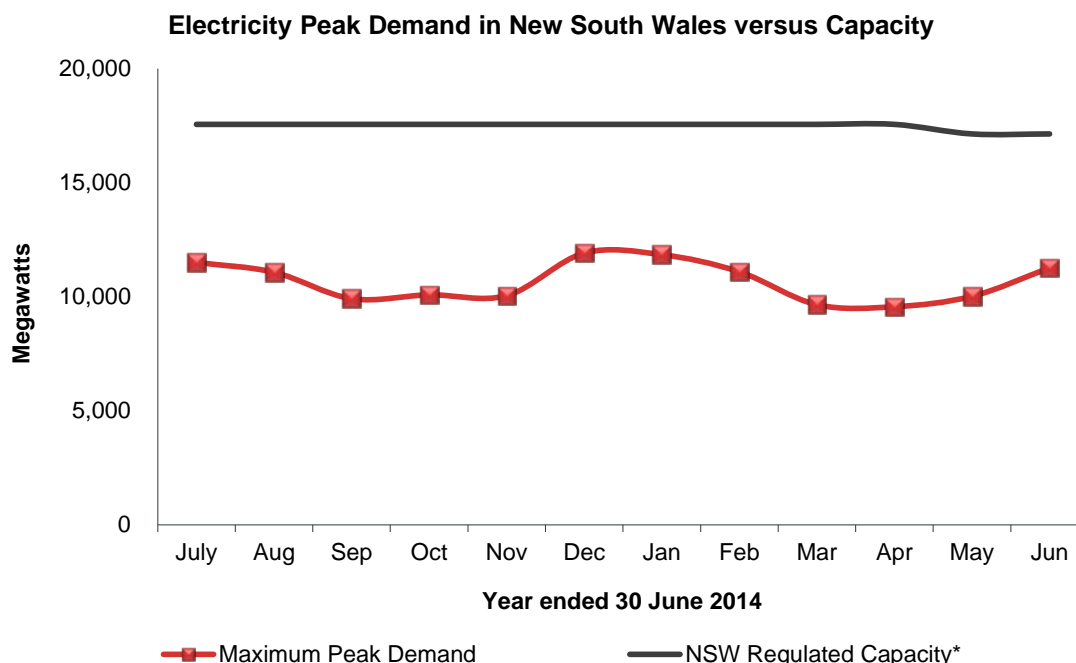
Average growth rate for the year ended 30 June	2014	2013	2012
Peak demand increase/(decrease) (%)	0.5	1.0	1.2
Energy consumption increase/(decrease) (%)	(2.8)	(2.1)	1.2

Source: AEMO National Electricity Forecasting Report 2014 (unaudited).

The decrease in energy growth rates for 2014 in New South Wales was primarily due to lower than expected industrial consumption. The fall in consumption over time was due to higher electricity prices, reduced industrial demand, global demand trends, falling global metal prices, energy efficiency measures and the strength of the Australian dollar. Residential and commercial consumption has also fallen slightly due to higher levels of solar power generation by households and commercial users.

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

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



* NSW regulated capacity includes all fuel sources of NSW registered participants with the NEM. The graph assumes capacity levels remain constant for the entire year, while changes to capacity are taken to occur on the list date.

Source: Maximum (Peak) Demand from AEMO aggregated price and demand data 2014. NSW Regulated Capacity sourced from AEMO registration and exemption list as at 6 May 2014 – accessed 9 July 2014.

Electricity Supply and Demand Outlook

In 2008, the National Electricity Market Management Company (now AEMO) reported demand for electricity in New South Wales was expected to exceed generation capacity (Low Reserve Condition or LRC Point) by 2013-14. This was based on projected electricity demand forecasts.

Due to lower than forecast increases in demand and additional generating capacity, the possibility of demand exceeding supply in New South Wales is now forecast to occur after 2023-24.

The following shows the change in past yearly forecasts.

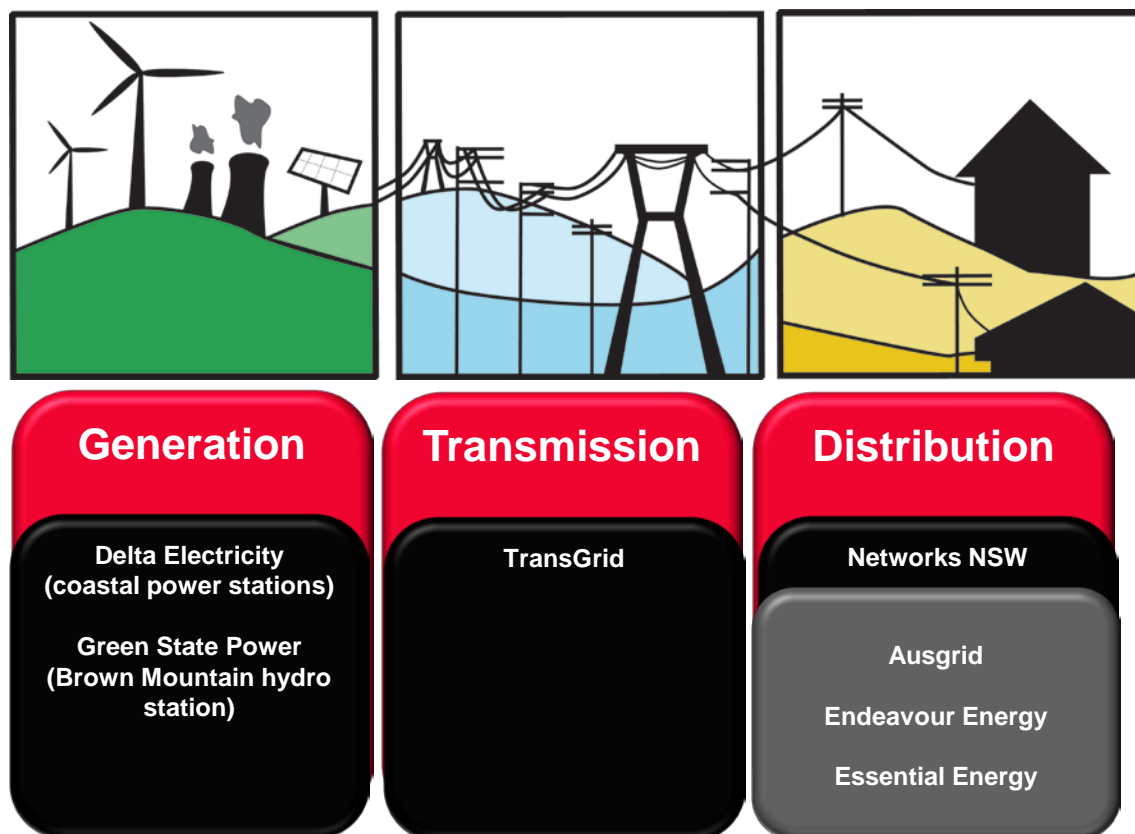
State	2014 LRC Point	2013 LRC Point	2012 LRC Point	2011 LRC Point	2010 LRC Point
New South Wales	> 2023-24	> 2022-23	>2021-22	2018-19	2016-17

Source: AEMO Electricity Statement of Opportunities (ESOO) 2010 to 2014 (unaudited).

Ownership of Stated-owned Electricity Businesses

In 2013-14, the NSW Government continued to divest its interest in electricity businesses and announced plans for further sales and transfers of ownership.

At 30 September 2014, the NSW Government still retains ownership of electricity businesses as shown below.



Delta Electricity's coastal power stations, Vales Point and Colongra, and Green State Power's Brown Mountain hydro generator are the only generation businesses still under State ownership. Expressions of interest have been sought for Delta's coastal power stations.

The State still retains its ownership of the transmission and distribution of electricity through TransGrid, Ausgrid, Endeavour Energy, and Essential Energy. However, the NSW Government has announced plans to enter into a long term lease transaction to transfer 49 per cent of its ownership in transmission and distribution to the private sector. The Government has indicated Essential Energy will be excluded from the long term lease transaction.

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

For further analysis of generation assets sold in 2013-14, and plans for further sales and transfer of ownership of NSW Government electricity businesses, refer to the 'Financial and Performance Reporting' section of this report.

Renewable Energy use

Renewable energy targets and carbon reduction schemes seek to use market forces to encourage investment in renewable and low carbon energy sources. Both State and Australian Governments have progressively introduced renewable energy targets and carbon reduction schemes.

Government initiatives and policies to develop and encourage the growth of sustainable energy sources are outlined below.

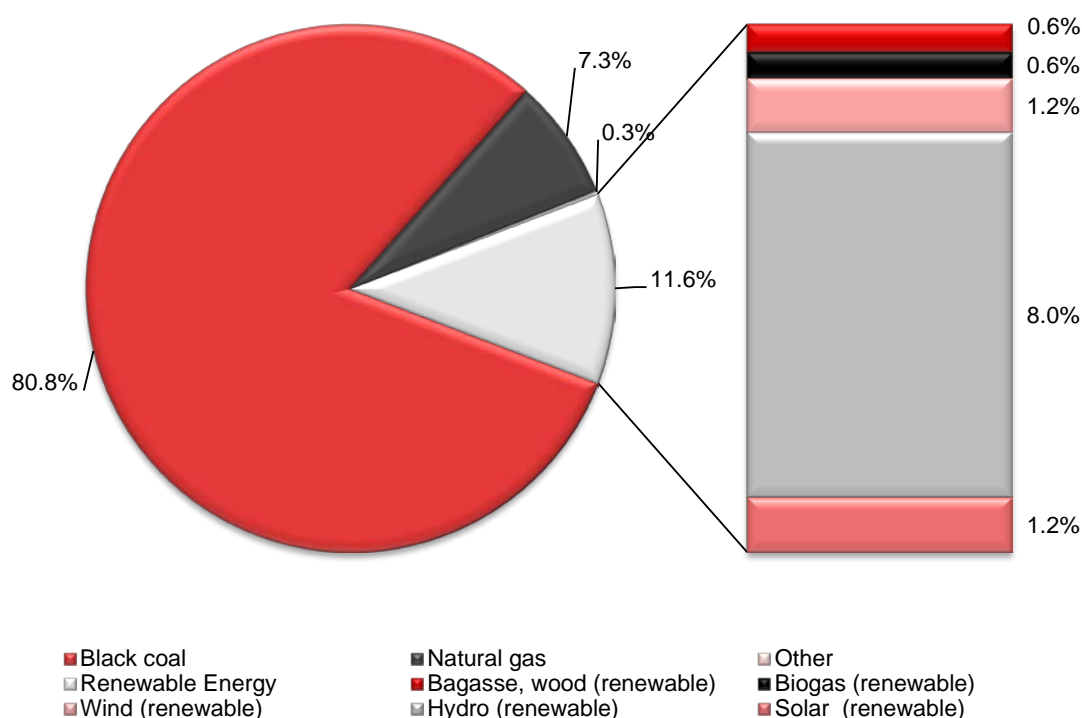
Renewable Energy

For 2012-13, NSW electricity generation from black coal fell by 6.0 per cent (0.5 per cent fall in 2011-12), while electricity from renewable sources increased by 37.0 per cent (10.8 per cent decrease in 2011-12). The largest increase occurred in hydro generation, which increased by 49 per cent over 2012-13.

The most recent data available from the Bureau of Resources and Energy Economics data (2012-13) indicates approximately 11.6 per cent of NSW electricity is sourced from renewable energy sources (8.4 per cent in 2010-11). This increase is mainly due to increased hydroelectricity output, reflecting higher water flows in south eastern Australia relative to 2011-12, and the reduced relative cost of hydroelectricity under the carbon pricing mechanism.

The NSW Government has set a target of 20 per cent renewable energy consumption by 2020. Black coal continues to be the major source of energy representing over 80 per cent of electricity generation in New South Wales. Approximately 11.6 per cent of energy generated is derived from renewable sources.

Electricity Generation in New South Wales from all Sources 2012-13



Source: Bureau of Resources and Energy Economics. Table O – NSW electricity generation, by fuel type, physical units. Other energy generation sources primarily include wind, solar PV and biogas.

Energy Supplement – the Household Assistance Package

The Household Assistance Package is part of the Australian Government's plan for a Clean Energy Future.

From 1 July 2014, pensioners, other income support payment recipients and Family Tax Benefit recipients will receive the Energy Supplement (formerly the Clean Energy Supplement). Future payments will be fixed at the rate of payment at 30 June 2014.

Customer Initiatives – GreenPower

GreenPower is a program managed by the New South Wales, Australian Capital Territory, Victorian and South Australian state governments. The program allows customers to purchase electricity generated only from renewable energy sources through their electricity retailers, with the additional price paid by these customers being invested in the renewable energy sector. In New South Wales, GreenPower customers decreased by 26,311 in 2013-14 (3,000 increase in 2012-13) or 15.6 per cent compared to the previous year.

The following table shows residential GreenPower customers in New South Wales decreased by 18.6 per cent in 2013-14 (2.6 per cent increase in 2012-13) compared to a 31.4 per cent increase in commercial GreenPower customers (11.3 per cent decrease in 2012-13).

	New South Wales		Australia	
	2014	2013*	2014	2013*
Residential green power:				
Customer numbers	129,288	158,896	518,566	622,475
Sales MWh	164,691	185,885	642,872	699,622
Commercial green power:				
Customer numbers	13,702	10,425	34,436	38,330
Sales MWh	207,455	253,108	641,860	859,193
Total green power customer numbers	142,990	169,321	553,002	660,805

* 2013 figures may vary from 2013 Report to Parliament as figures are based on revised information.

Source: data extracted from the National GreenPower Accreditation Program Status Reports (unaudited).

Solar Bonus Scheme

The NSW Government introduced the Solar Bonus Scheme, a solar feed-in tariff scheme, on 1 January 2010. The scheme applies to small scale, grid connected solar systems and wind turbines. A government tariff of 60 or 20 cents per kilowatt hour is paid to small customers for electricity fed back into the electricity network. The scheme was closed to new applicants from midnight 28 April 2011, and will continue to run until 31 December 2016.

From 1 July 2014, the NSW Government requires energy retailers to contribute 5.1 cents per kilowatt hour to the cost of the scheme (6.6 cents in 2013-14).

The NSW Distributors advise at 30 June 2014, 120,406 eligible customers were connected to the 60 cent scheme and 25,735 to the 20 cent scheme. They generated a total of 430,851 megawatt hours in 2013-14. The cost of the scheme increased to \$207 million in 2013-14 (\$206 million in 2012-13) due to the increase in megawatt hours generated.

Impact of Carbon Price on Electricity Generation (excluding Delta Electricity)

Generators emit carbon to produce electricity and until 30 June 2014 incurred an expense for carbon emissions.

Net Carbon Tax Expense	Macquarie Generation \$m
2013-14	297
2012-13	298

Source: Macquarie Generation (audited).

The net carbon tax expense reported by Macquarie Generation for 2013-14 decreased despite the fixed price of carbon rising from \$23.00 per tonne of CO₂ emissions to \$24.15 per tonne. This is attributable to lower output offsetting the increased carbon tax per unit.

The carbon tax was repealed on 17 July 2014, with effect from 1 July 2014. During 2013-14, Macquarie Generation valued its assets based on market evidence it had received through the process leading up to the sale of its business, which occurred in September 2014. Therefore, the value of Macquarie Generation's infrastructure assets at 30 June 2014 did not need to be adjusted for the repeal of the carbon tax.

Performance information

NSW 2021 Performance

NSW 2021, released in September 2011, is the NSW Government's ten-year plan to 'rebuild the economy, provide quality services, renovate infrastructure, restore government accountability and strengthen the local environment and communities'.

NSW 2021, includes the following performance goals relevant to the NSW Government electricity businesses:

- Rebuild State Finances
- Place Downward Pressure on the Cost of Living.

Rebuild the State Finances

NSW 2021 identifies improving the performance of Private Trading Enterprises (PTE's) as a target for the goal of Rebuilding State Finances. Two performance measures in the plan relate to PTEs' credit ratings and weighted average costs of capital.

The plan sets a target for all commercial PTEs, which include the Generators, Distributors and TransGrid, to maintain an investment grade credit rating of at least BBB each year.

The Distributors and TransGrid maintained investment grade credit ratings in 2013-14.

Credit ratings were unavailable for the Generators for 2013-14.

The plan sets a target for price-regulated PTEs to meet or exceed the Weighted Average Cost of Capital (WACC) set by their regulators by June 2015. This target is relevant to TransGrid and the Distributors.

Treasury advises the Distributors and TransGrid met or exceeded the WACC set by the regulators for the 2009-14 regulatory period.

In its NSW 2021 Performance Report for 2014-15, the Government reported the following activities occurred, outside the control of the electricity businesses, to rebuild the State's finances:

- sale of electricity generation businesses, as outlined in the 'Financial and Performance Reporting' section of this report, with the proceeds to be reinvested to fund new infrastructure
- termination of the Cobbora coal supply agreement
- deregulation of retail electricity prices to support growth, as outlined in the 'Governance' section of this report
- improved management and efficiency of the Distributors, as outlined in the 'Performance and Reporting' section of this report.

Place Downward Pressure on the Cost of Living

The plan includes a goal to reduce the cost of living, which includes electricity costs.

In its NSW 2021 Performance Report for 2014-15, the Government reported the following activities occurred, outside the control of the electricity businesses, to place downward pressure on electricity bills:

- Family Energy Rebate increased to \$150 from 1 July 2014 (the rebate is available to 540,000 eligible families)
- reduced inefficiencies and costs within the electricity supply chain
- Home Power Savings program, which helped 220,000 low-income households reduce energy use and deliver a combined saving of \$35.0 million each year on electricity bills
- release of the NSW Energy Efficiency Action Plan (EEAP), which contains 30 actions aimed at growing and maturing electricity markets to allow for greater competition and participation of households and deliver savings on electricity bills.

NSW Commission of Audit

In May 2012, the NSW Commission of Audit released a report on government expenditure that identified five policy goals relevant to the electricity sector. The goals focus on themes such as, encouraging private investment, reducing the cost of doing business, ensuring expenditure is less or equal to revenue growth, maintaining the state's AAA credit rating, containing electricity costs by supporting households and business to reduce consumption, investing in critical infrastructure to ensure sufficient capacity to meet demand, and protecting the natural environment.

Recommendations coming from the report include:

- review capital expenditure efficiency as part of network reform
- evaluate the effectiveness of state environmental schemes
- review the decision making process for major transactions
- monitor the benefits gained from the establishment of Networks NSW
- evaluate the possible divestment in Snowy Hydro Limited
- conduct a study into the privatisation strategy
- assess any regulatory reforms and likely impact on sales.

Since the report was issued, the NSW government and the electricity businesses have undertaken several actions to address the recommendations, examples of which are shown below.

- forecast capital expenditure proposed by the Distributors and TransGrid is expected to fall following the AER's approved capital expenditure for the 2014-19 regulatory period.
- the NSW Government has set a NSW 2021 target to achieve 20 per cent renewable energy consumption.
- the NSW Government is progressing the sale of the Generation businesses and has announced its intention to transfer 49 per cent ownership of its distribution and network businesses via long term leases (99 years). External consultants are conducting a scoping study of the long-term lease transaction. Further information appears in the 'Financial Sustainability' section of this report.
- for the three year period 2011-14, the Distributors have reported cost savings of \$3.0 billion as part of the NSW Government's electricity network reform program. The impact of the reform program is discussed in the 'Financial and Performance Reporting' section of this report.

Industry Benchmarks

The NSW Government electricity businesses measure themselves against a range of commonly used benchmarks to assess their financial, operational and environmental performance.

Distributors

Year ended 30 June	Ausgrid			Essential Energy			Endeavour Energy		
	2014 Actual	2014 Target	2013 Actual	2014 Actual	2014 Target	2013 Actual	2014 Actual	2014 Target	2013 Actual
Financial statistics									
Net profit after tax (\$m)^	607.5	566.4	706.2	295.4	176.5	350.1	301.0	267.1	306.5
Operating expenditure (\$m)	763.0	760.8	622.5	510.2	550.7	562.4	370.9	383.9	356.3
Operational statistics									
Network reliability – unplanned system average interruption duration index SAIDI (minutes)	76.5*	84.6*	68.2*	181.0**	236.0**	233.0**	83.0	93.0	88.0
Customer satisfaction (%)	78	75	80	81	75	70	78	75	75
Asset management Plans (% complete)	93	95	97	83	95	79	95	95	99
Employee statistics									
Lost time injury frequency rate	1.8	2.2	2.5	2.0	2.2	2.4	4.8	2.2	2.6
Reportable incidents - controllable SENI	50	54	57	11	37	41	18	25	28
Overtime expenditure (\$m)	37.5	42.6	41.5	29.3	34.2	39.3	20.0	23.6	28.1
Number of staff with a gross to base pay ratio at/or above 1.5	169	250	245	32	75	144	6	18	17
Environmental statistics									
Reportable incidents - environment	5	7	8	5	4	4	--	1	2

^ 2013 Actual as reported in 2013 financial statements.

* Averaged for CBD and urban customers.

** Normalised for urban, short and long feeder route length categories.

Source: NSW Distributors (unaudited).

Net profit after tax for all Distributors was above target due to higher revenues as detailed in the 'Financial and Performance Reporting' section of this report. Operating expenditure was lower for all except Ausgrid, where it increased mainly due to a lower rate of capitalised labour and an increase in recoverable expenses due to the extension of the TSA and other recoverable works.

System average interruption duration index (SAIDI) represents the total number of minutes on average that a customer is without electricity. In 2013-14, all the Distributors performed better than their targets and mostly better than prior year results.

This was mainly due to the extent of network investment over the past five years to replace ageing electricity infrastructure. All Distributors also performed better than their targets for customer satisfaction. Ausgrid's customer satisfaction was lower in 2013-14 compared to 2012-13 due to a higher level of SAIDI in 2013-14.

The lost time injury frequency rate (LTIFR) represents lost time injuries per one million hours worked. In 2013-14, Ausgrid and Essential Energy performed better than their target primarily due to safety management initiatives during the year. Endeavour Energy was above target LTIFR and increased its LTIFR from 2012-13 (2.6). Endeavour Energy advises it is implementing a Health, Safety and Environment Plan to develop a shared safety culture, to reduce LTIFR to 2.0 by June 2015.

The reportable incidents – controllable significant electrical network incidents (SENI) was better than target and better than the 2012-13 results for all Distributors.

This reflects improvements in the implementation of safety action plans to improve safety behaviours, culture and performance with a focus on fatal risk management, safety management system as well as safety training and development.

Overtime expenditure, as well as the number of staff with a gross to base pay ratio at or above 1.5, have been lower than target and improved from 2012-13, for all Distributors.

This can be attributed to improved business operational efficiency and monitoring of overtime.

All Distributors, except Essential Energy, experienced reductions in reportable environmental incidents in 2013-14 and were better than their target. An Environment Strategy has been implemented across all Distributors to reduce and manage such incidents.

TransGrid

Year ended 30 June	TransGrid		
	2014 Actual	2014 Target	2013 Actual
Financial statistics			
Net profit after tax (\$m)	226.9	213.0	235.4
Operating expenditure (\$m)	578.2	590.9	553.3
Operational statistics			
Network availability (%)	98.6	99.3	98.9
Customer satisfaction (%)	70.9	70.0	67.9
Employee statistics			
Lost time injury frequency rate (LTIFR)	0.9	--	1.4
Number of 'high consequence' incidents	7	--	5
Environmental statistics			
Reportable environmental incidents requiring regulatory sanctions	--	--	--

Source: TransGrid (unaudited).

TransGrid's net profit after tax for 2013-14 is above target, but below 2012-13, mainly due to a decrease in expected revenue as a result of a revenue freeze announced in 2012-13.

Operating expenditure is lower than target, but higher than 2012-13, mainly attributed to an increase in maintenance and employee related expenses.

Transmission network availability was marginally lower than target in 2013-14 (0.7 percentage points).

Customer satisfaction is above target and has improved from prior year. TransGrid believes this is due to improved customer communications, timeliness and flexibility.

The lost time injury frequency rate is above the target, but has improved from 2012-13. TransGrid advises there have been improvements in safety governance. The level of 'high consequence' incidents is above target and has increased from 2012-13.

Interstate comparisons

Electricity businesses within Australia operate under different ownership models. For example, New South Wales and Queensland retain some government ownership, while Victoria and South Australia electricity businesses are privately owned.

Electricity prices

The Australian Energy Regulator (AER) regulates the electricity networks in New South Wales, Queensland, Victoria and South Australia. Prices charged by all electricity network businesses in Australia, including private sector networks, are regulated to encourage efficient investment in and use of the infrastructure and to manage the risk of monopoly pricing.

The following table compares the typical annual electricity bill and change in prices between New South Wales, Queensland, Victoria and South Australia from 1996-97 to 2012-13:

	Government - Owned		Privately - Owned	
	New South Wales	Queensland	Victoria	South Australia
Typical annual retail electricity bill (\$ per year, nominal terms)*	\$1,925	\$1,547	\$1,495	\$1,481
Change in average annual electricity network prices over the period	122%	140%	(18%)	(17%)
Portion of change related to network costs	67%	87%	30%	--
Portion of change related to non-network costs	33%	13%	70%	100%

* Costs are expressed in real 2012 terms for all States, except in South Australia where they are in real 2010 terms.

Source: Ernst & Young: Electricity network services - Long-term trends in prices and costs (unaudited).

New South Wales has the highest electricity costs, with a typical annual electricity bill of \$1,925, which is 30 per cent higher than the lowest in South Australia.

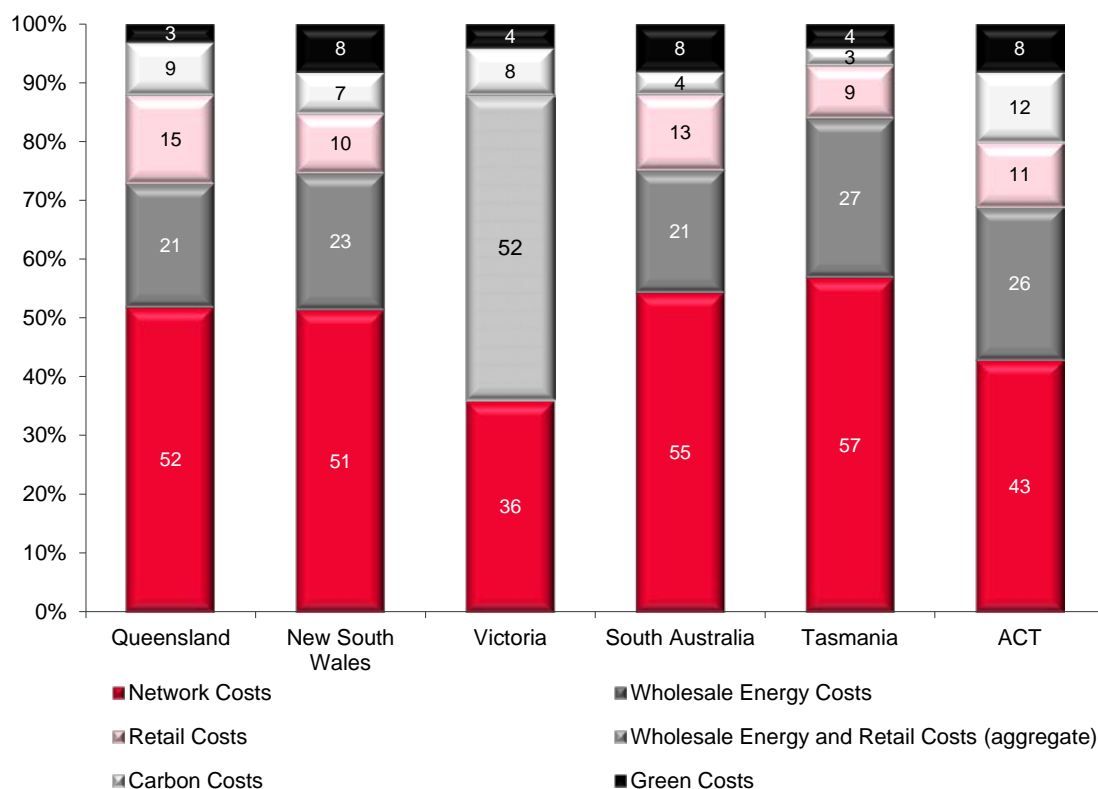
New South Wales had the second highest long term change increase in electricity network prices at 122 per cent while Victoria had the lowest, experiencing a long term decrease of 18 per cent. Of all states, Queensland had the highest portion of price increases due to network-related costs, while South Australia experienced the lowest, with no price increases attributed to network costs.

Ernst & Young's 2014 report on electricity network services identifies the primary driver of larger price increases in the government-owned networks in New South Wales and Queensland is high investment in network infrastructure.

Electricity Bill Composition

The following graph shows the composition of an indicative electricity bill in 2013 for each state participating in the National Electricity Market.

Indicative Composition of Residential Electricity Bill by State in 2013



* Victoria does not disaggregate Wholesale Energy and Retail Costs

Note: Graph composition does not add due to rounding.

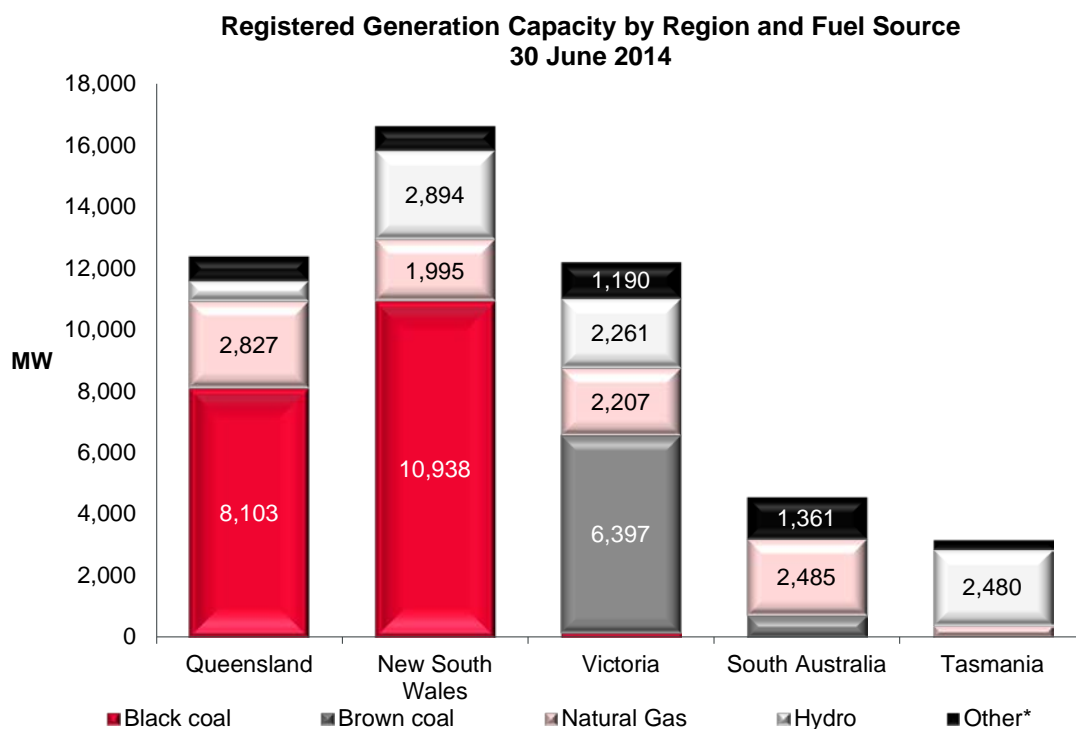
Source: Australian Energy Regulator (unaudited).

Network costs were the largest component of a New South Wales residential electricity bill in 2013, representing 51 per cent of the total bill.

Wholesale energy costs are the second highest component, making up 23 per cent of an electricity bill, while retail costs represent ten per cent. In comparison, Victoria's wholesale and retail costs combine to form 52 per cent of a residential electricity bill, while network costs represent 36 per cent.

Electricity Generation Source

The following graph shows the registered generation capacity of each state at 1 July 2014, and the sources of fuel used by each state.



* Includes wind and liquefied gas.

Source: Australian Energy Regulator (unaudited).

New South Wales is the largest user of black coal as a generation source in both absolute terms and as a percentage of total capacity.

New South Wales is also the largest generator of hydro-sourced electricity. However, this only represents 17.4 per cent of total generation capacity. Tasmania is the second largest generator of hydro-sourced electricity, representing 77.9 per cent of its total registered capacity.

Part One

Section Two

Appendices



Appendix One - Summary Financial Information

	Total Assets		Total Liabilities		Total Revenue [^]		Total Expense [*]		Profit/(Loss)	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Electricity Generators (excluding Delta Electricity)										
Eraring Energy #	--	1,019	--	236	--	606	--	568	--	38
Green State Power Pty Limited** ~	106	--	11	--	27	--	73	--	(46)	--
Macquarie Generation**	2,266	2,911	1,340	1,801	1,307	1,118	1,154	1,086	153	32
Electricity Transmitters										
TransGrid	6,578	6,229	4,347	4,056	911	888	684	652	227	236
Electricity Distributors										
Ausgrid	16,246	16,164	11,811	11,973	3,335	3,346	2,727	2,656	608	690
Ausgrid Pty Limited	--	--	--	--	--	--	--	--	(0)	(0)
Endeavour Energy	6,913	6,401	5,193	4,815	1,498	1,493	1,197	1,194	301	299
Essential Energy	8,037	7,780	5,919	5,833	1,965	2,164	1,670	1,824	295	340
Networks NSW Pty Limited	--	--	--	--	--	--	--	--	--	--

[^] Includes revenue, gain on disposals, financial instruments fair value gains, and income tax benefits

^{*} Includes loss on disposals, financial instruments fair value losses, and income tax expense

^{**} Summary financial information aggregates continuing and discontinued operations

Eraring Energy was sold on 1 August 2013

~ Green State Power Pty Limited was established on 4 June 2013. The financial statements for 2014 cover the period 4 June 2013 to 30 June 2014

Source: Financial statements (audited).

Appendix Two - Performance Against Budget

	Ausgrid		Endeavour Energy		Essential Energy		TransGrid	
	2014 Actual	2014 SCI	2014 Actual	2014 SCI	2014 Actual	2014 SCI	2014 Actual	2014 SCI
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Abridged Statement of Comprehensive Income - Year Ended 30 June								
Total revenue [^]	3,335	3,225	1,498	1,473	1,965	1,839	911	885
Operating expenses	1,963	1,815	917	883	1,288	1,235	427	np
Finance costs	597	601	203	208	327	351	152	np
Profit before tax	775	809	378	382	350	253	332	np
Income tax expense	167	243	77	115	55	76	105	np
Profit after tax	608	566	301	267	295	177	227	213
Total other comprehensive income/(expense)*	19	np	11	np	10	np	6	np
Total comprehensive income/(expense)	627	np	312	np	305	np	233	np
Abridged Statement of Financial Position - at 30 June								
Current assets	852	np	318	np	456	np	176	np
Non-current assets: Property, Plant and Equipment	15,171	np	6,527	np	7,432	np	5,618	np
Non-current assets: Other	223	np	68	np	149	np	784	np
Total assets	16,246	np	6,913	np	8,037	np	6,578	np
Current liabilities	2,084	np	1,004	np	1,173	np	847	np
Non-current liabilities	9,727	np	4,189	np	4,746	np	3,500	np
Total liabilities	11,811	np	5,193	np	5,919	np	4,347	np
Net assets	4,435	np	1,720	np	2,118	np	2,231	np
Abridged Statement of Cash Flows - Year Ended 30 June								
Purchases of Property, Plant and Equipment	833	np	525	np	600	np	587	np

np Data not published in the Statement of Corporate Intent

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

[^] Includes revenue, gain on disposals, financial instruments fair value movements, and gain from discontinued operations

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

	Green State Power Pty Limited		Macquarie Generation**	
	2014 Actual	2014 SCI	2014 Actual	2014 SCI
	\$m	\$m	\$m	\$m
Abridged Statement of Comprehensive Income - Year Ended 30 June				
Total revenue^	27	--	1,181	np
Operating expenses	73	--	1,098	np
Finance costs	--	--	56	np
Profit/(loss) before tax	(46)	--	27	10
Income tax expense/(benefit)	--	--	(126)	3
Profit/(loss) after tax	(46)	--	153	7
Total other comprehensive income/(expense)*	--	--	(337)	np
Total comprehensive income/(expense)	(46)	--	(184)	np
Abridged Statement of Financial Position - at 30 June				
Current assets	106	--	2,266	np
Non-current assets: Property, Plant and Equipment	--	--	--	np
Non-current assets: Other	--	--	--	np
Total assets	106	--	2,266	np
Current liabilities	11	--	1,340	np
Non-current liabilities	--	--	--	np
Total liabilities	11	--	1,340	np
Net assets	95	--	926	np
Abridged Statement of Cash Flows - Year Ended 30 June				
Purchases of Property, Plant and Equipment	7	--	39	np

np Data not published in the Statement of Corporate Intent




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

** Includes both continuing and discontinuing operations

^ Includes revenue, gain on disposals, financial instruments fair value movements, and gain from discontinued operations

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

Actual v Budget Indicator

-  Variance below 2 per cent of budget
-  Variance between 2 and 5 per cent of budget
-  Variance greater than 5 per cent of budget

Appendix Three - Financial Sustainability Indicators

Indicator	Formula	Description
Underlying result %	Adjusted net surplus / Total underlying revenue	A positive result indicates a surplus, and the larger the percentage, the stronger the result. A negative result indicates a deficit. Operating deficits cannot be sustained in the long term. Underlying revenue does not take into account one-off or non-recurring transactions. Net result and total underlying revenue is obtained from the comprehensive operating statement and is adjusted to take into account large one-off (non-recurring) transactions.
Liquidity (ratio)	Current assets / Current liabilities	This measures the ability to pay existing liabilities in the next 12 months. A ratio of one or more means there are more cash and liquid assets than short-term liabilities. Current liabilities exclude long-term employee provisions and revenue in advance.
Gearing (%)	Debt / Debt + Equity	This is a longer-term measure that compares all current and non-current interest bearing liabilities (debt) to debt plus equity. It complements the liquidity ratio, which is a short-term measure. A low ratio indicates less reliance on debt to finance the capital structure of an organisation.
Self-financing (%)	Net operating cash flows / Underlying revenue	Measures the ability to replace assets using cash generated by the entity's operations. The higher the percentage the more effectively this can be done. Net operating cash flows are obtained from the cash flow statement.
Capital replacement (ratio)	Cash outflows for property, plant and equipment and intangibles / Depreciation and amortisation	Comparison of the rate of spending on infrastructure, property, plant and equipment and intangibles with their depreciation and amortisation. Ratios greater than one indicate that spending is greater than the depreciating rate. This is a long-term indicator, as capital expenditure can be deferred in the short term if there are insufficient funds available from operations, and borrowing is not an option. Cash outflows for infrastructure, property, plant and equipment and intangibles are taken from the cash flow statement. Depreciation and amortisation is taken from the comprehensive operating statement.
Return on Assets (%)	EBIT divided by Average Total Assets	Measures how efficiently management used assets to earn profit. If assets are used efficiently, they earn profit for the entity. The harder the assets work at generating revenues, and thus profit, the better the potential return for the owners.
Return on Equity (%)	Results from Ordinary Activities after Taxation divided by Average Total Equity	Measures the return the entity has made for the shareholders on their investment.
Interest Coverage (ratio)	Net operating Cash Flows less interest and tax payments divided by Net interest payments	Examines the exposure or risk in relation to debt, an indicator of the ability to meet periodic interest payments from funds from operations (before interest expense). The level of interest cover gives a guide of how much room there is for interest payments to be maintained in the face of interest rate increases or reduced funds from operations.

Risk	Underlying Result	Liquidity	Gearing	Self-Financing	Capital Replacement
High	Negative 10% or less Insufficient revenue is being generated to fund operations and assets renewal.	Less than 0.7 Immediate sustainability issues with insufficient current assets to cover liabilities.	More than 37.5% Potential long-term concern over ability to repay debt levels from own source revenue.	Less than 10% Insufficient cash from operations to fund new assets and asset renewal.	Less than 1.0 Spending on capital works has not kept pace with consumption of assets.
Medium	Negative 10%–0% A risk of long-term run down of cash reserves and inability to fund asset renewals.	0.7–1.0 Need for caution with cash flow, as issues could arise with meeting obligations as they fall due.	28.5–37.5% Some concern over the ability to repay the debt from own source revenue.	10–20% May not be generating sufficient cash from operations to fund new assets.	1.0–1.5 May indicate spending on asset renewal is insufficient.
Low	More than 0% Generating surpluses consistently.	More than 1.0 No immediate issues with repaying short-term liabilities as they fall due.	Less than 28.5% No concern over the ability to repay debt from own source revenue.	More than 20% Generating enough cash from operations to fund new assets.	More than 1.5 Low risk of insufficient spending on asset renewal.

Risk Rating	Overall Assessment
High	High risk of Short-term and immediate sustainability concerns indicated by: red underlying result indicator or red liquidity indicator.
Medium	Medium risk of long-term sustainability concerns indicated by either: red self-financing indicator red gearing indicator red capital replacement indicator
Low	Low risk of financial sustainability concerns. There are no high risk indicators.

Appendix Four – Industry Information

Entity	Website
Electricity Generators (excluding Delta Electricity)	
Green State Power Pty Limited	www.greenstatepower.com.au
Macquarie Generation	www.macgen.com.au
Electricity Transmitters	
TransGrid	www.transgrid.com.au
Electricity Distributors	
Ausgrid	www.ausgrid.com.au
Ausgrid Pty Limited	*
Endeavour Energy	www.endeavourenergy.com.au
Essential Energy	www.essentialenergy.com.au
Networks NSW Pty Limited	*

* This entity has no website.

The following entities have not been included in this Volume:

Entity	Explanation
Delta Electricity	The entity's financial statements for the year ended 30 June 2014 are yet to be issued.
Eraring Energy	The entity was sold on 1 August 2013
NorthPower Energy Services Pty Limited	The entity was deregistered on 17 July 2013

Part Two

Section One

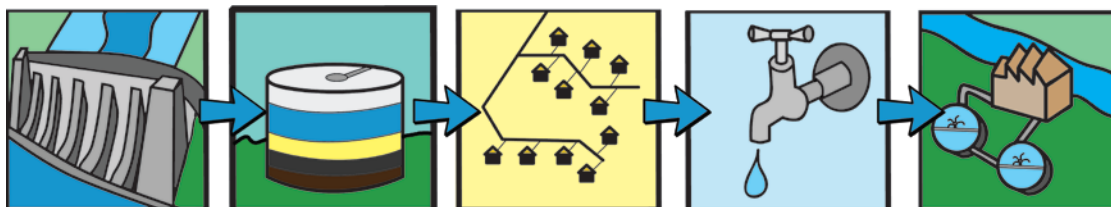
Water



Executive Summary

Introduction

New South Wales Government water businesses are responsible for water storage, filtration, distribution and treatment of waste water. These processes are illustrated below:



The NSW Government water businesses comprise;

- **Hunter Water Corporation** - provides drinking water, wastewater, recycled water and some stormwater services to 575,000 people across the Lower Hunter region
- **State Water Corporation** – maintains, manages and operates major infrastructure to deliver NSW's rural bulk water to licensed water users on the State's regulated rivers, and environmental flows
- **Sydney Catchment Authority** - manages and protects the drinking water catchments of Greater Sydney. It maintains dams and other water supply infrastructure across 16,000 square kilometres of south-eastern New South Wales
- **Sydney Water Corporation** - supplies water, wastewater and some recycled water and stormwater services to 4.7 million people in Sydney, the Blue Mountains and the Illawarra regions. It is the largest water entity in NSW.

This report provides Parliament and other users of the water businesses' financial statements with an analysis of their 30 June 2014 results and key observations in the areas of:

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

Unqualified audit opinions were issued on all the NSW Government water businesses' financial statements.

Industry Snapshot

A snapshot of the NSW Government water businesses for the year ended 30 June 2014 is shown below.



Financial and Performance Reporting

Quality of Financial Reporting

The quality of financial reporting continues to improve as indicated by the decreasing number of reported misstatements over the past five years. The mandatory early close procedures introduced by Treasury from 2012 have contributed to the quality of the financial statements.

Timeliness of Financial Reporting

The NSW Government water businesses successfully met Treasury's timetable for completing the early close procedures and the audits of the financial statements for 30 June 2014.

Profitability and Distribution

The combined profit after tax for NSW Government water businesses increased from \$443 million in 2012-13 to \$582 million in 2013-14. The \$139 million increase in profits was largely due to growth in the value of water sales, resulting from a marginal rise in the regulated water price and increased usage due to lower rainfall. Total expenses in 2013-14 decreased by \$40.0 million to \$2.7 billion.

Water businesses accrued and paid \$566 million in distributions (tax and dividends) to the NSW Government, \$113 million lower than the previous year.

Financial Sustainability

As with any well run business, water entities must manage their finances so they can meet current and future spending commitments, invest in future growth, adapt quickly to emerging threats and remain financially sustainable. To achieve these goals, entities must generate sufficient operating results so they can respond to changes in economic conditions, and government policy.

The liquidity (current ratio) and gearing ratios for three of the four NSW water businesses indicate there may be short term sustainability concerns. However, several mitigating factors have enabled these entities to support ongoing operations with ratios at these levels.

Financial Controls

Recommendations

The NSW Government water entities should improve the information technology processes and controls that support the integrity of financial data used to prepare their financial statements by 30 June 2015.

They should:

- **review and restrict the level of system access and the number of users to match work requirements**
- **change passwords on default user accounts on a periodic basis**
- **review Domain Administrator accounts (including all system accounts) to identify obsolete accounts which need to be disabled**
- **complete testing for disaster recovery plans to attain sufficient comfort over the effectiveness of their plans for restoring financial processes and systems in the event of a disaster.**

Human Resources

The NSW Government water businesses successfully managed overtime and reduced overall overtime expenditure to \$19.5 million (17 per cent) in 2013-14 from \$23.6 million in 2012-13.

The workers' compensation expenses for these businesses have dropped significantly over the past five years from \$4.3 million to \$0.6 million.

Governance

Recommendations

State Water Corporation and Sydney Catchment Authority should formulate a structured approach to integrate their existing businesses, functions and processes before Water NSW is formed on 1 January 2015. The integration process should include milestones, cost estimates, expected outcomes and key performance measures.

Management of Water NSW should oversee the integration process and achievement of planned outcomes.

Risk Management

All NSW Government water businesses have confirmed they have risk management frameworks that are consistent with Risk Management Standard AS/NZS ISO 31000.

Operating Licence compliance

Over 2011-12 and 2012-13, all NSW Government water businesses complied with the requirements of their operating licenses.

Dam Safety

The safety of water businesses' 378 prescribed dams is monitored by an independent body, the NSW Dams Safety Committee (DSC). The DSC assigns risk ratings to these dams, taking into account the probability of failure and the potential threat to human lives.

At 30 June 2014, the DSC assigned a high risk rating to 14 dams, which its annual report refers to as having 'significant safety risks'.

Service Delivery

NSW 2021 Performance

NSW Government water businesses continue to implement initiatives to meet water conservation and recycling requirements of the NSW 2021 plan.

The Metropolitan Water Plan includes a conservation target to save 145 gigalitres of water per year in Sydney by 2015. This plan also includes a target to increase water recycling in Sydney to 70 gigalitres per year by 2015.

Water Usage Prices

Water usage prices are set by either the Independent Pricing and Regulatory Tribunal of NSW (IPART) or the Australian Competition and Consumer Commission (ACCC). Water prices were increased over the past five years to meet higher projected operating and capital costs and lower projected water sales.

Patterns of water consumption

Weather significantly impacts water consumption. Sydney Water Corporation estimates typical weather variations can change demand by plus or minus five per cent in any one year. Despite the increase in water consumption in 2013-14, water use per person remains at a levels similar to those in 2009 when drought restrictions were replaced by the Water Wise Rules.

Capital Expenditure

Capital expenditure programs have decreased over the past five years with the combined actual expenditure of all entities remaining below budget in each financial year. Forecast capital expenditure is expected to be relatively stable, ranging from \$892 million to \$964 million each year, over the next three years. The expenditure will be used to renew assets, service growth areas and provide services at the required standard.

Financial and Performance Reporting

Financial and performance reporting is an important aspect of good governance. Government decision-making requires accurate and timely reporting to be effective and to allow efficient delivery of services. Enhanced transparency and accountability ensures Government businesses demonstrate their use of available resources to produce the best possible results for the community.

Quality of Financial Reporting

Unqualified audit opinions were issued on all the NSW Government water businesses' financial statements for the year ended 30 June 2014.

Entity	Audit result		Reported misstatements for the year ended 30 June				
	Modified opinion	Number of significant matters	2014	2013	2012	2011	2010
Hunter Water Corporation	No	1	7	13	7	1	3
State Water Corporation	No	--	--	1	5	4	8
Sydney Catchment Authority	No	1	3	3	5	9	7
Sydney Water Corporation	No	1	1	1	2	4	2
Total		3	11	18	19	18	20

Reported Misstatements

The 2013-14 audits did not identify any material misstatements. The decrease in reported misstatements over the past five years, particularly in 2013-14, indicates improved quality in financial reporting. The mandatory early close procedures introduced by Treasury from 2012 have contributed to the quality of the financial statements.

Key Issues from Financial Audits

For the year ended 30 June 2014, three significant matters were reported to the Minister for Natural Resources, Lands and Water.

Tillegra Land and Lower Hunter Water Plan - Hunter Water Corporation

Following the NSW Government's decision not to construct the Tillegra Dam in 2012, market values for Tillegra land have continued to decline. Hunter Water Corporation recognised a \$7.9 million decrease in the value of this land at 30 June 2014. This follows a decrease of \$28.5 million at 30 June 2013.

The Land Use and Management Plan for Tillegra land holdings now includes various environmental projects, including carbon/organic farming, ecotourism and walking tracks, as well as beef cattle, and possibly commercial timber farming.

Recognition of Water Filtration Plants - Sydney Water Corporation

Sydney Water Corporation regards its arrangements for three water filtration plants as service agreements and not as finance leases. It recognises expenses for these arrangements, but does not recognise related assets or liabilities.

In my opinion, the Corporation's treatment of these contractual arrangements is not consistent with the principles in Australian Accounting Standard AASB 117 'Leases', because it does not recognise the related present obligations and assets in its statement of financial position.

The value of these obligations and assets was \$295 million at 30 June 2014 (\$325 million at 30 June 2013). This has been reported as an uncorrected misstatement in the financial statements.

Timeliness of Financial Reporting

The NSW Government water businesses successfully met Treasury's timetable for completing early close procedures and submitting the financial statements for audit. The audits for all the water businesses were finalised within the agreed reporting timetable.

Entity	Early close procedures		Financial statements		Audit	
	Received by statutory date	Days late	Received by statutory date	Days late	Completed by statutory date	Days late
Hunter Water Corporation	Yes	--	Yes	--	Yes	--
State Water Corporation	Yes	--	Yes	--	Yes	--
Sydney Catchment Authority	Yes	--	Yes	--	Yes	--
Sydney Water Corporation	Yes	--	Yes	--	Yes	--

Consistent with its practice of the last four years, Treasury issued TC 14/02 'Mandatory early close procedures for 2014'. The circular is designed to achieve continuous improvement in the quality and timeliness of agencies' annual financial statements.

Performance against Target (Budget)

In 2013-14, Sydney Water Corporation, Hunter Water Corporation and State Water Corporation prepared Statements of Corporate Intent (SCI) as required by the *State Owned Corporations Act 1989*, while Sydney Catchment Authority, as a statutory authority, prepared a Statement of Financial Framework (SFF).

The SCIs and SFF were approved by the respective Boards and Shareholder ministers, and tabled in Parliament.

Appendix Two compares the actual results for the NSW Government water businesses against the SCI and SFF approved targets.

Hunter Water Corporation

Hunter Water Corporation recorded a net profit after tax of \$50.3 million, a favourable variance of \$8.4 million against its SCI budget. This was mainly due to lower than expected depreciation due to valuation write downs in the previous year and lower finance expenses due to favourable interest rates.

State Water Corporation

State Water Corporation recorded a net profit after tax of \$42.0 million, a \$9.0 million favourable variance against its SCI budget. This was mainly due to the reversal of prior year impairment losses and higher than expected water sales.

Sydney Catchment Authority

The Authority recorded a net profit after tax of \$26.0 million, \$5.0 million unfavourable variance against its SFF target. This was largely due to increased depreciation from asset revaluations.

Sydney Water Corporation

Sydney Water Corporation recorded a net profit after tax of \$465 million, a \$105 million favourable variance against its SCI budget. This was mainly due to increased water consumption by customers, higher developer contributions and lower labour and contractor costs. Water sales during the year were \$70.0 million (7.0 per cent) above the 2013-14 forecast for water sales.

Key Financial Information

The combined profit after tax for NSW Government water businesses increased from \$443 million to \$582 million in 2013-14.

The increase of \$139 million in profit after tax was largely due to:

- a \$98.0 million increase in total revenue to \$3.3 billion, attributable to a rise in the regulated water price and increased water usage due to lower rainfall
- a \$40.0 million decrease in total expenses to \$2.7 billion, mainly due to tight control over operational expenditure by management.

Significant movements in the individual businesses' results compared to the prior year are discussed below.

Appendix One summarises the key financial results.

Hunter Water Corporation

The net profit after tax for Hunter Water Corporation was \$32.4 million higher than the previous year. This was mainly attributable to a reduction in maintenance costs, favourable interest charges, due to early debt refinancing in 2012-13, and lower depreciation as a result of revaluation write downs of \$29.3 million in the previous year.

The Corporation's assets totalled \$2.8 billion at 30 June 2014, an increase of \$73.6 million, due to asset additions net of disposals and revaluations in 2013-14.

Total liabilities at 30 June 2014 were \$1.4 billion, an increase of \$57.6 million from prior year. The increase largely reflected a \$20.7 million increase in the provision for dividends to the NSW Government and additional debt of \$50 million to fund the capital portfolio expenditure.

State Water Corporation

The net profit after tax for State Water Corporation was \$22.0 million higher than the previous year. This is mainly due to a \$23.0 million valuation increment on properties previously written down.

Total assets at 30 June 2014 were \$855 million, an increase of \$50.0 million compared to the previous year. This was in part due to a \$30.8 million valuation gain on property, plant and equipment.

Liabilities totalled \$442 million at 30 June 2014, an increase of \$17.0 million. The increase is attributed to deferred tax liabilities increasing by \$22.0 million as a result of capital expenditure. This is partially offset by a decrease in provision for dividends of \$4.0 million.

Sydney Catchment Authority

Increased depreciation, as a result of asset revaluations, and higher contractor expenses contributed to the \$7.0 million decrease in the net result for the year.

Sydney Catchment Authority assets totalled \$1.5 billion, an increase of \$40.0 million. This was mainly due to revaluation increments and new additions to property, plant and equipment.

Liabilities totalled \$717 million, an increase of \$18.0 million, mainly due to recognition of personnel services payable to NSW Trade & Investment.

Sydney Water Corporation

The net profit after tax for Sydney Water Corporation for the year was \$92.0 million higher than the previous year. Total assets were \$15.1 billion at 30 June 2014, an increase of \$667 million. Of this increase, \$239 million was due to asset revaluations net of asset impairments. The remaining movement reflects asset acquisitions, including work in progress on new and existing projects.

Liabilities totalled \$8.7 billion, an increase of \$238 million, representing additional borrowings to fund asset acquisitions.

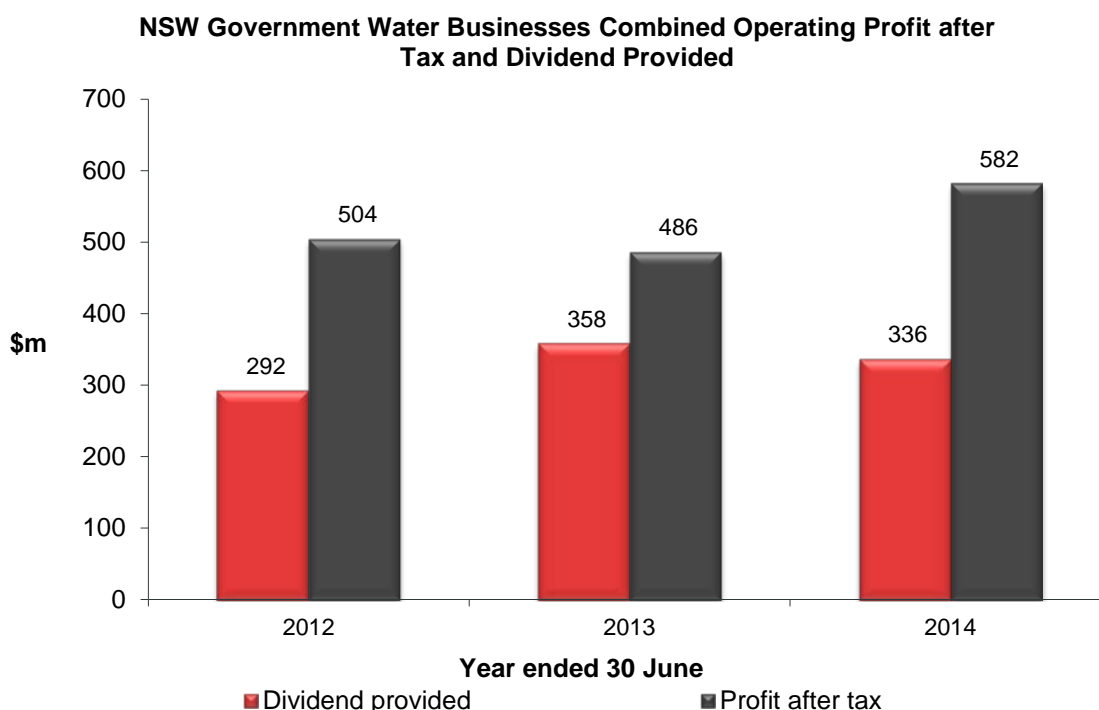
Distributions to Government

In April 2014, Treasury implemented a new policy on financial distributions for NSW Government businesses. This Policy applies to financial distributions payable from the 2013-14 financial year.

Under the policy, the Boards of NSW Government water businesses are required to formally agree the dollar value of the dividend payable with the Shareholder ministers in May of each financial year. The Boards will recommend the dividend which then has to be approved in writing by the shareholders before 30 June.

Previously, the shareholders and Boards negotiated dividend targets earlier in the year and agreed dividend amounts in their Statements of Corporate Intent.

Generally entities' dividend payout ratios of 70 per cent of post-tax profits were approved.



2013 profit after tax was taken from 2013 financial statements. Revised 2013 profit after tax in 2014 financial statements was \$443 million.

Source: Financial statements (audited)

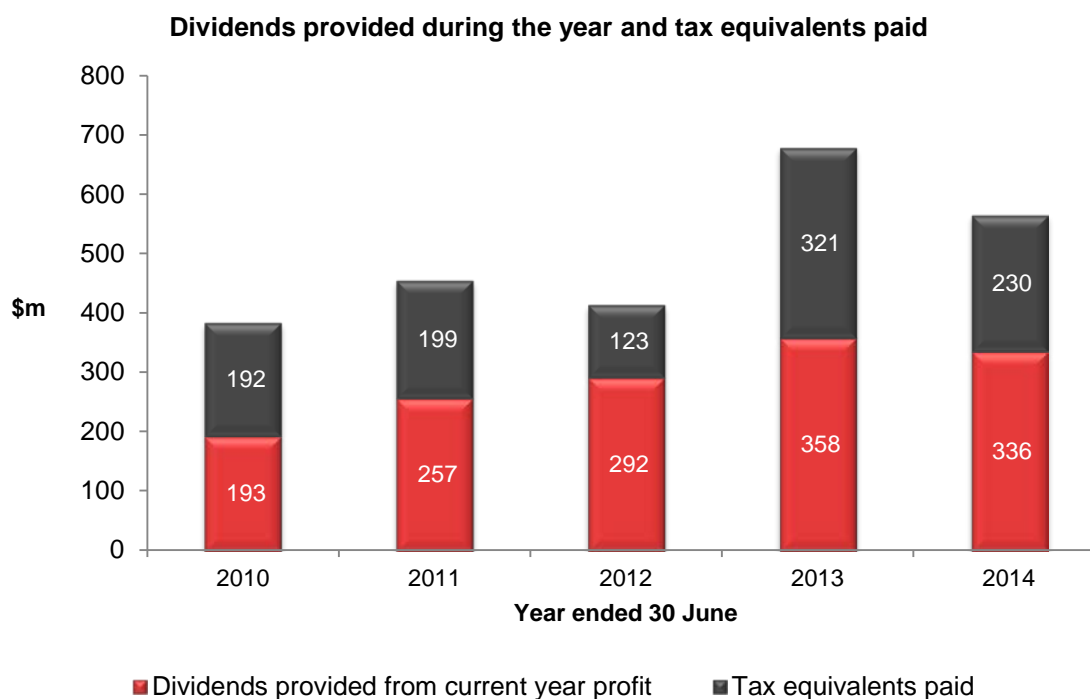
Total dividends payable by the NSW Government water businesses to the NSW Government decreased by six per cent from \$358 million to \$336 million in 2013-14.

Dividends provided during the year and tax equivalents paid	2014 \$m	2013 \$m	2012 \$m	2011 \$m	2010 \$m
Water Businesses					
Hunter Water Corporation	63	31	34	34	47
State Water Corporation	20	24	4	11	3
Sydney Catchment Authority	43	27	43	50	15
Sydney Water Corporation	440	597	334	361	320
Total	566	679	415	456	385

Source: Financial statements (audited)

NSW Government water businesses accrued and paid distributions to the Government of \$566 million, which is \$113 million lower than the previous year. Total distributions comprise:

- \$230 million (\$321 million in 2012-13) in tax equivalents
- \$336 million (\$358 million in 2012-13) in dividends.



Source: Financial statements (audited)

Financial Sustainability

As with any well run business, NSW Government water businesses must manage their finances so they can meet current and future spending commitments, invest in future growth, adapt quickly to emerging threats and remain financially sustainable. To achieve these goals, the entities must generate sufficient operating results so they can respond to changes in economic conditions, and government policy.

Financial Sustainability Indicators at 30 June 2014

Overall Assessment

The table below shows some performance indicators for the NSW Government water businesses for the year ended 30 June 2014. The liquidity (current ratio) and gearing ratios indicate there may be short term sustainability concerns at some of the water businesses. However, several mitigating factors have enabled these entities to support ongoing operations with ratios at these levels, including:

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

The NSW Government water businesses have all maintained investment grade credit ratings at 30 June 2014.

	Underlying Result	Liquidity	Self-Financing	Gearing	Capital Replacement	Overall Assessment
Water Businesses						
Hunter Water Corporation	16%	0.4	24%	44%	3.2	●
State Water Corporation	24%	1.0	31%	28%	3.8	●
Sydney Catchment Authority	12%	0.5	27%	35%	1.0	●
Sydney Water Corporation	18%	0.4	22%	49%	2.3	●

Note: Refer to Appendix Three for descriptions of ratios and the risk assessment criteria.

Source: Financial statements (audited).

Liquidity

The water businesses' liquidity ratios were less than one at 30 June 2014, except for State Water Corporation. A liquidity ratio of one is generally considered an appropriate level of liquidity to support business operations.

However, in circumstances where businesses have access to regulated revenue streams, regulated rates of return and strong cash inflows, businesses can operate at lower levels of liquidity.

Gearing

The Independent Pricing and Regulatory Tribunal of New South Wales (IPART) uses a 60 per cent benchmark as the efficient gearing ratio (proportion of debt in total financing) for NSW Government water businesses to ensure customers do not bear costs associated with inefficient financing structures.

All NSW Government water businesses are operating below the IPART's benchmark.

Capital Replacement

Sydney Catchment Authority's capital replacement ratio is the lowest of all water businesses. This is in line with management's plan for low capital expenditure in recent years.

Hunter Water Corporation and Sydney Water Corporation recorded much higher capital replacement ratios, which were driven by demand growth.

Long Term Sustainability Trends for the NSW Government water businesses

The following ratios are derived from the consolidated operations of the NSW Government water businesses.

Year ended 30 June	2014	2013	2012	2011	2010
Financial ratios					
Return on equity (%)	6.7	5.2	5.3	4.1	7.1
Return on assets (%)	6.7	6.0	5.4	5.7	6.3
Interest coverage ratio (times)	2.3	2.0	1.8	1.7	2.1
Gearing ratio (%)	46.2	46.8	44.6	49.1	48.6
Liquidity ratio (times)	0.4	0.4	0.4	0.5	0.4

Note: Refer to Appendix Three for descriptions of ratios.

Source: Financial statements (audited).

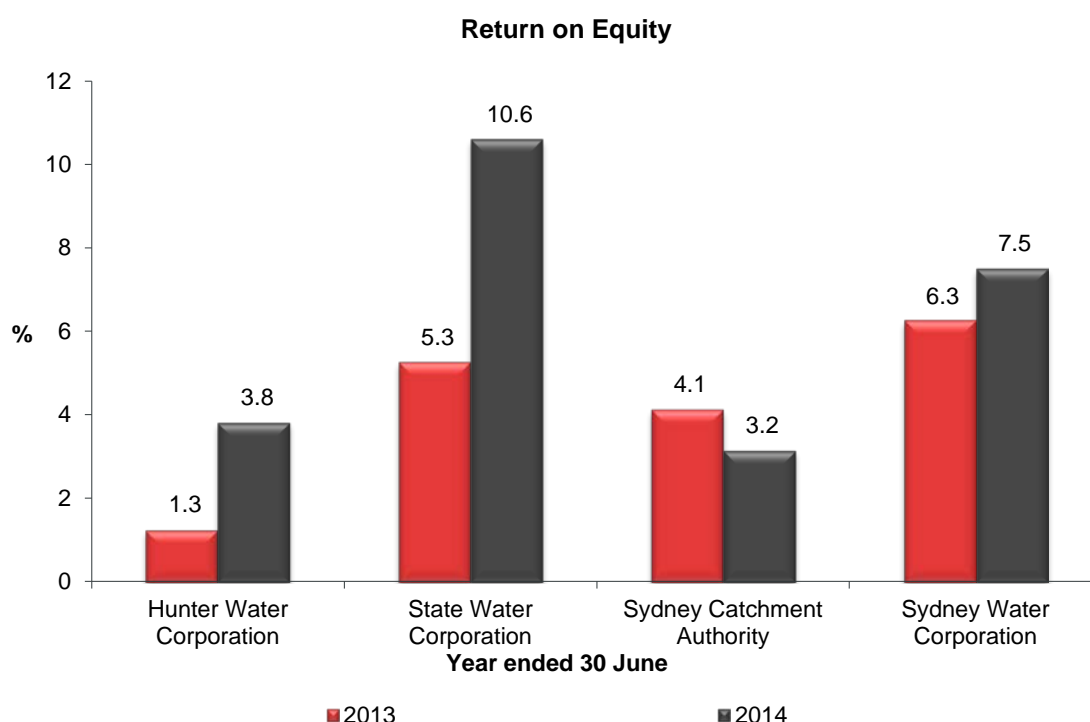
Both return on equity and return on assets marginally improved due to increases in the water consumption due to weather conditions in 2013-14. The gearing ratio dropped as a result of increased asset values following asset revaluations.

Return on Equity

Overall NSW Government water businesses, except Sydney Catchment Authority, recorded improved returns on equity.

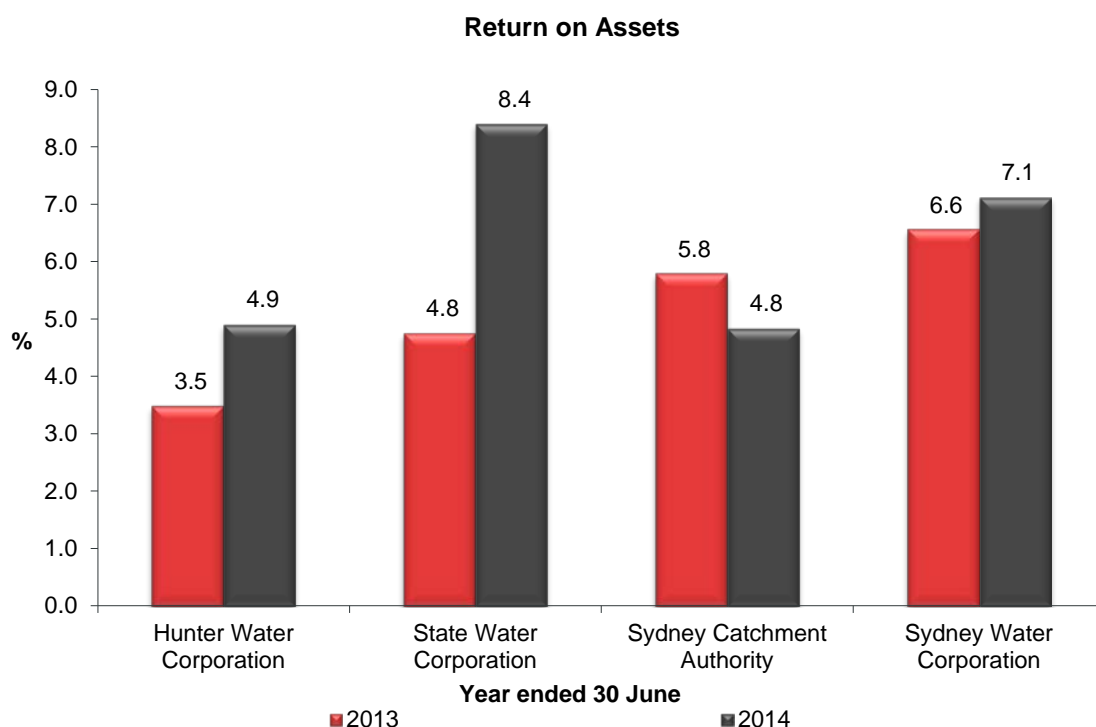
Sydney Catchment Authority's return on equity decreased due to a significant increase in equity following the revaluation increases to its assets and a decline in profitability related to increase in actuarial expenses within personnel services expense.

Other water businesses' return on equity increased because of improved profit after tax mainly due to reduction in operating expenditures.



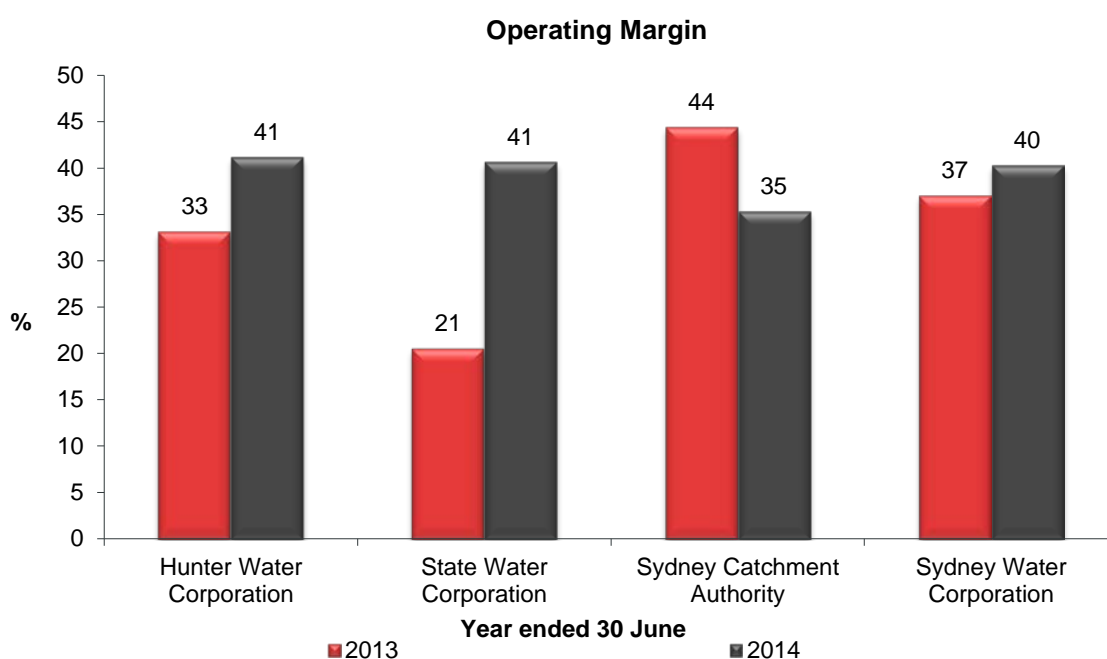
Return on Assets

Combined earnings before interest and tax increased to \$1.3 billion at 30 June 2014. Overall NSW Government water businesses, except Sydney Catchment Authority, increased the return on assets.



Operating Margin

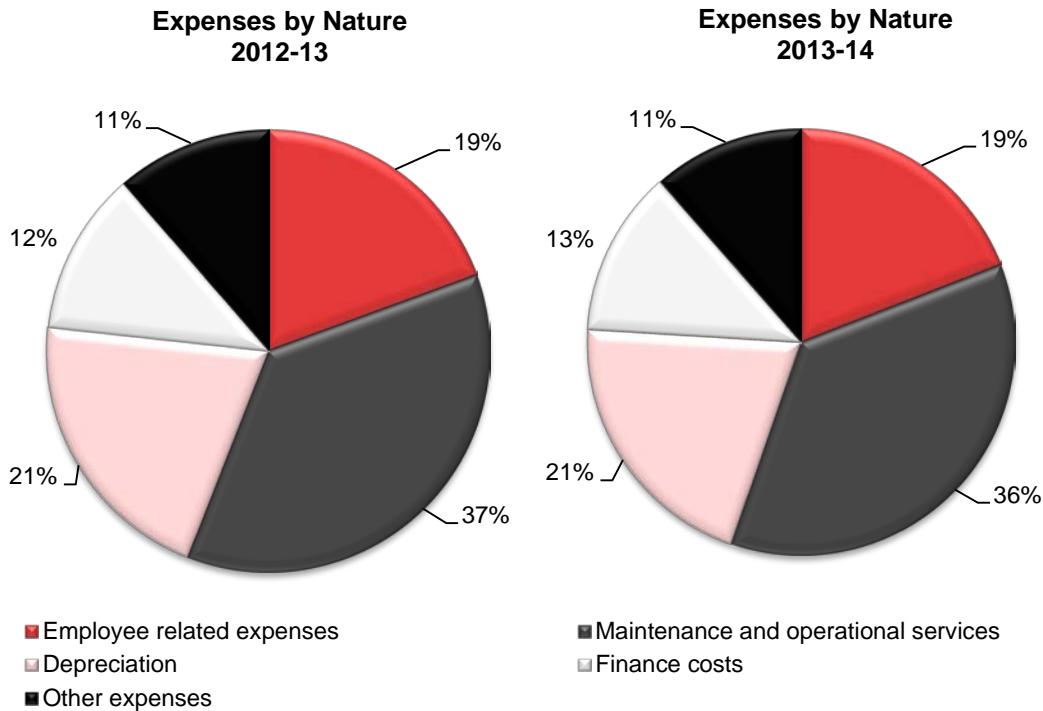
Overall the NSW Government water businesses' combined operating margin increased by 3.9 per cent from the previous year with all businesses, except Sydney Catchment Authority, recording improved margins.



Sydney Catchment Authority's operating margin fell in 2013-14 due to a change in recognition of actuarial gains and losses and return on fund assets of superannuation.

Expenditure

The nature and value of expenses for the past two years remained similar as shown below.



Source: Financial statements (audited).

Financial Controls

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

Internal Controls

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

The audits of the NSW Government water businesses' financial statements for the year ended 30 June 2014 identified three high risk internal control weaknesses.

Management Letter

The management letters for the year ended 30 June 2014 identified and included opportunities for improvements in internal controls.

Entity	Management letter	Risk level			Total
		High	Medium	Low	
Hunter Water Corporation	Yes	2	8	2	12
State Water Corporation	Yes	1	6	1	8
Sydney Catchment Authority	Yes	--	1	2	3
Sydney Water Corporation	Yes	--	4	3	7
Total		3	19	8	30

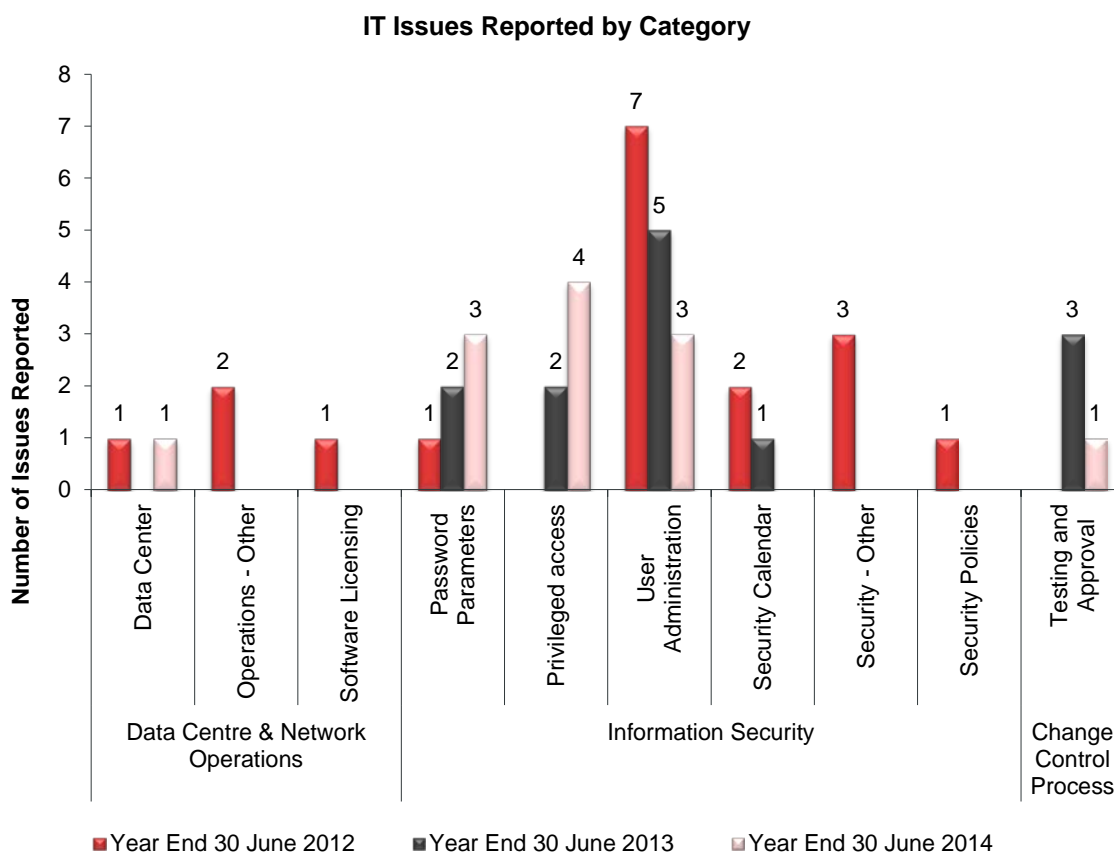
The issues identified during the 2014 audits included:

- continued use of fully depreciated assets
- delayed recording of assets in the Fixed Asset Register
- lack of segregation of duties in Payroll and HR Functions
- lack of evidence to indicate payroll exception reports are reviewed
- lack of review over changes to the Customer Information System.

Information Technology

Information system audits focus on the information technology (IT) processes and controls supporting the integrity of financial data used to prepare the financial statements.

The 2014 audits identified 12 IT issues in the NSW Government water businesses, 11 of which were identified for the first time. These centred on information security controls for newly implemented applications and access controls to high-privileged user accounts.



Information security issues accounted for 83 per cent of IT issues identified during 2013-14. Specifically they related to control weaknesses in:

- user administration processes
- password settings
- use of high-privileged administrator accounts.

These issues increase the risk of unauthorised access to make changes to financial systems.

Disaster Recovery Planning

In 2014, four of the NSW Government water businesses completed a self-assessment of their disaster recovery planning and testing capabilities. The assessments indicate all entities had formal disaster recovery plans in place for the financial systems. Three of the four entities did not test the plans during the year.

Challenges with Legacy IT Systems

Legacy IT systems are presenting the NSW Government water businesses with some or all of the following challenges:

- technical limitations that restrict ability to meet business needs and regulatory requirements
- increased susceptibility to newer and more advanced security attacks
- little or no compatibility with newer technology platforms and hardware
- integration with other systems not possible, or difficult and costly to implement
- systems becoming more difficult to maintain and support
- key person risk as staff with the relevant skills to support the systems become more rare.

Projects are underway to replace the legacy systems. However, some entities are encountering major challenges in defining their business requirements and finding appropriate replacement options in a continuously evolving regulatory and industrial landscape.

Ongoing restructures and organisational changes have also hampered some entities' efforts to establish and commit to long term plans and timeframes for replacing legacy systems. While projects to replace legacy systems can span many years, the entities should be mindful of the risks associated with legacy systems and establish appropriate strategies to address these risks during the transition period.

Performance Audit on Security of IT Systems – Critical Infrastructure

The successful delivery of government services is dependent upon information technology and systems that support the operation of critical infrastructure. It is important that government IT systems have appropriate levels of security and integrity, taking account of the risks and consequences of potential breaches.

A performance audit on the security of information technology and systems that support the operation of critical infrastructure is underway and expected to be tabled in January 2015. This audit examines whether agencies have implemented appropriate and effective controls over IT system security and integrity. Sydney Water Corporation will be examined as part of the audit.

Human Resources

Overtime and Associated Allowances

NSW Government water businesses successfully managed and controlled overtime expenses, which fell to \$19.5 million from \$23.6 million in 2012-13, a decrease of 17 per cent.

Managing overtime is a challenge for NSW Government water businesses as the nature of their operations is often driven by weather conditions, urgent works outside operating hours and the remoteness of maintenance requirements.

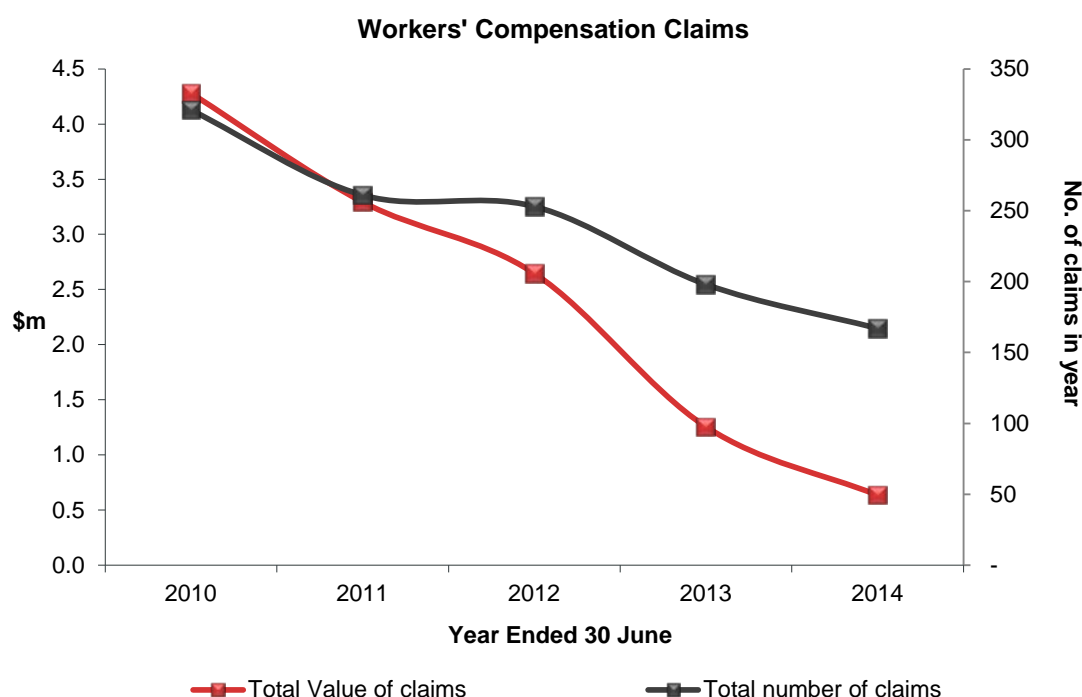
Overtime is paid at a premium rate and can result in higher than necessary expenditure if staffing levels are not optimised. Associated allowances include expenses such as travel, meals and other incidental costs relating to overtime. High levels of overtime may also increase work, health and safety issues particularly when fatigued employees are responding to risky field operations.

Entity	Total salary (\$m)		Number of employees paid overtime		Total overtime Paid (\$m)		Total overtime as percentage of salary base	
	2014	2013	2014	2013	2014	2013	2014	2013
Hunter Water Corporation	53	52	217	226	1.5	1.9	2.8%	3.6%
State Water Corporation	34	32	127	136	0.5	0.6	1.4%	1.9%
Sydney Catchment Authority	47	36	48	150	1.1	1.4	2.3%	3.9%
Sydney Water Corporation	338	375	1,175	1,359	16.4	19.7	4.9%	5.3%
Total	471	495	1,567	1,871	19.5	23.6	4.1%	4.8%

Source: NSW Government water businesses (unaudited)

Workers' Compensation Claims

The number of workers' compensation claims and related expenses for the NSW Government water businesses has dropped significantly over the past five years. Management advises the decrease was primarily due to continuing safety education and training programs as well as changes to workers' compensation legislation in 2012.



Source: NSW Government water businesses (unaudited).

Workers' compensation claims at NSW Government water businesses fell 48 per cent, while the related claims value fell 86 per cent from \$4.3 million in 2009-10 to \$0.63 million in 2013-14. The water entities continue to adopt a number of safety initiatives.

Work Health Safety (WHS) performance also continued to improve. State Water Corporation won the NSW WorkCover Awards for the category of Best Workplace Health and Safety Management System in 2013-14.

Asset Management

Capital Project Management

The original and current cost estimates and delivery dates for capital projects with an original cost estimate above \$50.0 million for Sydney Water Corporation and \$10.0 million for all other water agencies are shown below. The tables include Information Technology capital projects with an original cost above \$10.0 million for all agencies.

Hunter Water Corporation	Original cost estimate \$m	Current cost \$m	Original service delivery date	Achieved / estimated service delivery date
Completed during 2013-14:				
Cessnock Water Distribution Upgrade - Stage 1	20	17	June 2012	August 2013
Williamstown/Raymond Terrace Wastewater Transfer Scheme	17	18	June 2013	April 2014
Adamstown Wet Weather Pump System Upgrade	15	16	February 2013	January 2014
In progress at 30 June 2014:				
Kooragang Island Recycled Water Project	68	71	July 2013	October 2014
High Voltage Network Upgrade	56	51	June 2014	December 2014
Maitland North Rothbury Water Distribution Upgrade - Stage 3	14	14	May 2012	August 2014
ERP Upgrade	15	15	February 2015	July 2015

Source: Hunter Water Corporation (unaudited).

The delivery of all projects in the above table is later than the original estimate. The Maitland North Rothbury Water Distribution Upgrade - Stage 3 is late due to existing holdings being too small in size for the construction of a new water pumping station and environmental constraints associated with heritage issues.

Hunter Water Corporation advises the variances to budget and delays in completing other projects were mainly due to scope changes and additional time required for contract negotiations.

State Water Corporation	Original cost estimate \$m	Current cost \$m	Original service delivery date	Achieved / estimated service delivery date
Completed during 2013-14:				
MDB Metering project – Murray Pilot	22	17	June 2013	December 2013
Water for Rivers Murrumbidgee Metering	20	18	June 2013	December 2013
In progress at 30 June 2014:				
Keepit Dam Upgrade	116	153	November 2011	February 2019
MDBA Koondrook – Perricoota Forest Flood	49	84	June 2012	June 2015
Wyangala Dam Upgrade	34	43	October 2012	September 2015
Chaffey Dam Augmentation and Stage 2 Safety Upgrade	43	46	June 2014	August 2016
Burrendong Dam Upgrade	29	24	July 2012	February 2015
Keepit Fish Passage Offsets	14	19	June 2014	TBC

Source: State Water Corporation (unaudited).

State Water Corporation advises the delays in completing its projects were mainly due to factors such as works repackaging to fit with funding availability, multiple flood events, additional scope and program variations. Securing of, and design changes to meet available and multi-level government funding were key contributors to revised delivery dates.

Sydney Catchment Authority	Original cost estimate \$m	Current cost \$m	Original service delivery date	Achieved / estimated service delivery date
Completed during 2013-14:				
No projects were completed in 2013-14	--	--	--	--
In progress at 30 June 2014:				
Prospect Dam Improvement Works	32	18	October 2014	December 2014

Source: Sydney Catchment Authority (unaudited).

Sydney Catchment Authority achieved a favourable variance to budget and met the milestone completion date for its Prospect Dam Improvement Works project.

Sydney Water Corporation	Original cost estimate \$m	Current cost \$m	Original service delivery date	Achieved / estimated service delivery date
Completed during 2013-14:				
No projects were completed in 2013-14	--	--	--	--
In progress at 30 June 2014:				
North West Growth Centre Servicing Package 2 and 3A	120 ¹	102	mid 2014	late 2014
Malabar Wastewater Treatment Plant Improvement Program	106	103	mid 2017	mid 2017
Bargo Sewerage Scheme	50	52	mid 2014	mid 2014 ²

1 Original budget of \$79.0 million (Package 2, in 2012) increased to \$120 million following a NSW Government direction to proceed with the Housing Acceleration Fund (Package 3A).

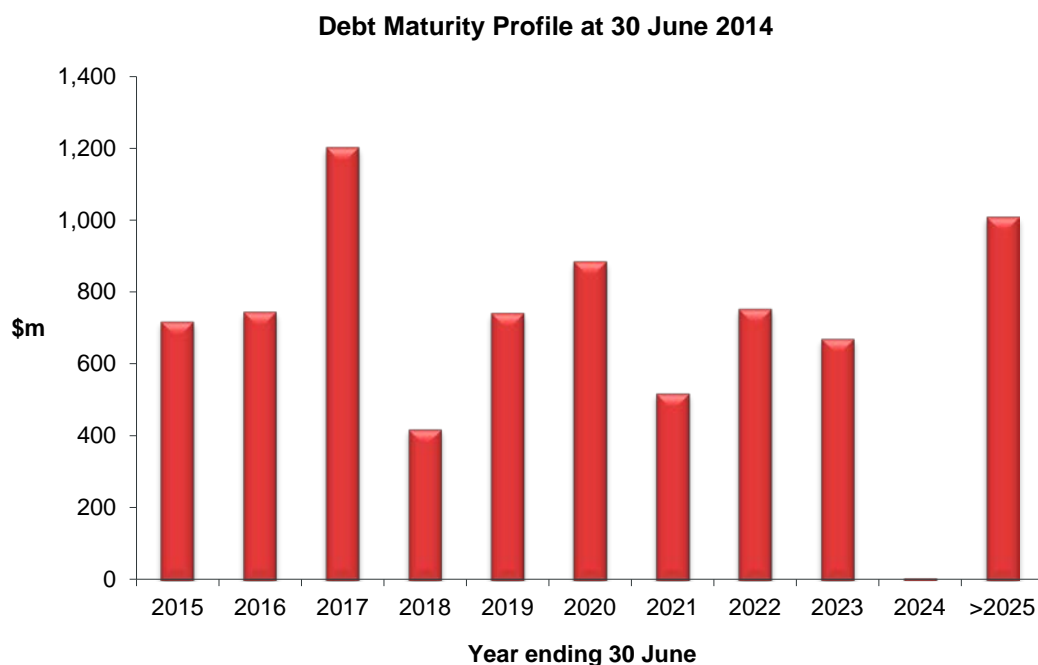
2 Service delivery date to complete sewerage reticulation and availability for connection to properties. Full project completion estimated for June 2015.

Source: Sydney Water Corporation (unaudited).

Sydney Water Corporation advises all remaining projects will be completed on time and within budget.

Borrowings

The graph below shows the aggregate debt maturity profile for NSW Government water businesses.



Note: > 2025 includes all debts, maturing in the financial years ending 30 June 2025 and beyond.

Source: NSW Government water businesses (unaudited).

The water entities will have to repay/refinance a total of \$3.8 billion over the next five years, representing 50 per cent of their total debt.

The debt portfolio was sourced almost entirely through New South Wales Treasury Corporation.

Historically, debt levels have increased, with the water businesses rolling over debts as they fall due.

Further analysis of the NSW Government water businesses external debt appears in the 'Financial Sustainability' section of this report.

Asset Maintenance

Some NSW Government water businesses have outsourced some of their maintenance functions to achieve efficiencies and more effective service delivery. To ensure the expected benefits are realised, the outsourcing arrangements need to be carefully managed and monitored by the respective businesses.

	Hunter Water Corporation		State Water Corporation		Sydney Catchment Authority		Sydney Water Corporation	
Year ended 30 June	2014	2013	2014	2013	2014	2013	2014	2013
Total planned maintenance completed for network and treatment assets (%)	93.5	93.8	95.0	97.0	97.0	99.0	98.8	98.0
Total planned maintenance completed for critical assets (%)	95.0	95.4	95.0	97.0	98.1	99.0	103.7	104.0
Maintenance work completed on time (%)	n/a	n/a	94.0	92.0	95.6	78.0	85.1	75.1
Budgeted maintenance expenditure (\$m)	12.0	10.4	13.5	13.2	11.3	5.6	234.7	233.0
Actual maintenance expenditure (\$m)	14.7	11.9	13.6	13.5	12.4	6.4	218.7	225.0
Backlog maintenance (number of jobs)	n/a	n/a	540.0	359.0	74.0	31.0	5,636.0	7,620.0
Backlog maintenance (\$m)	n/a	n/a	n/a	n/a	0.1	0.1	3.9	6.0

Source: NSW Government water businesses (unaudited).

State Water Corporation advises its backlog maintenance has increased due to more maintenance identified from maintenance audits and Dam Safety audits in 2013-14.

Sydney Catchment Authority's actual maintenance expenditure was higher in 2013-14 mainly due to additional expenditure of \$2.0 million for continuing flood remedial and reliability works to Warragamba Dam.

Sydney Water Corporation advises the number of jobs in its backlog maintenance program has fallen. In July 2013, the Corporation outsourced mechanical-electrical maintenance to improve the organisation's commercial performance. It is expected that the new contract will deliver gross savings of \$6.8 million each year if efficiencies are realised.

Governance

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

Governance Frameworks Supporting Service Delivery

Legislative Framework

The following NSW Government water businesses are established under the *State Owned Corporations Act 1989* (SOC Act):

- Hunter Water Corporation
- State Water Corporation
- Sydney Water Corporation.

Sydney Catchment Authority is a statutory body constituted under the *Sydney Water Catchment Management Act 1998*.

The entities have established formal processes to comply with their legislative obligations, including water quality, water management, pricing, environment protection, procurement, financial reporting, budgetary control, taxes, workers health and safety, dam safety and human resource management.

Separate governing legislation for each entity sets out the entity's service objectives, internal administrative roles and responsibilities.

The SOC Act and *Public Finance and Audit Act 1983* are key to the governance frameworks of SOC's. The Government as owner, through its shareholder ministers, is independent of the boards and management of the respective SOC's. The governance structure of SOC's is closely aligned to that of publicly listed companies.

Water NSW

Recommendation

State Water Corporation and Sydney Catchment Authority should formulate a structured approach to integrate their existing businesses, functions and processes before Water NSW is formed on 1 January 2015. The integration process should include milestones, cost estimates, expected outcomes and key performance measures.

Management of Water NSW should oversee the integration process and achievement of planned outcomes.

On 5 November 2014, the NSW Parliament passed the *Water NSW Bill 2014*.

The legislation will allow for the formal merger of the Sydney Catchment Authority and State Water Corporation under the name 'Water NSW'.

Water NSW will be a State Owned Corporation with an expected start date of 1 January 2015.

The creation of Water NSW will impact financial reporting and audit arrangements in the future.

Operating Licence

Operating Licences are issued by the Governor of New South Wales to entities operating water utilities. An operating licence is an overarching regulatory instrument that sets out operating responsibilities, system standards, service standards and customer rights. It also establishes systems for water quality, environmental and asset management.

The Independent Pricing and Regulatory Tribunal of New South Wales (IPART) annually audits and reports on the water businesses' compliance with their operating licences.

The results of the 2012-13 and 2011-12 compliance audits are shown below.

Year ended 30 June	Hunter Water Corporation		State Water Corporation		Sydney Catchment Authority		Sydney Water Corporation	
	2013	2012	2013	2012	2013	2012	2013	2012
	%	%	%	%	%	%	%	%
Full compliance	67	85	100	92	87	93	83	100
High compliance	13	11	--	8	13	7	17	--
Adequate compliance	20	4	--	--	--	--	--	--
Total	100	100	100	100	100	100	100	100

* 2014 data is not yet available

Percentage of audited clauses achieving the compliance rating

Source: NSW Government water businesses (unaudited).

Over 2011-12 and 2012-13, all NSW Government water businesses complied with the requirements of their operating licenses.

The degree of compliance varied from adequate to full compliance at Hunter Water Corporation, while the other water businesses achieved either high or full compliance.

Most NSW Government water businesses either achieved full or high compliance with their operating licence conditions over both years.

Price Determination

NSW Government water businesses are declared monopoly services under section 4 of the *Independent Pricing and Regulatory Tribunal Act 1992*. Accordingly, IPART regulates the prices for the services they provide to ensure the prices are fair for customers.

The prices are determined every four years and adjusted to cover the cost of conducting business while generating an adequate return on assets.

The entities must set maximum prices according to the IPART determination and cannot charge less than this price, without the NSW Treasurer's approval.

Under Section 92 of the *Water Act 2007 (Commonwealth)*, the Commonwealth Minister for Water has assigned the Australian Competition Consumer Commission (ACCC) as the regulator for State Water Corporation's charges in the Murray-Darling Basin from 1 July 2014 to 30 June 2017.

Dam Safety

The Dam Safety Committee (DSC) assigns risks to all prescribed dams in the State which takes into account both the probability of failure and the potential lives lost.

At 30 June 2014, of the 378 prescribed dams, 14 were assigned a high risk rating. The high risk category is referred to by the Dams Safety Committee in its annual report as having 'significant safety risks'. DSC continues to liaise with the dam owners to manage high risk dams.

Sydney Water Corporation's Dam Safety Management program ensures compliance with the NSW Dams Safety Committee requirements and the Australian National Committee on Large Dams guidelines. Sydney Water Corporation advises it completed all mandatory inspections, surveillances and performance monitoring of the prescribed 11 water supply dams and five stormwater dams with no adverse findings.

Hunter Water Corporation complies with the *Dams Safety Act 1978* and maintains a representative on the NSW Dams Safety Committee. The five-yearly compliance reports for Chichester and Grahamstown Dams were completed during 2013-14.

The Environmental Protection Authority (EPA)

The EPA is the principal environmental regulator in New South Wales responsible for licensing and regulating waste water and water quality and has powers to issue infringement notices.

Year ended 30 June 2014				
	Hunter Water Corporation	State Water Corporation	Sydney Catchment Authority	Sydney Water Corporation
No. of infringement notices	--	--	--	4
No. of other notices	9	--	--	1
Total	9	--	--	5

Source: NSW Government water businesses (unaudited).

Sydney Water Corporation received four penalty infringement notices and one enforceable undertaking during the year from the EPA. The enforceable undertaking related to a sewer overflow incident at Glenfield Water Recycling Plant in November 2013. Other penalty notices related to bio-solid spills, the drainage of a water main and discharge of sediment laden water.

Hunter Water Corporation received nine notices in the 2013-14 financial year, however received no penalty infringement notices. Four notices culminating in an enforceable undertaking related to an incident involving the excursion of dosing chemical from Swansea 1 Wastewater Pumping Station in January 2013. Other notices are related to a technical reporting non-compliance and the discharge of wastewater and sediment laden water.

Water Accounting

Australian Water Accounting Standard 1 (AWAS 1), issued in October 2012, was developed to ensure comparability of water accounting reports over time and between other water reporting entities to improve decision-making and stakeholder confidence.

In February 2014, the Water Accounting Standards Board together with the Auditing and Assurance Standards Board jointly issued the *Australian Water Accounting Standard 2 Assurance Engagements on General Purpose Water Accounting Reports (AWAS 2)*.

This standard establishes requirements for assurance engagements. It guides assurance practitioners on how to accept, conduct and report on engagements so they can provide reasonable or limited assurance on a general purpose water accounting report.

This Standard is operative for reporting periods commencing on or after 1 January 2015. Public and private sector organisations can voluntarily adopt the standard.

Commercial Policy Framework

Treasury is responsible for advising the NSW Government on state financial management policy, and reporting and monitoring the performance of the State's commercial agencies. Treasury has implemented a commercial policy framework to guide government businesses towards efficient commercial practices employed by private sector businesses.

The Statement of Corporate Intent (SCI) is an important performance management and accountability tool in Treasury's commercial policy framework.

SOCs' Annual Reports must include a comparison of performance against SCI targets (including financial targets) and explain variances.

The 'Financial and Performance Reporting' section of this report includes an analysis of the SOC's performance against their respective SCIs or SFF.

Review of State Owned Corporations' Governance and Accountability Legislative Framework

In April 2013, the NSW Government formed a Steering Committee to review the SOC Act and eight enabling Acts that establish SOC's.

The purpose of the review is to improve the SOC's commercial performance and streamline and strengthen the accountability and governance framework. This will help the government improve the efficiency and effectiveness of its oversight function and achieve the NSW 2021 target of improving the performance of public trading enterprises.

In November 2013, the Steering Committee released an issues paper presenting its research and consultation on key areas impacting the performance of SOC's and the operation of the SOC accountability and governance framework. The paper addresses:

- non-commercial objectives, functions and operations that reduce a SOC's ability to operate like a private sector entity
- clarifying roles and responsibilities of the voting shareholders, the portfolio Minister, the board and the Chief Executive Officer
- clarifying the arrangements for government intervention and control of SOC's
- improving board appointment procedures and processes
- the ability of shareholders to respond to poor performance of a SOC
- aligning practices with private sector best practice
- improving consistency between SOC Act and enabling Acts.

The issues paper included an invitation for stakeholders' views on 55 specific questions arising from the Steering Committee's research and consultation process. The Committee's secretariat advises the Committee is considering the stakeholders' views in forming the recommendations it will make to Cabinet.

The Steering Committee comprises three independent members, and the Secretaries of the Department of Premier and Cabinet and The Treasury.

Repeal of Carbon Tax

On 17 July 2014, the *Clean Energy Legislation (Carbon Tax Repeal) Act 2014* was passed by federal parliament. The *Competition and Consumer Act 2010* was also amended to enhance the monitoring role of the Australian Competition and Consumer Commission (ACCC). The ACCC's powers now include the ability to intervene if businesses exploit businesses or customers by failing to pass through all carbon tax cost savings or make false or misleading claims.

Risk Management

Risk Management is a process of identifying, assessing and prioritising risks to minimise, monitor and control the impact of unforeseen events or to maximise the realisation of opportunities.

NSW Government water businesses advise they each have a risk management framework consistent with Risk Management Standard AS/NZS ISO 31000.

Sydney Water Corporation's risk management framework is designed to manage its commercial, social, environmental and customer risks consistently. Its corporate strategy defines 12 risk themes, each with related issues and emerging threats. The risks are mapped to these themes and reported with mitigation strategies to its Board.

Hunter Water Corporation has an Enterprise Risk Management Framework, as well as standardised documentation and terminology, to provide a consistent approach to risk management. As part of its ongoing risk identification, assessment and management activities, it continues to establish and refine controls to reduce the impact and likelihood of adverse events.

State Water Corporation integrates risk management into all organisational processes and uses risk management to facilitate continual improvement. The Board of State Water Corporation has endorsed a Risk Management Framework that details the Corporation's procedures and systems for managing risk.

During the year the Sydney Catchment Authority implemented the Enterprise Risk Management Framework. The Authority uses this framework to update its corporate risk register and risk management plans.

Fraud Control

In 2013-14, Sydney Water Corporation reported three Public Interest Disclosures to the Independent Commission Against Corruption (ICAC). Management of the other water entities advised that no matters were referred to ICAC.

During the year, Sydney Water Corporation assisted ICAC with its ongoing investigation, known as Operation Credo. This was a public inquiry into matters involving Australian Water Holdings Pty Ltd (AWH) and Sydney Water Corporation. ICAC conducted investigations into allegations of corrupt conduct involving persons having an interest in AWH (and its predecessors and subsidiaries). The Corporation has complied with the associated legal obligations. The Operation Credo report is expected in January 2015.

Sydney Water Corporation continues to refine its fraud and corruption prevention program by:

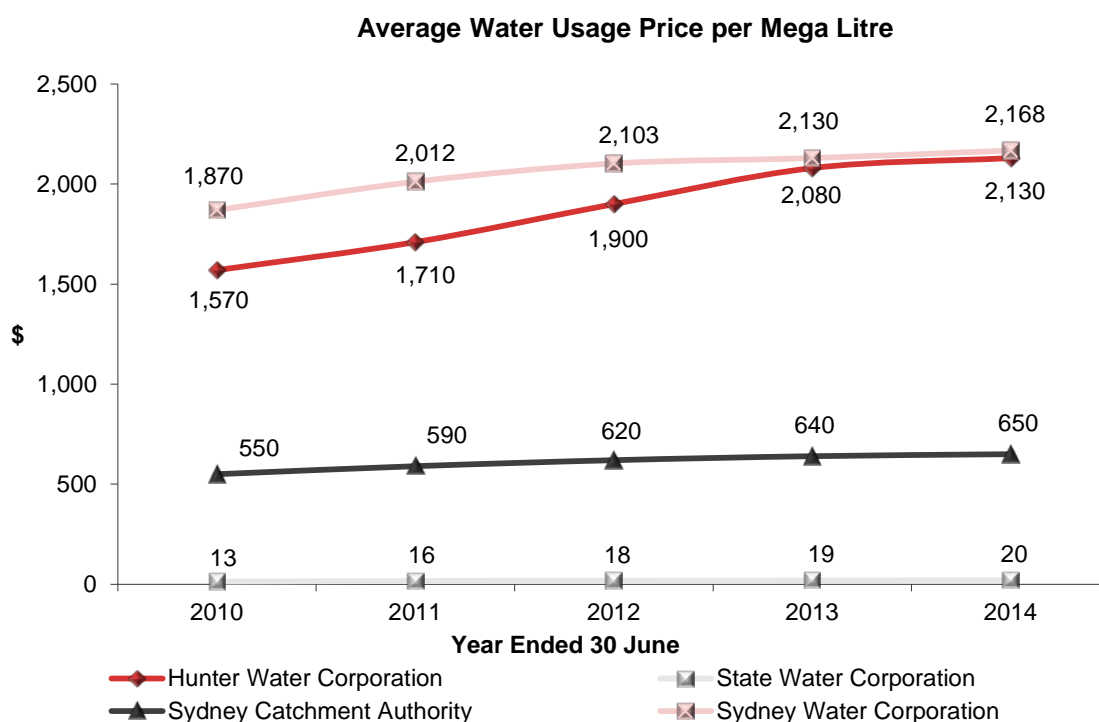
- conducting a high level review of its high-rated fraud and corruption risks, the results of which were reported to the audit and risk committee of the Board
- continuing with the roll out of a corruption and fraud prevention e-learning module, which includes staff declarations affirming their understanding of key policies
- writing to almost 1,000 Sydney Water Corporation suppliers to remind them of its expectations on ethical conduct
- expansion of its existing data analytics program to include additional testing of payroll and purchasing functions
- engaging an external consultant to review Sydney Water Corporation's overall fraud and corruption prevention framework.

Service Delivery

The achievement of Government outcomes can be improved through the effective commissioning of the right mix of services, whether from the public, private or not for profit sectors. Commissioning involves entities assessing their needs, determining priorities, designing and sourcing appropriate services, and monitoring and evaluating performance.

Water Usage Prices

Water bills comprise a fixed service charge and water usage charge per mega litre. The price of water usage per mega litre charged by the NSW Government water businesses over the past five years is shown in the graph below:



Note: Figures are in nominal terms.

Source: NSW Government water businesses (unaudited).

IPART determined water usage prices increased for the four entities over the past five years.

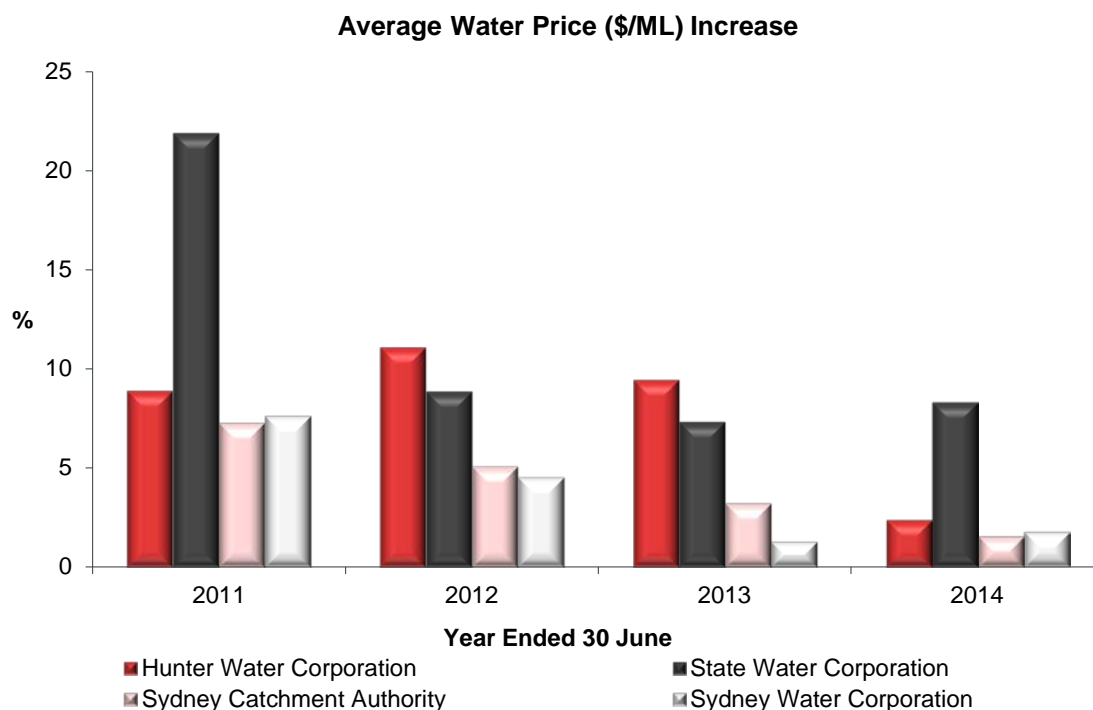
A simple average calculation of water prices for the eleven river valleys managed by State Water Corporation shows the average price of water per mega litre increased by 54 per cent over the five year period.

This simple averaging calculation does not reflect the differential pricing regime for each valley. Based on IPART's price determination for State Water Corporation's bulk water charges, weighted average water prices have increased approximately 28 per cent over the IPART determination period ended 30 June 2014.

Sydney Water Corporation's water price increased by 16 per cent over the five year period.

Hunter Water Corporation's water price increased by 36 per cent over the last five years, while the Sydney Catchment Authority's water price increased by 18 per cent.

The percentage increase in the water prices per mega litre over the past five years for each of the water businesses is shown in the graph below.



Source: NSW Government water businesses (unaudited).

Hunter Water Corporation

Hunter Water Corporation's water usage price increase was largely due to:

- water and drought security costs for the Hunter Region
- water services costs to cater for forecast population increases.

State Water Corporation

State Water Corporation's average water usage price increase was mainly due to:

- higher costs of operations across NSW regional river valleys
- lower expected water sales
- costs associated with improving water security, recording and accounting
- a revenue volatility allowance to compensate State Water Corporation for risks associated with water variability.

Metropolitan Water Plan

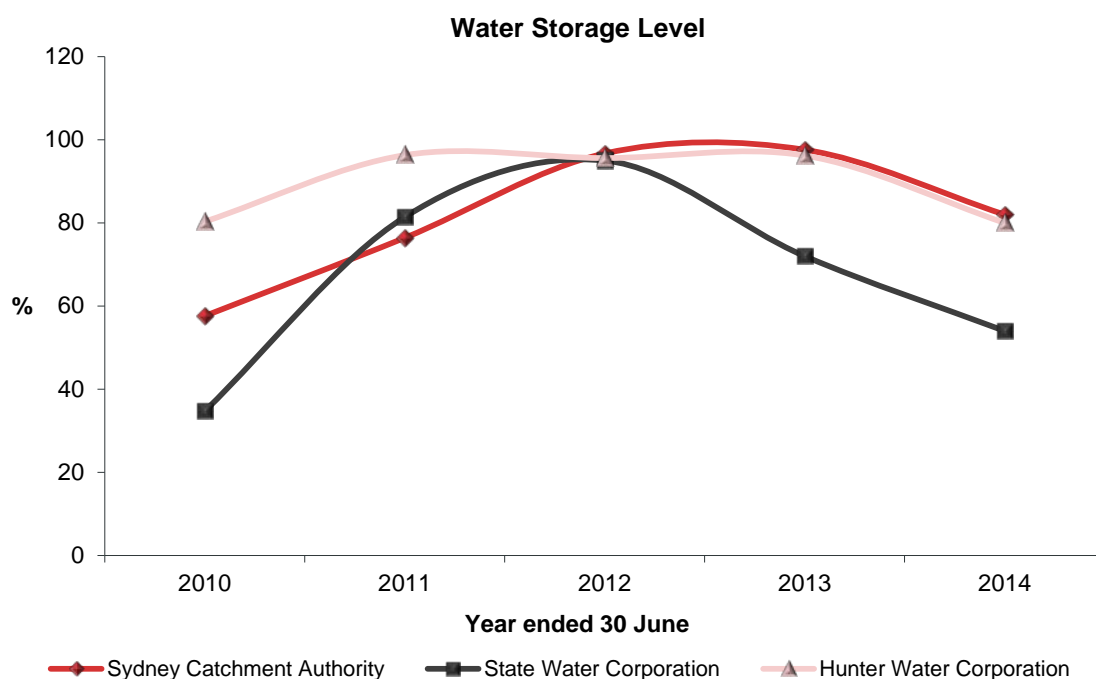
The NSW Government's Metropolitan Water Plan 2010 outlines a mix of measures to ensure Sydney, the Illawarra and the Blue Mountains have enough water now and for the future.

The plan is expected to be updated in 2015 and build on the achievements of past plans. The plan concentrates on the four areas below:

- investment in maintaining and upgrading Sydney's network of dams, which currently store more than 2,600 billion litres of water
- investment in water recycling and stormwater projects, such as the major schemes at Hoxton Park, Rouse Hill and Rosehill-Camellia
- desalination, which provides an extra source of water that is not dependant on rain (operating the desalination plant at full capacity when total dam storage level is below 70 per cent and continuing to do so until total storage reaches 80 per cent)
- investment in water efficiency programs, including rebates and business programs, and trialling new water efficient technologies to save water.

Water Storage

The water storage levels for Hunter Water Corporation, State Water Corporation and Sydney Catchment Authority for the past five years are shown in the graph below:



Source: Hunter Water Corporation, State Water Corporation and Sydney Catchment Authority (unaudited).

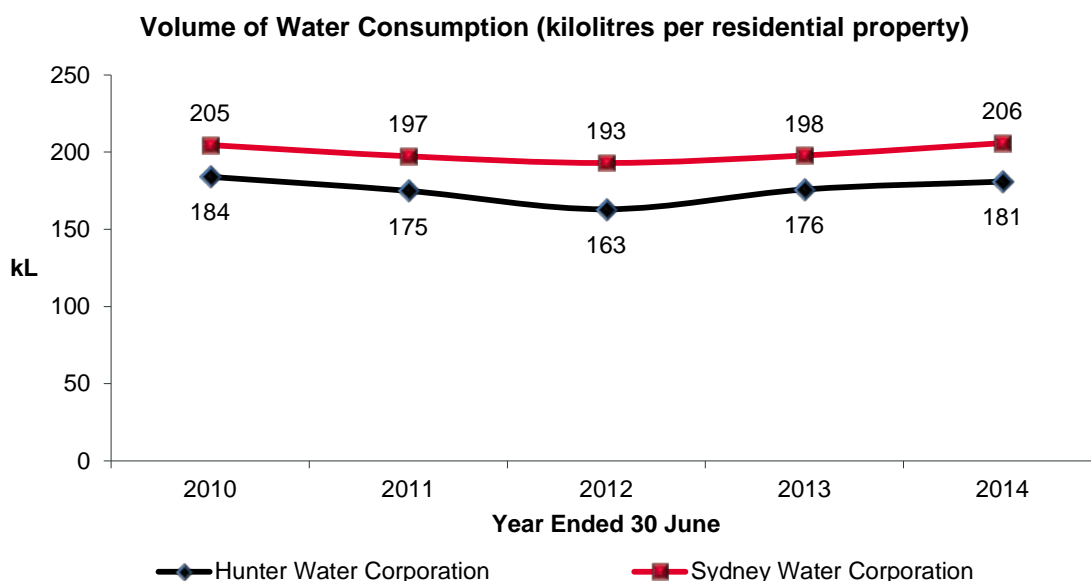
Water storage levels fell for the three entities over the past two years. Hunter Water Corporation and Sydney Catchment Authority have each seen falls of approximately 17 per cent while State Water Corporation fell by 25 per cent.

The main reason for the fall in water storage levels has been higher than average water sales due to drier conditions. 2013 was Australia's warmest year on record.

At 26 June 2014, the volume of water stored in the dams was 2,124 gigalitres (82.3 per cent of total available capacity) compared to 2,527 gigalitres (97.9 per cent) at 27 June 2013. The total available storage volume of the dams is 2,581 gigalitres.

Patterns of Water Consumption

The following table shows the volume of water consumed per residential property in NSW. Water consumption has continued increasing over the past two years due to prolonged periods of hot and dry weather.



Source: Hunter Water Corporation and Sydney Water Corporation (unaudited).

Weather significantly impacts water consumption. Sydney Water Corporation estimates typical weather variations can change demand by plus or minus five per cent in any one year. Despite the increase in water consumption in 2013-14, water use per person remains at a levels similar to those in 2009 when drought restrictions were replaced by the Water Wise Rules.

Analysis by Sydney Water Corporation suggests there has been a structural and behavioural shift in water consumption as a result of the initiatives and changes made by Sydney residents during the millennium drought (2002-2008). This structural and behavioural change is reflected in the recent trends in water use.

Performance Information

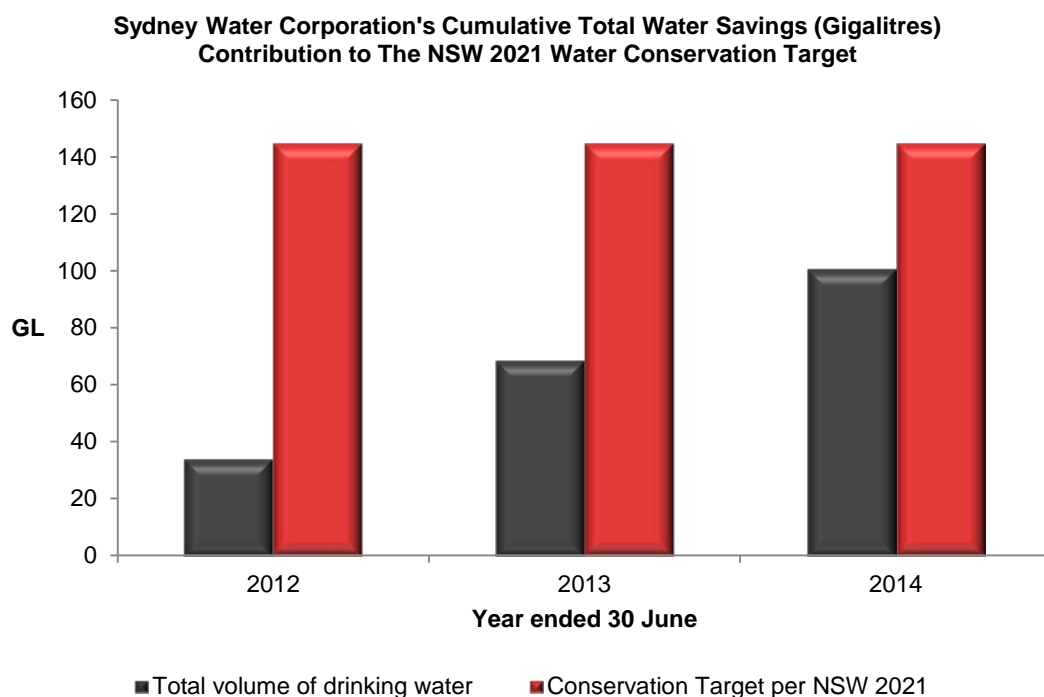
NSW 2021 Performance

NSW 2021, released in September 2011, is the NSW Government's ten-year plan to rebuild the economy, provide quality services, renovate infrastructure, restore government accountability and strengthen the local environment.

Securing long term potable water supplies for towns and cities supported by effective effluent management is a goal within the plan that impacts Sydney Water Corporation and Hunter Water Corporation.

Water Conservation

The Metropolitan Water Plan includes a conservation target to save 145 gigalitres of water per year in Sydney by 2015. Progress against the target is tracked in the NSW 2021 plan. Sydney Water Corporation is a major contributor to this target. The following graph shows Sydney Water Corporation's cumulative contribution to the NSW 2021 water conservation target.



Source: Sydney Water Corporation (unaudited).

Both Sydney Water Corporation and Hunter Water Corporation have consumption targets within their operating licences. Performance is better than the targets. Both corporations believe customers will continue to consume less water than the targets until 2015.

Sydney Water Corporation and Hunter Water Corporation continue to implement initiatives to meet the water conservation requirements in their operating licences. These include water efficiency initiatives, reducing leaks from the Corporations' and consumers' pipes, providing recycled water to households and businesses, and promoting water efficiency and water recycling projects.

Recycling

NSW 2021 incorporates recycling water targets from the 2010 NSW Metropolitan Plan. The target is to increase water recycling in Sydney to 70 gigalitres per year by 2015. In its NSW 2021 Performance Report, the Government projected 66 gigalitres would be recycled in 2013-14. Sydney Water Corporation is a major contributor to this target along with other government agencies.

Recycling Water					
Year ended 30 June	2014	2013	2012	2011	2010
Sydney Water Corporation					
Volume of recycled water (gigalitres)	47	47	46	48	36
Recycled water as a percentage of total effluent discharged (%)	9.8	9.5	8	9.5	7.2
Hunter Water Corporation					
Volume of recycled water (gigalitres)	4.3	4.3	4.5	4.7	5.3
Recycled water as a percentage of total effluent discharged (%)	7.5	6.3	5.8	7.3	10

Source: Hunter Water Corporation and Sydney Water Corporation (unaudited).

According to the National Performance Report 2012-13: Urban Water agencies, Sydney Water Corporation and Hunter Water Corporation have lower levels of recycled water as a percentage of total effluent compared to other major water agencies (100,000+ customers) across Australia.

In 2013-14, Sydney Water Corporation reported it had 18 recycling water plants in operation supporting 23 recycled water schemes and provided recycled water for use at its own wastewater treatment plants.

Industry Benchmarks

Performance Measures

Year ended 30 June	Hunter Water Corporation		Sydney Water Corporation	
	2014	2013	2014	2013
Water quality complaints per 1,000 properties	3.4	2.9	0.3	0.5
Average frequency of unplanned water interruptions per 1,000 properties	303	236	183	160
Water main breaks and leaks per 100 km	30.2	31.9	30	29
Sewer main breaks and chokes per 100 km	53.6	42.3	61	46
Water recycled (% of total effluent)	7.5	6.3	9.8	9.5
Water leakage (Infrastructure Leakage Index) (%)	1.2	1.1	1.4	1.5

Source: Hunter Water Corporation and Sydney Water Corporation (unaudited).

Water quality complaints increased for Hunter Water Corporation in 2013-14 due to operational issues which resulted in dirty water, 'white' water and taste and odour issues.

The number of sewer main breaks and chokes per 100 kilometres increased for both entities in 2013-14. The Corporation advises that unusually warm temperatures resulted in drier ground conditions and tree roots seeking moisture in the sewer mains. This increased in chokes and breaks in the system.

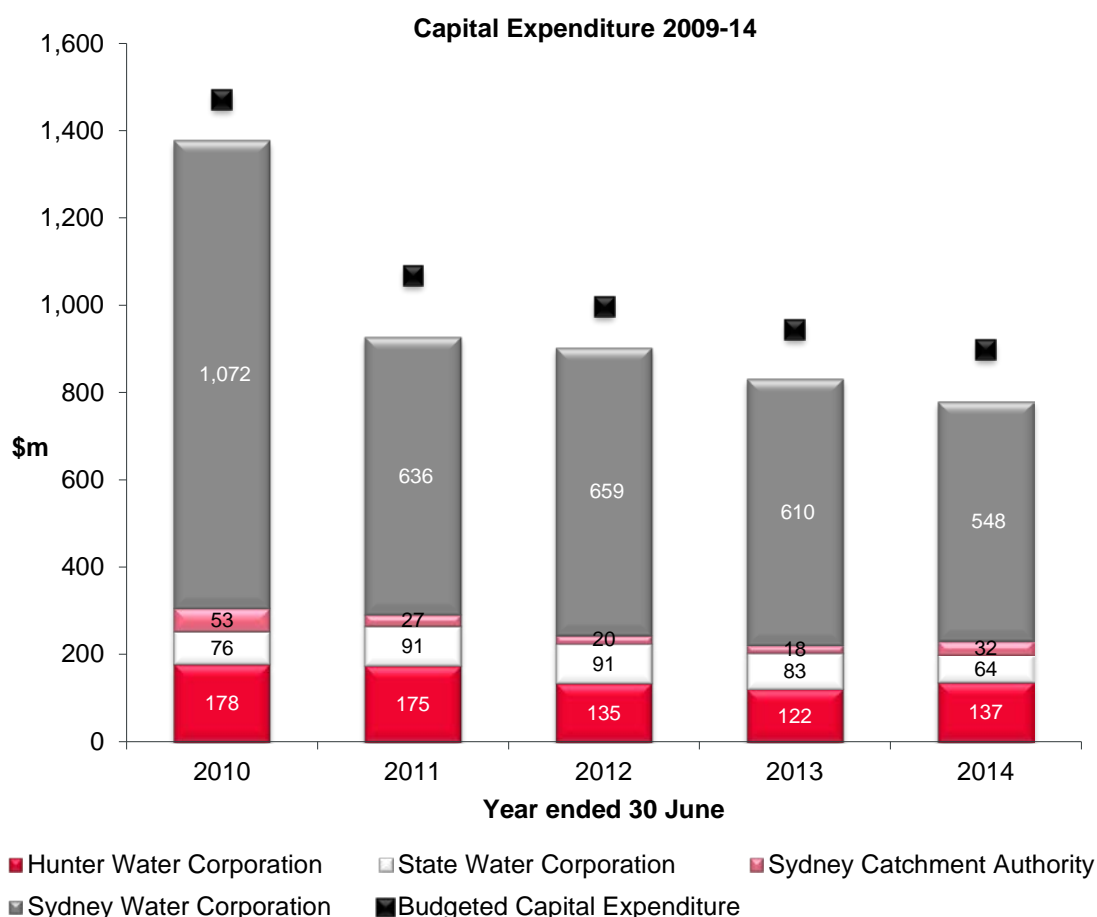
Desalination Plant

The Sydney Desalination Plant Pty Ltd charges availability charges to Sydney Water Corporation, based on an independent pricing determination. In 2013-14, Sydney Water Corporation incurred \$192 million in availability charges.

Capital Expenditure

The NSW Government water businesses budgeted for a \$5.4 billion capital expenditure program over the past 5 years (2009-10 to 2013-14). Over that time they spent \$4.8 billion, undertaking the following major activities:

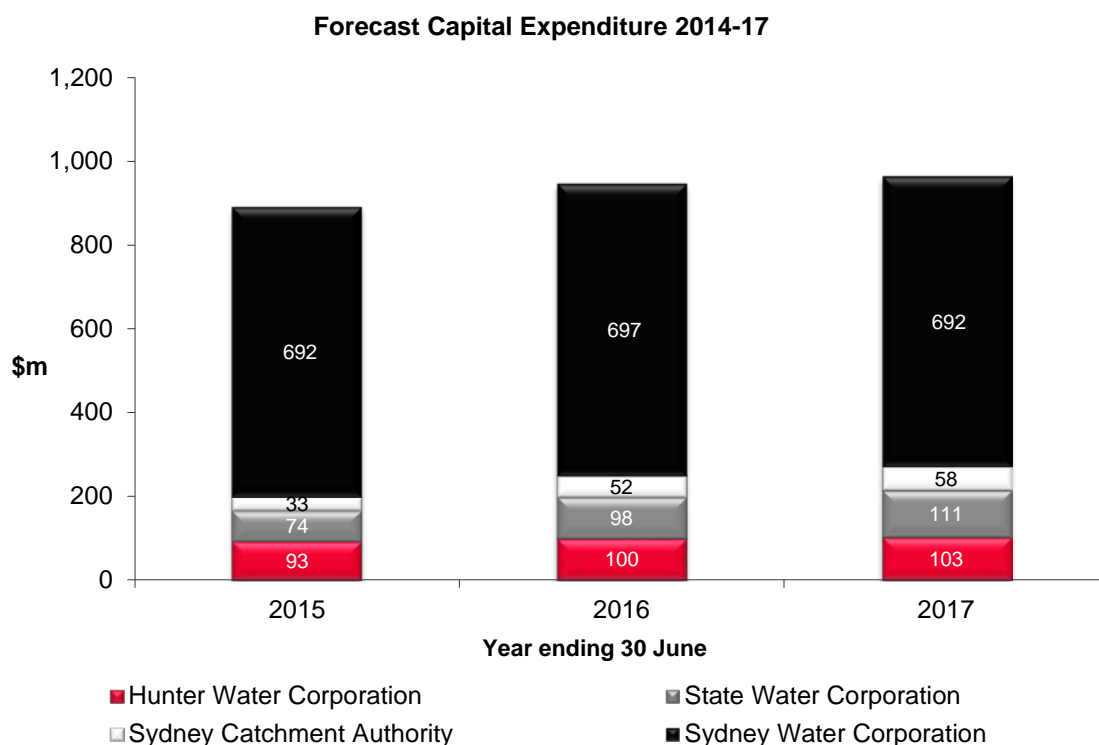
- renewing and rehabilitating assets to meet regulated system performance standards and customer service levels
- developing new water, wastewater, recycled water and stormwater infrastructure to meet the needs of urban growth in both new and existing areas
- delivering government programs, such as Priority Sewerage Programs to meet Operating Licence requirements
- delivering programs to new regulatory standards, such as wastewater system performance under environmental protection licences
- delivering externally funded programs that will result in business owning and operating all or some of the asset at the completion of the projects, such as Murray Darling Basin Metering projects
- maintaining compliance with the Dam Safety Regulatory Risk Based Policy Framework through dam safety upgrades
- improving business efficiency in information technology and cost-effective energy efficiency projects that aim to reduce operating expenditure.



Source: NSW Government Water Businesses (unaudited)

The graph shows combined actual capital expenditure for all NSW Government water businesses has been below budgeted expenditure in each financial year. The highest underspend was \$140 million in 2010-11, due to efficiencies, scope reductions and intentional deferrals of expenditure to future years. This was done after the businesses reassessed the condition of their assets and integrated their asset planning initiatives.

Capital expenditure during 2009-10 was the highest with Sydney Water Corporation incurring capital expenditure of \$1.1 billion. This was due to the Corporation completing the desalination plant and pipeline and major wastewater recycling projects.



Source: NSW Government Water Businesses (unaudited)

NSW Government water businesses have budgeted for capital expenditure of \$2.8 billion over the next three years for the continuing renewal of assets, government programs, dam safety upgrades and servicing growth areas.

Part Two

Section Two

Appendices



Appendix One - Summary Financial Information

	Total Assets		Total Liabilities		Total Revenue		Total Expense		Profit/(Loss)	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Water Businesses										
Hunter Water Corporation	2,758	2,685	1,437	1,379	325	319	274	300	50	18
State Water Corporation	855	805	442	425	172	181	130	161	42	20
Sydney Catchment Authority	1,546	1,506	717	699	209	202	184	169	26	33
Sydney Water Corporation	15,118	14,451	8,724	8,486	2,615	2,521	2,150	2,149	465	372
Water Utilities controlled by Local Councils										
Cobar Water Board	93	91	0.4	0.3	4.3	2.5	4.8	4.2	(0.5)	(1.7)
Gosford Water Supply Authority	2,101	2,037	1,942	1,899	93	89	94	94	(0.6)	(5.1)
Wyong Water Supply Authority	1,638	1,616	216	224	84	81	88	88	(4.0)	(7.0)

Source: Financial statements (audited).

Appendix Two - Performance Against Budget

	Hunter Water Corporation		State Water Corporation		Sydney Catchment Authority		Sydney Water Corporation	
	2014 Actual	2014 SCI	2014 Actual	2014 SCI	2014 Actual	2014 SFF	2014 Actual	2014 SCI
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Abridged Statement of Comprehensive Income - Year ended 30 June								
Total revenue	325	314	172	160	209	205	2,615	2,525
Operating expenses	191	182	102	114	135	128	1,561	1,574
Finance costs	68	72	11	13	31	33	414	410
Profit before tax	66	60	59	33	43	44	640	541
Income tax expense	16	18	17	-	17	13	175	181
Profit after tax	50	42	42	33	26	31	465	360
Total other comprehensive income*	1	-	12	-	28	-	177	-
Total comprehensive income	51	42	54	33	54	31	642	360
Abridged Statement of Financial Position - at 30 June								
Current assets	82	71	51	31	80	71	329	336
Non-current assets: Property, Plant and Equipment	2,653	2,863	804	839	1,463	1,489	14,635	14,964
Non-current assets: Other	23	15	-	-	3	-	154	183
Total assets	2,758	2,949	855	870	1,546	1,560	15,118	15,483
Current liabilities	216	277	73	42	149	70	1,010	1,022
Non-current liabilities	1,221	1,260	369	428	568	621	7,714	8,045
Total liabilities	1,437	1,537	442	470	717	691	8,724	9,067
Net assets	1,321	1,412	413	400	829	869	6,394	6,416
Abridged Statement of Cash Flows - Year Ended 30 June								
Purchases of Property, Plant and Equipment	133	135	57	115	31	29	493	633

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

Source: Financial statements (audited) and Budgets presented to Parliament

Actual v Budget Indicator

- Variance below 2 per cent of budget
- Variance between 2 and 5 per cent of budget
- Variance greater than 5 per cent of budget

Appendix Three - Financial Sustainability Indicators

Indicator	Formula	Description
Underlying result %	Adjusted net surplus / Total underlying revenue	A positive result indicates a surplus, and the larger the percentage, the stronger the result. A negative result indicates a deficit. Operating deficits cannot be sustained in the long term. Underlying revenue does not take into account one-off or non-recurring transactions. Net result and total underlying revenue is obtained from the comprehensive operating statement and is adjusted to take into account large one-off (non-recurring) transactions.
Liquidity (ratio)	Current assets / Current liabilities	This measures the ability to pay existing liabilities in the next 12 months. A ratio of one or more means there are more cash and liquid assets than short-term liabilities. Current liabilities exclude long-term employee provisions and revenue in advance.
Gearing (%)	Debt / Debt + Equity	This is a longer-term measure that compares all current and non-current interest bearing liabilities (debt) to debt plus equity. It complements the liquidity ratio, which is a short-term measure. A low ratio indicates less reliance on debt to finance the capital structure of an organisation.
Self-financing (%)	Net operating cash flows / Underlying revenue	Measures the ability to replace assets using cash generated by the entity's operations. The higher the percentage the more effectively this can be done. Net operating cash flows are obtained from the cash flow statement.
Capital replacement (ratio)	Cash outflows for property, plant and equipment and intangibles / Depreciation and amortisation	Comparison of the rate of spending on infrastructure, property, plant and equipment and intangibles with their depreciation and amortisation. Ratios greater than one indicate that spending is greater than the depreciating rate. This is a long-term indicator, as capital expenditure can be deferred in the short term if there are insufficient funds available from operations, and borrowing is not an option. Cash outflows for infrastructure, property, plant and equipment and intangibles are taken from the cash flow statement. Depreciation and amortisation is taken from the comprehensive operating statement.
Return on Assets (%)	EBIT divided by Average Total Assets	Measures how efficiently management used assets to earn profit. If assets are used efficiently, they earn profit for the entity. The harder the assets work at generating revenues, and thus profit, the better the potential return for the owners.
Return on Equity (%)	Results from Ordinary Activities after Taxation divided by Average Total Equity	Measures the return the entity has made for the shareholders on their investment.
Interest Coverage (ratio)	Net operating Cash Flows less interest and tax payments divided by Net interest payments	Examines the exposure or risk in relation to debt, an indicator of the ability to meet periodic interest payments from funds from operations (before interest expense). The level of interest cover gives a guide of how much room there is for interest payments to be maintained in the face of interest rate increases or reduced funds from operations.

Risk	Underlying Result	Liquidity	Gearing	Self-Financing	Capital Replacement
High	Negative 10% or less Insufficient revenue is being generated to fund operations and assets renewal.	Less than 0.7 Immediate sustainability issues with insufficient current assets to cover liabilities.	More than 37.5% Potential long-term concern over ability to repay debt levels from own source revenue.	Less than 10% Insufficient cash from operations to fund new assets and asset renewal.	Less than 1.0 Spending on capital works has not kept pace with consumption of assets.
Medium	Negative 10%–0% A risk of long-term run down of cash reserves and inability to fund asset renewals.	0.7–1.0 Need for caution with cash flow, as issues could arise with meeting obligations as they fall due.	28.5–37.5% Some concern over the ability to repay the debt from own source revenue.	10–20% May not be generating sufficient cash from operations to fund new assets.	1.0–1.5 May indicate spending on asset renewal is insufficient.
Low	More than 0% Generating surpluses consistently.	More than 1.0 No immediate issues with repaying short-term liabilities as they fall due.	Less than 28.5% No concern over the ability to repay debt from own source revenue.	More than 20% Generating enough cash from operations to fund new assets.	More than 1.5 Low risk of insufficient spending on asset renewal.

Risk Rating	Overall Assessment
High	High risk of Short-term and immediate sustainability concerns indicated by: red underlying result indicator or red liquidity indicator.
Medium	Medium risk of long-term sustainability concerns indicated by either: red self-financing indicator red gearing indicator red capital replacement indicator
Low	Low risk of financial sustainability concerns. There are no high risk indicators.

Appendix Four – Industry Information

Entity	Website
Water Utilities	
Hunter Water Corporation	www.hunterwater.com.au
State Water Corporation	www.statewater.com.au
Sydney Catchment Authority	www.sca.nsw.gov.au
Sydney Water Corporation	www.sydneywater.com.au
Water Utilities controlled by Local Councils	
Cobar Water Board	www.cobar.nsw.gov.au/index.php/engineering/cobar-water-board
Gosford Water Supply Authority	www.gwcwater.nsw.gov.au
Wyong Water Supply Authority	www.gwcwater.nsw.gov.au

The following entities have not been included in this Volume:

Entity	Explanation
Sydney Catchment Authority Division	The entity's functions were transferred to the Department of Trade and Investment, Regional Infrastructure and Services, and the entity was abolished, on 24 February 2014.

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Our mission

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Our values

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