

ATTACHMENT 6.2

CORPORATE OVERHEAD STRATEGY

Contents

1. Introduction	3
1.1 Scope	3
1.2 Relationship to other strategies and plans	3
1.3 Other relevant documents	5
2. Corporate overhead overview	5
2.1 Finance and Compliance	6
2.1.1 Core Finance	6
2.1.2 Governance, Risk and Compliance	7
2.1.3 Network Regulation	8
2.1.4 Portfolio Management Office and Corporate Planning	8
2.2 Health, Safety and Environment	9
2.2.1 Health, Safety and Environment	9
2.3 People and Services	9
2.4 Other Corporate expenses	13
3. Strategic objectives	14
3.1 Statutory requirements	14
3.2 Licence requirements	16
3.3 Standards requirements	17
3.4 Customer and community requirements	18
3.5 Business requirements	19
3.6 Key drivers	19
4. Corporate overhead strategies	20
4.1 Finance and Compliance	20
4.1.1 Core Finance strategies	20
4.1.2 Governance, Risk and Compliance strategies	20
4.1.3 Network regulation strategies	21
4.1.4 Portfolio Management Office and Corporate Planning strategies	22
4.2 Health, Safety and Environment strategies	22
4.2.1 Health, Safety and Environment strategies	23
4.3 People and Services	23
4.3.1 Corporate Affairs strategies	23
5. Corporate overhead expenditure	28
5.1 Corporate overhead expenditure overview	28
5.2 Finance and Compliance expenditure	29
5.3 Health Safety and Environment expenditure	30
5.4 People and Services expenditure	30
5.5 Other Corporate expenses	31
6. The basis of forecasts	32
6.1 Forecasting methodologies	32

1. Introduction

Under the National Electricity Rules (NER) Essential Energy, as a distribution network service provider, is required to submit a regulatory proposal to the Australian Energy Regulator (AER) every five years to set appropriate network tariffs. The AER's determination sets forward looking network tariffs, therefore customers pay for the forecast capital and operating expenditures.

This Corporate Strategy document is intended to provide a summary of the justification and efficiency of Essential Energy's proposed expenditure for the next regulatory period.

1.1 Scope

Essential Energy's corporate overhead is allocated across the following categories:

Table 1.1 Corporate Overheads division and branches

Division	Business Plan
Finance and Compliance	<ul style="list-style-type: none">> Core Finance> Governance, Risk and Compliance> Network Regulation> Portfolio Management Office and Corporate Planning
Health, Safety and Environment	Health, Safety and Environment
People and Services	<ul style="list-style-type: none">> Corporate Affairs> Customer Operations> Human Resource Operations and Employee Relations> Organisational Development> Procurement and Logistics> Technical Training
Other Corporate Costs	N/A

1.2 Relationship to other strategies and plans

Essential Energy's purpose is encapsulated in the statement:

To be of service to our communities by efficiently distributing electricity to our customers in a way that is safe, reliable and sustainable.

Corporate values are the worthwhile qualities or attributes that support or assist in achieving the defined outcomes consistent with the Business Plan objectives. The values that underpin Essential Energy's operations are:



Safety excellence

- > Put safety as your number one priority
- > Do not participate in unsafe acts, and challenge unsafe behaviours
- > Think before you act
- > Lead by example
- > Take responsibility for the health and safety of yourself and others



Respect for people

- > Treat all people with respect, dignity, fairness and equity
- > Demonstrate co-operation, trust and support in the workplace
- > Practise open, two-way communication



Customer and community focus

- > Deliver value and reliable service to our customer and communities
- > Use resources responsibly and efficiently
- > Be environmentally and socially responsible



Continuous improvement

- > Look for safer and better ways to do your job
- > Improve our financial performance
- > Support innovation to add value to our business



Act with integrity

- > Act honestly and ethically in everything you do
- > Be accountable and own your actions
- > Follow the rules and speak up

These values are fundamental to the successful operation of the business.

As a State Owned Corporation (SOC), Essential Energy is required to address certain legislative and policy directions. These requirements include:

- > Meet the SOC and Energy Services Act legislative obligations; and
- > Implement the policy directions of our shareholders regarding the restructure of the publicly-owned electricity distribution businesses in NSW.

Essential Energy's strategic objectives and priorities are designed to promote the long term interests of our customers by delivering three key outcomes:

1. Continuous improvement in safety performance
2. Maintaining the reliability and sustainability of the network
3. Containing average network tariff increases to CPI for our customers

To ensure these outcomes are delivered, Essential Energy has a number of corporate planning documents that ensure that our capital and operating forecasts meet the primary corporate objectives of safety, affordability and reliability. These strategies are:

- > The Customer Strategic Plan – Sets a vision for future engagement with customers to ensure best value for money for the services we provide. The strategy has impacted the development of our proposal in two fundamental ways. It has focused our programs on identifying efficiencies in our costs so as to meet our goal of affordability, and has re-focused the business on engaging with our customers on issues such as levels of reliability and safety.
- > The Safety Strategic Plan – The objective is to protect the safety of the public, our employees, our contractors and those who are influenced by our business undertakings. Our long term business success depends on our ability to continually improve the quality of our services while protecting people and the environment. The safety plan is a key influence on our asset replacement programs where we have sought to find efficient ways to maintain the safety of the network despite deterioration in the condition of certain assets.

- > Asset Management Strategic Plan – Effective asset management is the key to being able to safely and efficiently deliver a reliable and sustainable electricity network, while continuing to promote customer affordability. The plan has focused on ways to prudently defer replacement of assets, through activities such as the prioritisation process.
- > The Risk Management Strategic Plan - Aims to embed a common Risk Management Framework across the three NSW DNSPs, and accordingly provide a common basis for making decisions such as levels of investment to mitigate risk.
- > Technology Strategic Plan – The objective is to leverage technology, enable the business' transition to a more efficient business model, and to facilitate delivery of the new business model's objectives. The plan's scope includes information technology and telecommunications, as well as operational and grid technologies. This plan has enabled us to deliver significant reductions in our forecast technology costs over the 2014-19 regulatory control period.
- > The Human Resources Strategic Plan – This sets a blue-print on how to transition to efficient workplace change and structural reform introduced under industry reform, and to promote efficient leadership and performance across the business. This plan has been instrumental in shaping our expected expenditure related to implementing efficiency reforms such as the Network Reform Program and the prioritisation process.
- > The Finance Strategic Plan – The objective is to manage the financial health of the three NSW DNSPs in a manner that protects financial value and delivers balanced outcomes for both customers and the shareholder. This has influenced our decisions on levels of capex, and on proposing a rate of return that is commensurate with the efficient financing costs of a benchmark efficient entity with a similar degree of risk.

This document should be read in conjunction with the individual business plans prepared by the Essential Energy functions described in detail in section 2 below:

- > Core Finance Business Plan
- > Governance, Risk and Compliance Business Plan
- > Network Regulation Business Plan
- > Portfolio Management Office and Corporate Planning Business Plan
- > Health, Safety and Environment Business Plan
- > Corporate Affairs Business Plan
- > Customer Operations Business Plan
- > Human Resource Operations and Employee Relations Business Plan
- > Organisational Development Business Plan
- > Procurement and Logistics Business Plan
- > Technical Training Business Plan

1.3 Other relevant documents

This document is one of a number of high level strategic documents prepared by Essential Energy as part of its current regulatory submission, namely:

- > Corporate Overhead Strategy
- > Divisional Overhead Strategy
- > System Operational Expenditure Strategy

2. Corporate overhead overview

This section of the document provides an overview of the activities and responsibilities of each of the functions which make up the corporate overhead category. They are described in more detail in the associated business

plans. The relationship between these functions and the structure of the business is shown in the organisation Figure 1 below.

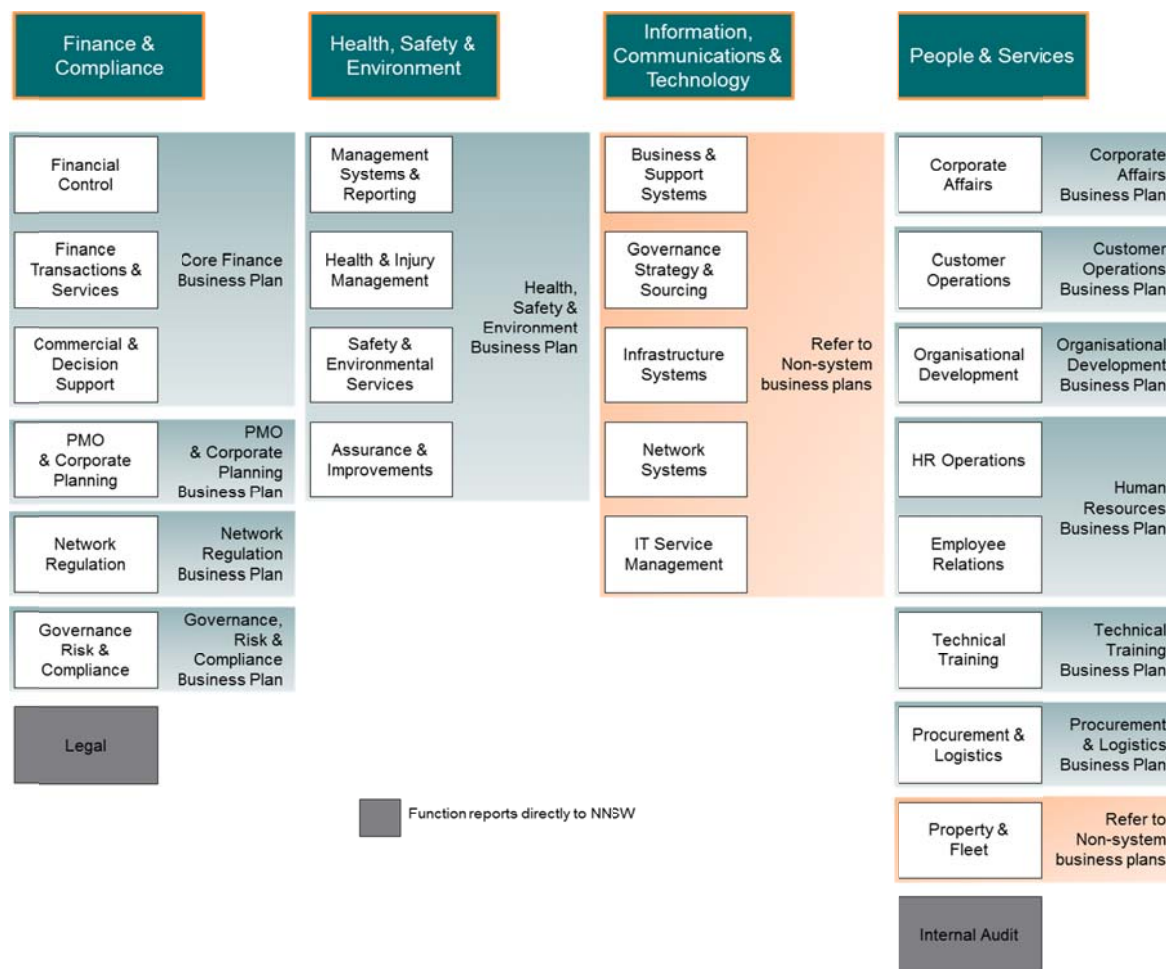


Figure 1 Corporate Organisational Chart

As a response to the industry reform instigated by the formation of NNSW, refer to section 1.2. Essential Energy has undergone significant restructures aimed at centralising activities and driving efficiencies across the business. The resultant organisational structures contain permutations of the functions that were present in the previous organisational structures; the mapping of functions and expenditure is not a one-to-one function between the previous and current business groups.

2.1 Finance and Compliance

2.1.1 Core Finance

Essential Energy’s Core Finance function provides financial management and transactional support to the business and works under the strategy, direction, policies and standards set by the Group Chief Financial Officer, Networks NSW. Its purpose is to manage the financial health of the business in a manner that protects financial value and delivers balanced outcomes for both customers and the shareholder.

Table 2.1 Core Finance functions and responsibilities

Function	Responsibilities
Financial control	<ul style="list-style-type: none"> > Financial accounting and general ledger maintenance > Reconciliations and governance > Board and shareholder reporting

	<ul style="list-style-type: none"> > Annual statutory financial and regulatory reporting > External audit management > Cash management > Cash flow forecasting > Foreign exchange and hedging management > Taxation compliance (state and federal) > Taxation planning and management
Commercial and Decision Support	<ul style="list-style-type: none"> > Business unit management accounting and reporting > Business unit budgeting and forecasting > Financial analysis and commercial decision support services > Organisation wide budgeting and forecasting > Scenario modelling and regulatory submission financial support > Investment governance > Business case development including project evaluations and financial modelling > Systems accounting – ERP, budgeting & forecasting, business intelligence - reporting tools > Finance improvement projects
Finance Transaction and Services	<ul style="list-style-type: none"> > Payment of suppliers > Payment of employees (travel / expenses) > Invoice processing > Expenditure administration and management > Payroll – fortnightly, monthly > Redundancy and retirement estimates and payments > Timesheet processing > Management and collection of network and water customer debts

2.1.2 Governance, Risk and Compliance

The Governance, Risk and Compliance (GRC) function provides GRC Frameworks that support the Board, directors and the company as a whole to achieve its objectives.

Table 2.2 Governance, Risk and Compliance functions and responsibilities

Function	Responsibilities
Risk Management	<ul style="list-style-type: none"> > Risk Management Framework > Risk assessment training > Monitoring, review and reporting > Business continuity management planning and testing > Business continuity management awareness training > Insurance program

	<ul style="list-style-type: none"> > Insurance claims
Ethics and Fraud Risk	<ul style="list-style-type: none"> > Fraud and Corruption Control Plan > Fraud risk register > Monitoring, review and reporting > Ethics Communication and Engagement Strategy > Code of Conduct > Registers: invitations and conflicts of interest > Fraud control policies and procedures > Ethics – induction
Compliance and Policy	<ul style="list-style-type: none"> > Compliance Framework and Compliance Management Plan > Monitoring, review and reporting > Sub-delegations management > Management representations letter assurance > Non-compliance reporting > Policy and procedure framework and management > Information and records management

2.1.3 Network Regulation

Essential Energy's Network Regulation function is responsible for ensuring that Essential Energy complies with all laws, regulations, rules and licences pertaining to the distribution of electricity. The Network Regulation function works with national and jurisdictional agencies and personnel on specific issues affecting Essential Energy and acts as a key interface with all regulatory authorities and other industry participants, establishing productive relationships whilst striving to achieve successful outcomes.

Table 2.3 Network Regulation functions and responsibilities

Function	Responsibilities
Reset Project Management Group	<ul style="list-style-type: none"> > Management of revenue and pricing > Coordination and key interface for Essential Energy and the preparation and submission of regulatory proposals
Regulatory Strategy Group	<ul style="list-style-type: none"> > Setting revenue and pricing > Preparation of Essential Energy's regulatory proposal. > Government policy and rule changes, and review activities
Network Pricing Group	<ul style="list-style-type: none"> > Revenue and pricing category > Compliance and performance reporting category due to the increasing requirements of RINs
Compliance Group	<ul style="list-style-type: none"> > Compliance and performance reporting > Administration and continual improvement of the compliance strategy and framework

2.1.4 Portfolio Management Office and Corporate Planning

Essential Energy's Program Management Office and Corporate Planning (PMOCP) function was established to provide support to the business in delivering initiatives under the Network Reform Program as well as administering the corporate planning and performance functions. The PMOCP function is a key liaison point into the Networks

NSW management team ensuring that Board and Executive directives are implemented seamlessly and consistently into Essential Energy systems and processes.

Table 2.4 Portfolio Management Office and Corporate Planning functions and responsibilities

Function	Responsibilities
PMO	<ul style="list-style-type: none"> > Benefits tracking > Transition management (change management) > Business transformation > PMO reporting > Post implementation reviews > PMO governance > Knowledge capture and learning
Corporate Planning	<ul style="list-style-type: none"> > SCI coordination (business plans) > Corporate KPI's > Benchmarking (data, gather, seek and coordinate) > Managed scorecard process > Corporate planning

2.2 Health, Safety and Environment

2.2.1 Health, Safety and Environment

The Health, Safety and Environmental (HSE) function works to protect the safety of the public, the employees and contractors and encourage environmental stewardship. Each of the HSE Branches has been established with distinct purposes to meet corporate objectives and optimise health, safety and environmental performance.

Table 2.5 Health, Safety and Environment functions and responsibilities

Function	Responsibilities
Safety and Environmental Services	<ul style="list-style-type: none"> > Develop and implement safety and environmental programmes > Enhance safety leadership capabilities > Support cultural and behavioural change
Health and Injury Management	<ul style="list-style-type: none"> > Develop and implement health and injury management programmes > Develop and implement workers compensation processes
Assurance and Improvement	<ul style="list-style-type: none"> > Develop and deliver effective improvements and assurance frameworks > Audit and investigations processes > Enable effective mitigation risks and management of HSE incidents
HSE Management Systems and Reporting	<ul style="list-style-type: none"> > Establish an integrated HSE management system that is compliant with legislation, regulation and relevant codes of practice > Enables effective mitigation and management of HSE risks

2.3 People and Services

2.3.1 Corporate Affairs

The role of Corporate Affairs is to provide effective stakeholder management, communication and educational tools both internally and externally by delivering ministerial support, timely customer and stakeholder responses and facilitation of community engagement. This role supports the business in its delivery of the overarching business objectives that encompass the AER Customer Engagement Guidelines and Essential Energy's Stakeholder Engagement Framework and the Customer Strategic Plan.

Table 2.6 Corporate Affairs functions and responsibilities

Functions	Responsibilities
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Stakeholder and Community	<ul style="list-style-type: none"> > Customer research & management > Supplier, contract & budget management > Customer publications > Production of materials to support capital and operational programs > Regional stakeholder management > Public safety and education programs > Customer consultation committee coordination > Sponsorship and donation program development and support > External events management > Advocacy programs
Government and External Communications	<ul style="list-style-type: none"> > Proactive / reactive media plans and project development > Print, broadcast, monitoring and response > Incident and issues management > Regional media management support > Digital and social media management > Digital customer interaction > Website and intranet management > Communications and advice to support: <ul style="list-style-type: none"> o The Government and parliamentary processes and protocols o Government-related events and media o Ministerial, general MP and COO issue resolution o Essential Energy Executive and its governance processes o Regional stakeholder management (MP's, Councils etc.) > Development support and review of communications to external stakeholders
Internal Communications	<ul style="list-style-type: none"> > Change communications > Channel management > Employee: <ul style="list-style-type: none"> o Engagement and evaluation strategy and support o Publications, broadcasts, notifications and newsletters o Internal events support > Corporate project support > Accountability reports including annual and half-yearly reports, SCI, AER/IPART submissions

2.3.2 Customer Operations

Essential Energy's Customer Operations function manages the customer and retailer data, communications and billing related to customer connection services, market compliance and support. It determines the strategic direction for the management of customer and retailer communications related to customer connection services and support, but excludes supply interruption management and associated communications.

Table 2.7 Customer operations functions and responsibilities

Functions	Responsibilities
Market Operations	<ul style="list-style-type: none"> > B2B process > Market services > Customer transfers > Retail market liaison > Managing customer information
Customer Affairs	<ul style="list-style-type: none"> > Complaints management > EWON matters > Small claims management > Guaranteed service levels > Information provision > Mailroom services
Network Billing	<ul style="list-style-type: none"> > NUOS billing > Water billing > Unmetered supplies billing

	> NUOS dispute management
New Connections	> New connections and connection alterations enquiries and applications > Small embedded generation information management

2.3.3 Human Resource Operations and Employee Relations

Essential Energy's Human Resources (HR) Operations and Employee Relations function supports the business in managing risks and improving performance by embedding a values driven culture, safe, capable and motivated employees, and effective leadership.

Table 2.8 Human Resource Operations and Employee Relations functions and responsibilities

Functions	Responsibilities
HR Services	<ul style="list-style-type: none"> > First level HR support (high volume, low to medium touch transactional support) for entire organisation > HR systems and support analytics > Workforce planning > Position descriptions and evaluations > Implementation of Remunerations Strategy
HR Operations	<ul style="list-style-type: none"> > Face of HR within the business in the form of HR business partners and regional HR managers > Provide direct HR support and advice > Support change management > Facilitate HR metrics to support labour force cost reduction activities > Develop leadership capability and actively manage leadership performance > Implement performance and grievance management > Implement Organisational Development initiatives that build organisational capability and performance
Recruitment and Mobility	<ul style="list-style-type: none"> > Recruitment and talent management solutions > Manage agency labour hire process > Case management of redeployees
Talent	<ul style="list-style-type: none"> > Performance and talent management solutions > Coordination and reporting of employee engagement measures > Diversity > Management and performance of talent systems
Employee Relations	<ul style="list-style-type: none"> > Manage relationships with unions > Manage escalated grievances and all union disputation > Enterprise Agreement design, negotiation and implementation > IR/ER advice > Leadership of consultative forums as required in Enterprise Agreements > Oversee implementation of IR reforms

2.3.4 Organisational Development

Essential Energy's Organisational Development (OD) functions manage and continuously improve leadership development strategies and programs, build employee capability, provide expertise in learning systems and delivery, and implement core organisational development strategies including cultural change, diversity and professional development. The group operates under three functional streams shown in the table below.

Table 2.9 Organisational Development functions and responsibilities

Functions	Responsibilities
Leadership and culture	<ul style="list-style-type: none"> > Align leadership behaviours at all levels with strategic plan > Leadership development program; talent and succession planning; diversity and EEO; culture and engagement
Organisational capability	<ul style="list-style-type: none"> > Ensure all employees are appropriately informed for the tasks required in their daily duties

	<ul style="list-style-type: none"> > In house and outsourced training; Vocational Education and Training (VET) advice and funding; program planning, coordination, scheduling and reporting; training and development requests; corporate induction / on boarding; engineering cadets and graduates; business partnering and brokering; business unit support
Learning systems and records	<ul style="list-style-type: none"> > Ensure strong compliance reporting capability and quality information to make informed investment decisions > Management of Learning Management System (LMS), system support, reporting and data; ELearning and content management strategy

2.3.5 Procurement and Logistics

Essential Energy's Procurement and Logistics function manages the procurement, commercial contract management, inventory management, warehousing and distribution functions for the business. The group operates under seven functional streams shown in the table below.

Table 2.10 Procurement and Logistics functions and responsibilities

Functions	Responsibilities
Procurement Policy and Procedure	<ul style="list-style-type: none"> > Policy development, review and implementation. > Support systems and process development, review and implementation > Procedure development, review and implementation. > Policy governance and compliance oversight and reporting. > Policy and procedure training.
Procurement Category Management and Planning	<ul style="list-style-type: none"> > Data intelligence and analysis. > Engagement of business representatives to develop category management plans. > Review of category management plans, in consultation with business representatives, in accordance with review schedules. > Engage with NNSW Group Procurement to ensure category alignment.
Strategic Procurement Market Engagement	<ul style="list-style-type: none"> > Company procurement policy compliance assurance > Preparation of market engagement documentation in consultation with business owner. > Project management of actual market engagement activity and associated evaluation, negotiation and award processes. > Contract execution processes.
Commercial Contract Management	<ul style="list-style-type: none"> > Commercial contract negotiations. > Ongoing contract management from a commercial perspective, including supplier reviews. > Monitor and reporting. > Supplier relationship management.
Warehousing and Distribution	<ul style="list-style-type: none"> > Receipting and quality control. > Issuing, pick and pack and delivery. > Stock management and returns > Planning and scheduling.
Inventory Management	<ul style="list-style-type: none"> > Inventory control, reconciliation, reporting and valuation. > Inventory cataloguing. > Ordering and fulfilment > Supplier relationship management. > Disposal and obsolete management. > External sales.
Regional Stores Operations	<ul style="list-style-type: none"> > Issuing, pick and pack and delivery. > Stock management and returns

2.3.6 Technical Training

The Technical Training function provides services to develop and maintain the technical qualifications and skills of network operational employees, sharing some platforms and systems with the Organisational Development

business unit. Training related to corporate skills, organisational capability and culture are delivered and administered by Organisational Development.

Table 2.11 Technical Training functions and responsibilities

Functions	Responsibilities
Training services	<ul style="list-style-type: none"> > Delivery strategy > Curriculum development > Records and RTO standards/governance > Training “Needs Analysis” recognition and gap training/assessment
Training operations	<ul style="list-style-type: none"> > Training and assessment: <ul style="list-style-type: none"> o Regulatory o New employee role specific o Asset Inspection o safety related o Electro technology o Transmission, Distribution and Rail > RTO operations and regulatory compliance > Coordination of apprenticeships for electrical trade apprentices
Operations, standards and procedures unit	<ul style="list-style-type: none"> > Training and assessment network switching and access > Delivery of new and amended policy, procedures and processes > Provides support to the corporate incident investigation process and assistance for the development and implementation of remedial recommendations > Field work practice reviews

2.4 Other Corporate expenses

2.4.1 Network Reform

Network NSW Group costs

In 2012 the NSW Government announced a reform of the electricity distribution network businesses in NSW, under which the three network distribution businesses – Ausgrid, Endeavour Energy and Essential Energy – would operate as separate network businesses under a single operating model known as Networks NSW. The three companies operate under a Networks NSW umbrella agreement with a joint Board and common Chief Executive Officer

The NSW Government’s network reform program aims to better control electricity charges by reducing the costs by streamlining decision-making and realising maximum value from the three networks.

Network Reform

These savings are driven by a suite of initiatives, including a new operating model aimed at streamlining network corporate and support services, removing functional duplication, and sharing better practices between the three businesses.

Legal and Internal Audit

The Networks NSW operating model includes the Internal Audit and Legal functions, as previously outlined in Figure 1.

2.4.2 Corporate Governance and Support

Corporate Governance and Support encompasses the office of the Chief Operating Officer; a fundamental operating function of any corporate business.

3. Strategic objectives

Essential Energy's strategic objectives are set in order to enable the business to meet the requirements of a range of stakeholders, and they drive the policies, strategies, plans and processes that govern the business. All the activities undertaken by the business groups that are the subject of this strategic document are in support of these objectives. It should be noted that the categorisation of strategic objectives is the same across asset, non-asset and overhead business plans, but the requirements themselves differ in the manner in which they apply to each category of business activity. The strategies used by the business groups to meet these requirements are shown in section 4.

Chapter 5 of the Essential Energy Substantive Proposal outlines a reduction in the forecast capital expenditure for the 2014/15 – 2018/19 regulatory control period. The forecast overhead expenditure addresses efficiency initiatives associated with the lower forecast capital expenditure program. The efficiency initiatives and subsequent productivity savings associated with the reduced capex spend are detailed in section 6.

3.1 Statutory requirements

Essential Energy's statutory obligations are derived from both Federal and State legislation. The following are the principal categories of statutory compliance relevant to the management of the distribution system and the expenditure of divisional and corporate overheads. The specific criteria against which Essential Energy measures its compliance with these requirements are provided in the individual business plans.

Regulatory compliance and reporting

Essential Energy, under the Electricity Supply (Safety and Network Management) Regulation 2002, and the Design, reliability and performance – distribution network service provider's licence conditions – 1 December 2007 (Licence Conditions), is required to annually measure and report on its performance.

Essential Energy is also required to report on its annual performance against parameters under the Electricity distribution network service providers Service target performance incentive scheme November 2009.

Throughout the year, Essential Energy is required to frequently prepare and submit a number of regulatory reports in compliance with:

- > National Electricity Rules
- > Electricity Industry Code (QLD)
- > Electricity Supply (General) Regulation 2001 (NSW)
- > Electricity Act 1994 (QLD),
- > Electricity Supply (Safety and Network Management) Regulation 2008
- > National Energy Retail Law (NSW)
- > Renewable Energy (Electricity) Act 2000

Network safety

The Electricity Supply Act 1995 requires Essential Energy to provide a safe and reliable supply of electricity. Essential Energy is also bound by the provisions of the Electricity Supply (Safety and Network Management) Regulation 2008 (NSW), that requires the development and lodgement of a Network Management Plan (NMP), which is routinely audited. The NMP must include a commitment to ensuring the safe operation of the distribution system, and to giving safety the highest priority over all other aspects of network management. It must also provide safety management strategies, including emergency response and bush fire risk management.

The Minister has directed through the Electricity Supply (Safety and Network Management) Regulation 2008 (NSW), Essential Energy must adopt a number of Codes of Practices in its Network Management Plan. These include Code of Practice Electricity transmission and distribution asset management 2009, ENA DOC 001-2008 National Electricity Safety Code, Electricity Industry Code by NSW Maritime, Service and Installation Rules for NSW and ISSC31 Guideline for the Management of Private Lines. The Code requires Essential Energy to develop and implement policies and standards that apply to the design, construction, maintenance and operation of the distribution system.

Customers

The National Energy Customer Framework (NECF) regulating the retailing and distribution of electricity and gas began on 1 July 2013. This framework moved the regulation of the sale and supply of energy from a state-based framework to national regulation, utilising:

- > National Energy Retail Law (South Australia) Act 2011
- > National Energy Retail Law (Adoption) Regulation 2012
- > National Energy Retail Rules 2012
- > National Energy Retail Regulations 2012
- > Electricity Supply (General) Amendment (National Energy Retail Law) Regulation 2012

In accordance with the NER and the NECF, Essential Energy is required to provide notification of planned outages to affected customers, provide telephone answering services and deliver relevant information concerning unplanned supply interruptions to customers and retailers.

Essential Energy must prepare a document (its proposed connection policy) setting out the circumstances in which it may require a retail customer or real estate developer to pay a connection charge, for the provision of a connection service.

Essential Energy manages and coordinates its customer connection process as outlined in Schedule 5 and 5A of the NER.

The AER Service Provider Consumer Engagement Guideline requires Essential Energy to understand their customer base and develop a range of key performance indicators to measure engagement strategies and activities.

Access

In accordance with the National Electricity Rules, Essential Energy must provide safe access to its network.

Telephone services and information provision

Essential Energy is required to provide telephone answering services and deliver relevant information concerning unplanned supply interruptions to customers and retailers in compliance with requirements outlined in the National Electricity Rules.

Health and safety

Essential Energy's operation of the distribution system must comply with Work Health and Safety Act 2011 (NSW), the supporting regulation, the Work Health and Safety Regulation 2011 (NSW) and the Electricity Supply Act 1995.

This set of legislation requires Essential Energy to provide a safe place of work, undertake assessments of the network for risks to health and safety and where necessary implement controls. Essential Energy must provide its employees with adequate instructions, training, tools and protective equipment. Essential Energy is obliged to provide safety reports in line with this set of legislation.

In addition to occupational health and safety laws, there are also federally developed model Codes of Practice which provide support and guidance on different occupational health and safety issues.

Environmental protection

Under the Water Management Act 2000, Protection of the Environment Operations Act 1997, State Environment Planning Policy (Infrastructure) 2007 and Protection of the Environment Operations (Waste) Regulation 2005, Essential Energy has obligations to appropriately manage its waste, prevent spills and leaks, and ensure it does not pollute and harm the environment.

The Act and the NSW Industrial Noise Policy also requires Essential Energy to manage its noise emissions.

Bushfire protection

Essential Energy must manage its distribution system in compliance with the Electricity Supply (Safety and Network Management) Regulation 2008 (NSW) and Planning for Bushfire Protection 2006. This requires Essential Energy to prepare and audit its Bushfire Risk Management Plan, and ensure its distribution system does not contribute to the development or propagation of bushfires at any time.

Planning for Bushfire Protection (PBP) 2006 was developed by the NSW Rural Fire Service to enable the NSW Government to work jointly with local government and the public and private sectors to link responsible planning and development control with the protection of life, property and the environment.

Training

Essential Energy must ensure all persons are trained, authorised and competent to complete works in their designed role and on the network. In managing and providing training to employees and contractors, Essential Energy must comply with:

Table 3.1 Training requirements State and Federal legislation

Legislation		
Work Health and Safety Regulations 2011 (NSW)	QLD Electricity Act 1994	QLD Work Health and Safety Regulation 2011
Electricity Supply Act 1995 (NSW)	Apprenticeship and Traineeship Act 2001	National Vocational Education and Training Regulator Act 2011
Safety Regulation 2002	Privacy Act 1998	State Records Act 1988 (NSW)

Employees

A range of State and Federal Acts and legislations require Essential Energy to implement appropriate systems to manage risks and support employees.

Table 3.2 Employee requirements State and Federal legislation

State Legislation		Federal Legislation
Workplace Injury Management and Workers Compensations Act 1998	Community Relations Commission and Principles of Multiculturalism Act 2000	Work Health and Safety Act 2011
		Disability Discrimination Act 1992
Government Sector Employment Act 2013	Anti-Discrimination Act 1977	Age Discrimination Act 2004
Public Sector Employment and Management Act 2002	Annual Reports (Statutory Bodies) Act 1984	Australian Human Rights Commission Act 1986
Public Interest Disclosures Act 1994	Industrial Relations (Child Employment) Act 2006	Equal Opportunity for Women in the Workplace Act 1999
Workplace Surveillance Act 2005	Jury Act 1977	Sex Discrimination Act 1984
Crimes Act 1900	Long Service Leave Act 1955	Racial Discrimination Act 1984
Criminal Records Act 1991	Annual Holidays Act 1944	Fair Work Act 2009
Employees Liability Act 1991	Limitations Act 1969	Paid Parental Leave Act 2010
Employment Protection Act 1982	Essential Services Act 1988	Defamation Act 2005

State Owned Corporations Act 1989

Under the State Owned Corporations Act 1989, Essential Energy is required to operate at least as efficiently as any comparable business, and maximise the net worth of the State's investment.

Street Lighting data

Under the NSW Public Lighting Code, Local Government Act and IPART Reimbursement Scheme for Connections to Electricity Distribution Networks 2002, Essential Energy must provide street lighting data to support monthly bills invoiced to respective councils, and manage the reimbursement schedule.

3.2 Licence requirements

Essential Energy's Licence Conditions pursuant to item 6(1) (b) of Schedule 2 of the Electricity Supply Act 1995 include a requirement to comply with specified reliability and customer service standards.

Reliability standards

The reliability performance requirements are set out in Schedule 2 of the Licence Conditions. The Reliability Standards require Essential Energy to not exceed specified average SAIDI and SAIFI targets in any financial year (after excluding allowable events as permitted by the NER) for each feeder type. Essential Energy is required to develop asset management systems and processes that underpin the achievement of these targets.

Table 3.3 Licence service level obligations

Requirement	Criteria	Target		
		Urban	Short Rural	Long Rural
Comply with the Reliability Standards as set out in Schedule 2 of the Licence Conditions.	SAIDI – minutes per customer	125	300	700
	SAIFI – number per customer	1.8	3.0	4.5
Comply with the Customer Service Standards as set out in Schedule 5 of the Licence Conditions.	Interruption duration	Zero interruptions greater than 18 hours		
	Interruption frequency – max number of interruptions of $\geq x$ hours	4 interruptions ≥ 5 hours		

Customer service

Essential Energy strives to answer customer calls within the required timeframe as outlined in Electricity distribution network service providers Service target performance incentive scheme November 2009 (The STPIS).

3.3 Standards requirements

Essential Energy is committed to achieving compliance with specific stakeholder requirements in terms of the overall quality of network services and the delivery of value. This also entails a commitment to public and staff safety as well as the management of environmental impacts while maintaining acceptable levels of corporate risk. In observing these commitments, good electricity industry practice also compels Essential Energy to comply with a range of engineering standards relevant to its network operation of the distribution system, including:

Table 3.4 Standards requirements

Standards	
AS/NZS 4801 Occupational Health and Safety Management Systems	ISO27001 Information Security Management System
AS/NZS 6008 Standard Voltages	Project Management Body of Knowledge for Project Management
AS/NZS 3000 Electrical Installations (the Wiring Rules)	Code of Practice Distribution Risk Management
AS 3835 EPR – Protection of Telecommunications Network Users	Code of Practice Electricity Service Standards
AS 5488 Classification of Subsurface Utility Information	Service and Installation Rules of NSW
AS 1284.1 Electricity metering - General purpose induction watt-hour meters	Crossing of NSW Navigable Waters: Electricity Industry Code (NSW Maritime)
AS 62052.11 Electricity metering equipment (ac) – General requirements, tests and test conditions – Metering equipment	ENA guidelines
AS 62053.21 Electricity metering equipment (ac) – Particular requirements – Static meters for active energy (classes 1 and 2), for metering services	ISSC guidelines
Power System Data Communication Standard (AEMO)	Quality standards outlined by The Australian Skills Quality Authority (ASQA)

3.4 Customer and community requirements

Schedule 5 of the NER requires Essential Energy to provide a negotiated access standard, part of which details the specific obligations imposed on Essential Energy by its Licence Conditions regarding supply reliability.

Essential Energy is committed to delivering high standards of customer service by meeting Guaranteed Service Level (GSL) scheme obligations under the National Energy Retail Rules (NSW) and the Electricity Supply Act 1995 (NSW). GSL requirements relate to the provision of customer connection services as detailed in each customer's Connection Contract with Essential Energy. The Guaranteed Service Levels that apply to Essential Energy cover the following issues:

- > Connection on agreed date
- > Time limit for energisation or de-energisation
- > Mandatory periods for de-energisation
- > Disconnection notices
- > Repair of faulty streetlights
- > Interruption frequency and duration
- > GSL payments

As part of Essential Energy's commitment to the communities in which it operates, it also assists community groups, schools and individuals 'at risk' by providing:

- > Electrical safety advice.
- > Electrical awareness educational material – including brochures, fact sheets, warning stickers and interactive displays.

In support of the above, Essential Energy publishes a number of customer rights, entitlements and obligations on its website.

The Australian Energy Regulator (AER) has published a series of guidelines under its 'Better Regulation' program of work which is to deliver an improved regulatory framework focused on promoting the long term interests of electricity consumers. The Consumer Engagement Guideline for Network Service Providers provides best practice principles and a framework for electricity and gas NSP to better engage with their consumers. The guideline aims to help these businesses develop strategies to engage systematically, consistently and strategically with consumers on issues that are significant to both parties.

Underpinning the guideline are four best practice principles. They overarch all aspects of consumer engagement, and service providers are expected to use these principles in undertaking each component of the guideline:

- > Provision of clear, accurate and timely communication recognising the different communication needs and wants of consumers.
- > Accessible and inclusive - recognise, understand and involve consumers early and throughout the business activity or expenditure process.
- > Transparent - clearly identify and explain the role of consumers in the engagement process, and consult with consumers on information and feedback processes.
- > Measurable - measure the success, or otherwise, of engagement activities.
- > The guideline is structured around four components:
- > Priorities – service providers are expected to identify consumer cohorts and the current views of those cohorts and outline their engagement objectives; and discuss the processes to best achieve those objectives.
- > Delivery – service providers are expected to address the identified priorities via robust and thorough consumer engagements.

- > Results – service providers are expected to articulate the outcomes of their consumer engagement processes and how they measure the success of those processes reporting back to the AER, their business and consumers.
- > Evaluation and review – service providers are expected to periodically evaluate and review the effectiveness of their consumer engagement processes.

3.5 Business requirements

Essential Energy has an established Business Plan, developed by the business' executive management team which guides business performance and corporate outcomes. All strategies and the business activities which support them must be aligned with the Business Plan which is approved by the Board of Directors and Essential Energy's shareholder.

The Corporate Business Plans make detailed reference to those requirements:

- > Meet Network NSW efficiency requirements
- > Respond to enquiries within appropriate timeframes
- > Effectively manage inventory, and monitor vendor and supplier performance
- > Minimise over expenditure and ensure prudent and efficient procurement and logistics function
- > All payments to employees and suppliers are to be made on time and in accordance with Enterprise Agreements, and contractual arrangements, terms and conditions.
- > Provide a service to a level as agreed with the business and key stakeholders
- > Provide communications to engage employees through company endorsed programs to effect change management, improve safety and meet company objectives
- > Provide information, advice and access to approved training and development activities
- > Plan and implement education strategies for identified cultural change programs
- > Implement and manage workforce planning to manage and support and employees, and ensure sustainable supply of talent and capabilities to meet business needs

3.6 Key drivers

Essential Energy's corporate overhead strategies are developed to align with the requirements of the strategic objectives detailed above. Underlying these requirements are a range of business drivers which influence the setting of strategies and the manner in which the business responds to the challenges and opportunities presented by them. Details of the drivers specific to each business function can be found in the business plans. A summary of the key drivers is provided below:

- > Customer expectations regarding price and service are rising
- > Contractor numbers are increasing as the business seeks to achieve the best balance of in-house and external resourcing
- > The AER, Networks NSW and the State's regulatory and reporting requirements are changing
- > Data and reporting requirements for a number of external bodies are increasing as the industry continues its reform and the benchmarking of the three NSW distributors
- > Governance requirements are increasing with the implementation of the PMO, with the drive to optimise and hence reduce expenditure
- > External data demand is growing as ASP's (accredited service providers) and other contract companies increase the need for compilation and delivery of accurate and timely information
- > NNSW have proposed a number of joint venture initiatives that are likely to impact on the service provided within all corporate area

4. Corporate overhead strategies

Essential Energy's strategic objectives described in section 3 above enable the business to meet the requirements of a range of stakeholders. The strategies employed by the various business functions that make up the corporate overhead function in response to these strategic objectives are summarised below.

The tables below list the strategies of each business function and which strategic objective each strategy relates to. There is a one to many relationship between most of the strategies and objectives. The business strategies are systematically reviewed, modified, added to and/or discontinued as part of the medium to long term business planning process as requirements and business drivers change and short, medium and long term objectives are satisfied. The underlying business plans for each business function should be read for further details.

4.1 Finance and Compliance

4.1.1 Core Finance strategies

Table 4.1 Core Finance strategies

Strategy	Strategic objectives				
	Statutory	Licence	Standards	Customer and community	Business
Effectively manage the ongoing changes to the financial operating and taxation environment	■			■	■
Develop and maintain capability in people and systems to ensure accurate and defensible financial analysis is available	■	■		■	■
Ensure the accuracy of financial information data through effective systems and processes	■			■	■
Provide appropriate focus on cash flow management to maximise working capital and minimise borrowings				■	■
Prioritise actions, systematically improve capital governance functions and outcomes			■	■	■
Routinely test, evaluate and improve business continuity planning processes				■	■
Engage core finance group employees in the process of continuous improvement					■
Systematically improve core finance processes and utilise metrics to monitor progress, analyse and improve					■

4.1.2 Governance, Risk and Compliance strategies

Table 4.2 Governance, Risk and Compliance strategies

Strategy	Strategic objectives				
	Statutory	Licence	Standards	Customer and community	Business
Implement a records management system and collect, store, provide and use information in accordance with legislative requirements	■	■	■		■
Embed an aligned Delegations and Sub-delegations Framework, MRL and Policy & Procedure Framework and Compliance Management Plan	■		■		■
Work collaboratively with Endeavour Energy and Ausgrid to align GRC frameworks and use benchmarking to identify areas for improvement	■	■	■		■
Embed the Fraud & Corruption Control Plan (FCCP) and the Ethics Program	■		■		■
Embed and align the Fraud Risk Register	■		■		■
Embed the Statement of Business Ethics (SBE)	■		■		■
Provide employees with training and access to materials to assist them to identify, report and manage issues and risks					■
Engage GRC group employees in the process of continuous improvement					■
Systematically improve GRC group performance using customer and stakeholder feedback and utilise metrics to monitor progress, analyse and optimise results and methods	■	■	■	■	■

4.1.3 Network regulation strategies

Table 4.3 Network regulation strategies

Strategy	Strategic objectives				
	Statutory	Licence	Standards	Customer and community	Business
Minimise costs to the business through focus on areas of demand which are non-negotiable, and apply less focus to the areas of Government Policy and Rule Changes and Reviews				■	■
Keep a watching brief over policy, legislative, regulatory and related matters that impact on business objectives and commercial success	■	■	■	■	■
Maintain capability in systems, people and processes to ensure sound advice is provided regarding the legal constraints and requirements of the various Acts, Rules and	■	■	■	■	■

Regulations that apply as part of our licence obligations and market participation					
Achieve economic regulatory compliance in relation to the network electricity business through the development and application of effective strategies, whilst balancing the interest of key stakeholders	■	■	■	■	■
Meet objective of containing average price increases to CPI through responsible tariff management.				■	■
Engage Network Regulation group employees in the process of continuous improvement					■
Systematically improve Network Regulation group performance using stakeholder feedback and utilise dashboard reporting to monitor progress, analyse and optimise results and methods	■	■	■	■	■

4.1.4 Portfolio Management Office and Corporate Planning strategies

Table 4.4 Portfolio Management Office and Corporate Planning strategies

Strategy	Strategic objectives				
	Statutory	Licence	Standards	Customer and community	Business
Ensure there is effective program governance, oversight and reporting, change and transition management, and corporate and divisional planning, through timely development of corporate and divisional plans	■	■	■	■	■
Ensure effective change management processes are designed and used in the Implementation of corporate projects, including the Network Reform Program			■	■	■
Utilise metrics and dashboard reporting to monitor and review implementation milestones, performance against budget and assessment of the benefits gained			■	■	■
Use the most efficient and effective mix of specialist internal resources and capability, and external consultants with a focus on developing and maintaining internal capability and corporate knowledge			■	■	■
Proactively use appropriate ICT strategies and systems to ensure information and reporting requirements are met	■		■		■
Use internal and external benchmarking to improve PMO and Corporate Planning group strategies, programs and processes					■

4.2 Health, Safety and Environment strategies

4.2.1 Health, Safety and Environment strategies

Table 4.5 Health, Safety and Environment strategies

Strategy	Strategic objectives				
	Statutory	Licence	Standards	Customer and community	Business
Implement all the key initiatives developed across the areas of workers compensation; injury management; health and wellbeing; and drug and alcohol and fatigue management (refer to HSE Division Business Plan section 7.1.3)	■	■	■	■	■
Implement all the key initiatives developed across the areas of safety culture; safety leadership; analysis and reporting; communication and consultation; HSE management systems (refer to HSE Division Business Plan section 7.1.1)	■	■	■	■	■
Implement all the key initiatives developed across the areas of environmental management systems; environmental risk management; environmental management training; environmentally sustainable culture; and resource efficiency (refer to HSE Division Business Plan section 7.1.2)	■	■	■	■	■
Systematically improve HSE group performance using customer and stakeholder feedback and utilise the corporate scorecard to monitor progress, analyse and optimise results and methods				■	■

4.3 People and Services

4.3.1 Corporate Affairs strategies

Table 4.6 Corporate Affairs strategies

Strategy	Strategic objectives				
	Statutory	Licence	Standards	Customer and community	Business
Implement and/or update communication channels, media and methods, and improve content to ensure alignment with our targeted audiences				■	■
Engage with customers and stakeholders, including providing tools to access information, provide feedback and raise concerns	■			■	■
Develop and maintain capability in people and systems to ensure accurate, reliable and defensible information on the business is always available	■	■		■	■
Develop , manage and integrate (where possible) strategies and programs to notify	■			■	■

and educate the community about impacts and changes in the network, and electricity safety					
Engage Corporate Affairs group employees in the process of continuous improvement				■	■
Systematically improve group performance using customer and stakeholder feedback and utilise metrics to monitor progress, analyse and optimise results and methods	■			■	■

4.3.2 Customer Operations strategies

Table 4.7 Customer Operations strategies

Strategy	Strategic objectives				
	Statutory	Licence	Standards	Customer and community	Business
Develop and maintain capability in people and systems to ensure reliable data is always available	■			■	■
Implement automated network billing systems and upgrade CIS application to align with volume of transactions and information management processes	■			■	■
Work with Endeavour Energy and Ausgrid to improve customer and stakeholder engagement strategies, programs and processes				■	■
Use internal and external benchmarking to improve customer and stakeholder engagement strategies, programs and processes	■			■	■
Engage Customer Operations group employees in the process of continuous improvement				■	■
Systematically improve group performance using customer and stakeholder feedback and utilise metrics to monitor progress, analyse and optimise results and methods	■			■	■

4.3.3 Human Resource Operations and Employee Relations strategies

Table 4.8 Human Resource Operations and Employee Relations strategies

Strategy	Strategic objectives				
	Statutory	Licence	Standards	Customer and community	Business
Establish Fair and Just Culture Program, including educating employees on fair and just principles and promoting Equal Employment Opportunities	■				■
Implement and/or update online systems and tools used for performance management, training (including Learning Management			■		■

System), and access to HR materials					
Develop training frameworks and strategies, and provide leaders support in equipping and developing skills and capabilities in their employees	■				■
Implement and/or update HR, recruitment and workforce planning frameworks, programs and processes to align with legislative and business requirements, and Organisation Development strategies	■				■
Actively manage leadership and employee performance using reward and recognition initiatives and by conducting regular performance reviews	■				■
Systematically improve group performance using customer and stakeholder feedback and utilise metrics to monitor progress, analyse and optimise results and methods				■	■

4.3.4 Organisational Development strategies

Table 4.9 Organisational Development strategies

Strategy	Strategic objectives				
	Statutory	Licence	Standards	Customer and community	Business
Develop and provide our internal customers with the highest quality training and assessment services, material and tools	■	■			■
Establish a cross-organisational team with Ausgrid and Endeavour Energy within a framework of mutually shared objectives	■	■	■	■	■
Implement a Leadership Development Framework, including integrating revised leadership competencies, and a talent/succession management framework	■	■		■	■
Plan and implement an education strategy in support of the Fair and Just Culture program	■	■			■
Design and utilise quarterly surveys to monitor and evaluate leadership effectiveness, employee engagement and organisational attributes			■		■
Engage group employees in the process of continuous improvement					■
Align organisational development processes and procedures with the organisational strategy and utilise metrics to monitor progress, analyse and improve					■

4.3.5 Procurement and Logistics strategies

Table 4.10 Procurement and Logistics strategies

Strategy	Strategic objectives				
	Statutory	Licence	Standards	Customer and community	Business
Develop and maintain an organisation-wide Procurement and Logistics, and Governance and Compliance framework, policies and procedures	■		■		■
Develop and maintain capability in people and systems to ensure reliable and relevant information is always available to stakeholders and the community				■	■
Establish and implement category management plans aligned to Network NSW requirements				■	■
Review and improve contract and vendor performance management practices and procedures including standardising selected documentation and forms				■	■
Implement an Integrated Business Planning process optimising supply chain, stock and inventory, and warehouse and distribution planning	■			■	■
Assess stocktake methodologies and selected data models to identify areas of inconsistency and make efficiency improvements	■			■	■
Develop an Industry Partners Program and collaborate with stakeholders to achieve improvements to procurement and logistics efficiency and effectiveness	■		■	■	■
Engage procurement and logistics group employees in the process of continuous improvement					■
Systematically improve procurement and logistics group performance using customer and stakeholder feedback and utilise metrics to monitor progress, analyse and optimise results and methods				■	■

4.3.6 Technical training strategies

Table 4.11 Technical training strategies

Strategy	Strategic objectives				
	Statutory	Licence	Standards	Customer and community	Business
Ensure training and development policies, procedures and material are in line with corporate strategic objectives through a systematic process of continuous review and revision	■	■	■		■

Develop and maintain automated data collection systems to optimise the storage and retrieval of training data and materials					■
Apply a formal process of quality control, monitoring and evaluation to identify areas for improvement, and provide performance coaching to Technical Training employees					■
Engage technical training group employees in the process of continuous improvement	■	■	■		■
Systematically improve technical training group performance utilise metrics to monitor progress, analyse and optimise results and methods	■	■	■		■

5. Corporate overhead expenditure

5.1 Corporate overhead expenditure overview

The methodology which Essential Energy uses to allocate corporate overheads is described in detail in the Approved Cost Allocation Method (the Approved CAM). In summary, the actual and forecast corporate overhead expenditure, shown in Table 5.1, is allocated across operational and capital expenditure categories in a manner appropriate to the quantum of corporate overhead activity necessary to fulfil the operational or capital project undertaking; this may contrast to other businesses where a higher proportion of overheads are direct costed (e.g. System Control subjected to an allocation, where other business may direct cost this to operational expenditure).. Cost forecasting methodologies for corporate overhead expenditure are described in detail in section 6 below.

Table 5.1 Corporate overhead expenditure (\$ million, 2013-14)

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Total Expenditure	120.48	95.70	105.26	98.78	94.86	94.86	94.86	94.86
Core Finance	13.26	10.88	10.56	9.28	9.28	9.28	9.28	9.28
Governance, Risk and Compliance	11.81	10.71	10.27	9.26	9.26	9.26	9.26	9.26
Network Regulation	3.74	3.59	3.93	3.4	3.4	3.4	3.4	3.4
Portfolio Management Office and Corporate Planning	5.82	3.63	2.15	1.61	1.61	1.61	1.61	1.61
Health, Safety and Environment	12.96	11.22	11.17	10.49	10.49	10.49	10.49	10.49
Corporate Affairs	12.02	6.35	4.8	4.98	4.98	4.98	4.98	4.98
Customer Operations	23.64	19.69	20.03	15.13	15.13	15.13	15.13	15.13
Human Resource Operations and Employee Relations	11.79	8.11	8.62	7.51	7.51	7.51	7.51	7.51
Organisational Development	4.56	3.16	2.90	3.25	3.25	3.25	3.25	3.25
Procurement and Logistics	1.82	-0.12	2.48	3.19	3.19	3.19	3.19	3.19
Technical Training	9.69	8.95	8.94	8.05	8.05	8.05	8.05	8.05
Network Reform	8.05	8.84	18.74	21.25	17.33	17.33	17.33	17.33
Corporate Governance and Management	1.32	0.69	0.67	1.38	1.38	1.38	1.38	1.38

The proposed corporate overheads for the 2014/15 – 2018/19 regulatory period are lower than for the 2009/10 – 2013/14 regulatory period, both at a total level and as a percentage of the total expenditure, as shown in Figure 2.

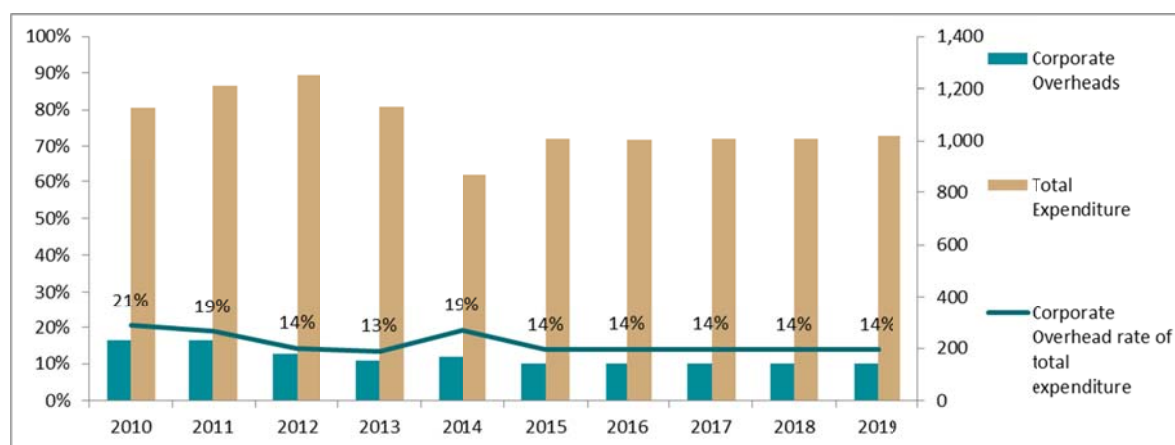


Figure 2 Corporate overheads as a percentage of total expenditure

Similarly, the proposed total overheads (corporate and divisional) for the 2014/15 – 2018/19 regulatory period are lower than for the 2009/10 – 2013/14 regulatory period, both at a total level and as a percentage of the total expenditure, as shown in Figure 3

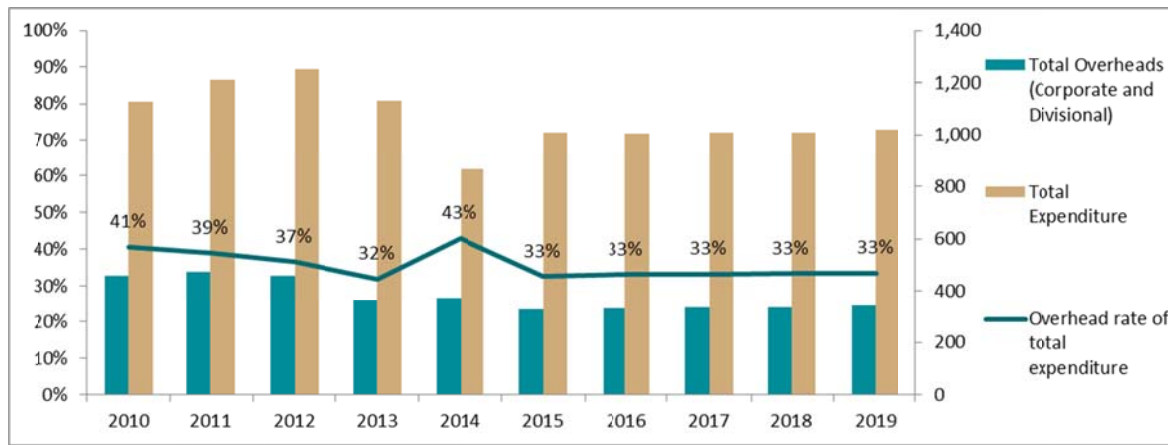


Figure 3 Total overheads as a percentage of total expenditure

5.2 Finance and Compliance expenditure

Table 5.2 Core Finance overhead expenditure (\$ million, 2013-14)

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Total Expenditure	13.26	10.88	10.56	9.28	9.28	9.28	9.28	9.28
Commercial and Decision Support	4.41	3.44	3.13	2.97	2.97	2.97	2.97	2.97
Finance Management	(0.53)	0.41	0.46	0.55	0.55	0.55	0.55	0.55
Finance Transactions and Service	4.72	3.70	3.93	3.14	3.14	3.14	3.14	3.14
Finance Control	4.66	3.33	3.04	2.62	2.62	2.62	2.62	2.62

Table 5.3 Governance risk and compliance overhead expenditure (\$ million, 2013-14)

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Total Expenditure	11.81	10.71	10.27	9.26	9.26	9.26	9.26	9.26
Compliance and Policy	3.73	2.84	2.80	2.22	2.22	2.22	2.22	2.22
Ethics and Fraud Risk	1.37	1.25	1.07	1.00	1.00	1.00	1.00	1.00
Risk Management	6.71	6.62	6.40	6.03	6.03	6.03	6.03	6.03

Table 5.4 Network regulation overhead expenditure (\$ million, 2013-14)

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Total Expenditure	3.74	3.59	3.93	3.40	3.40	3.40	3.40	3.40

Table 5.5 Portfolio Management Office and Corporate Planning overhead expenditure (\$ million, 2013-14)

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Total Expenditure	5.82	3.63	2.15	1.61	1.61	1.61	1.61	1.61

Corporate Planning	1.65	1.10	1.12	0.94	0.94	0.94	0.94	0.94
PMO	4.18	2.52	1.03	0.66	0.66	0.66	0.66	0.66

5.3 Health Safety and Environment expenditure

Table 5.6 Health Safety and Environment overhead expenditure (\$ million, 2013-14)

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Total Expenditure	12.96	11.22	11.17	10.49	10.49	10.49	10.49	10.49

5.4 People and Services expenditure

Table 5.7 Corporate Affairs overhead expenditure (\$ million, 2013-14)

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Total Expenditure	12.02	6.36	4.80	4.98	4.98	4.98	4.98	4.98
Corporate Affairs	3.36	2.44	1.91	1.85	1.85	1.85	1.85	1.85
Marketing and Brand	8.66	3.92	2.89	3.13	3.13	3.13	3.13	3.13

Table 5.8 Customer Operations overhead expenditure (\$ million, 2013-14)

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Total Expenditure	23.64	19.69	20.03	15.13	15.13	15.13	15.13	15.13
Customer Operations	16.43	12.88	10.30	9.26	9.26	9.26	9.26	9.26
Energy Answers	1.23	1.13	1.17	0.00	0.00	0.00	0.00	0.00
Network Revenue Systems	4.72	4.84	7.40	6.71	6.71	6.71	6.71	6.71
People & Services Management	1.27	0.84	1.16	-0.84	-0.84	-0.84	-0.84	-0.84

Table 5.9 Human Resource Operations and Employee Relations overhead expenditure (\$ million, 2013-14)

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Total Expenditure	11.79	8.11	8.62	7.51	7.51	7.51	7.51	7.51
Employee Relations	2.45	1.99	2.05	1.23	1.23	1.23	1.23	1.23
Human Resource Operations	9.34	6.12	6.57	6.28	6.28	6.28	6.28	6.28

Table 5.10 Procurement and Logistics overhead expenditure (\$ million, 2013-14)

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Total Expenditure	1.82	(0.12)	2.48	3.19	3.19	3.19	3.19	3.19

Table 5.11 Organisational Development overhead expenditure (\$ million, 2013-14)

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Total Expenditure	4.56	3.16	2.90	3.25	3.25	3.25	3.25	3.25

Table 5.12 Technical Training overhead expenditure (\$ million, 2013-14)

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Total Expenditure	9.69	8.95	8.94	8.05	8.05	8.05	8.05	8.05

5.5 Other Corporate expenses

Table 5.13 Network Reform overhead expenditure (\$ million, 2013-14)

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Total Expenditure	8.05	8.84	18.74	21.25	17.33	17.33	17.33	17.33
Network NSW Group costs	0.00	2.07	6.18	6.40	6.40	6.40	6.40	6.40
Legal	2.72	1.62	2.81	2.52	2.52	2.52	2.52	2.52
Internal Audit	1.54	0.91	1.84	1.53	1.53	1.53	1.53	1.53
Network Reform	3.80	4.24	7.91	10.81	6.88	6.88	6.88	6.88

6. The basis of forecasts

Essential Energy is proposing \$815 million (\$2013/14) of overhead expenditure to manage corporate branches throughout the next regulatory period.

The overhead costs associated with the lower forecast capital expenditure program (refer to chapter 5 of the Essential Energy Substantive Proposal for more information) are not included in the forecast overheads for the 2014 – 2019 regulatory proposal; i.e. Essential Energy is not seeking to recover these stranded costs.

Where efficiency initiatives and subsequent productivity savings have been identified and endorsed, these savings have been incorporated into the forecasts presented in the business cases. This accounts for \$11m. Whilst the time frames for removing these costs from the business range throughout the 2014 – 2019 regulatory period, they are being removed from the forecasts at the start of 2014/15 to ensure that these stranded costs do not form part of the proposed expenditure.

Essential Energy intends to identify further efficiencies and productivity savings to account for the remaining \$21m of stranded costs by August 2014. Whilst the time frames for removing these costs from the business is unknown, these productivity savings are being applied as a high level adjustment to expenditure forecasts at the start of 2014/15 to ensure that these stranded costs do not form part of the proposed expenditure.

This section demonstrates that Essential Energy's forecast methodology ensures overhead expenditure requirements are both prudent and efficient in predicting expenditure requirements and produces a forecast that is credible, convincing and compliant with statutory and regulatory obligations. Full details of the business's cost forecasting methodologies for its overhead expenditure are provided in the Substantive Regulatory Proposal .

6.1 Forecasting methodologies

The Rules require Essential Energy to provide information on the method/s used for developing the forecast overhead expenditure as well the forecast of key variables and the key assumptions underlying the forecast overhead expenditure. Essential Energy's approach is detailed in in this section.

Forecast methods

In the previous section Essential Energy outlined performance for the current period, the anticipated circumstances for the next period as well our strategies to achieve our overarching objectives in light of these factors. The forecast method/s adopted embodied these factors and translates them into a forecast overhead expenditure that reasonably reflects:

- > The efficient costs of achieving the overhead expenditure objectives.
- > The costs that a prudent operator would require to achieve the overhead expenditure objectives.
- > A realistic expectation of the demand forecast and cost inputs required to achieve the overhead expenditure objectives.

Essential Energy has adopted the following approach to forecasting operating expenditure for the forthcoming regulatory control period:

- > Disaggregate Essential Energy's total overhead expenditure into various cost categories. These cost categories represent the costs of undertaking a set of related activities to provide support services to standard control services/alternate control services and to achieve the overhead expenditure objectives.
- > Assess the nature of each cost category and determine the appropriate forecasting method that would result in a forecast cost that reasonably reflects the efficient cost that a prudent operator would need to achieve the overhead expenditure objectives, based on a realistic expectation of demand forecast and cost inputs for that particular cost category.

Essential Energy consider that this forecasting approach ensures that the nature of each cost category and its relevant underlying drivers are appropriately accounted for, such that the resulting forecast overhead expenditure is reflective of the efficient costs that a prudent operator would require to achieve the overhead expenditure objectives.

The base year method with variations to account for known changes has been used to forecast each of divisional overhead cost categories. This forecast method is described in Chapter 6 of the Substantive Proposal and summarised below.

6.1.1 Base Year Method

Essential Energy uses this method to forecast the majority of overhead expenditure costs because overhead expenditure is largely a related to organisational functions which continue to deliver outcomes regardless of where the function sits within the organisation.

The future requirements of an overhead cost category are not a direct function of the current base year cost as a result of recent intense organisational change implemented to drive efficiencies. Essential Energy has analysed the actual costs for each function in the base year and has utilised the mapping of functions into the new organisational structure to determine the categorisation of corporate costs. These variations to the base year forecast essentially derive the total forecast overhead expenditure by taking into account all the variations in structure and reallocation of the forecast expenditure.

This budget cost is then adjusted to account for the known productivity efficiencies resulting from the implementation of the strategies outlined in section 4 and shown in Table 6.1 below.

6.1.2 Variations to the Cost

The following variations have been applied to the base year costs to account for the known productivity efficiencies discussed in section 4 and future changes in Essential Energy's circumstances, operating environment, regulatory obligations and changes in demand and cost inputs in arriving at a forecast overhead expenditure.

Table 6.1 Productivity savings and changes applied to the bottom up build

Division	Business Plan	Productivity savings and changes
Finance and Compliance	Core Finance	Labour efficiencies achieved through Network Reform initiatives
	Governance, Risk and Compliance	Labour efficiencies achieved through Network Reform initiatives
	Network Regulation	Labour efficiencies achieved through Network Reform initiatives
	PMO and Corporate Planning	Reduction in expenditure previously associated with development of Network Reform Program
Health, safety and Environment	Health, Safety and Environment	Labour efficiencies achieved through Network Reform initiatives
People and Services	Corporate Affairs	
	Customer Operations	Reduction in expenditure in marketing
	Human Resource Operations and Employee Relations	Labour efficiencies achieved through Network Reform initiatives
	Organisational Development	Closure of Energy Answers
	Procurement and Logistics	Labour efficiencies achieved through Network Reform initiatives
	Technical Training	
Other Corporate expenses	Network Reform	Labour efficiencies achieved through Network Reform initiatives
	Corporate Governance and Management	