





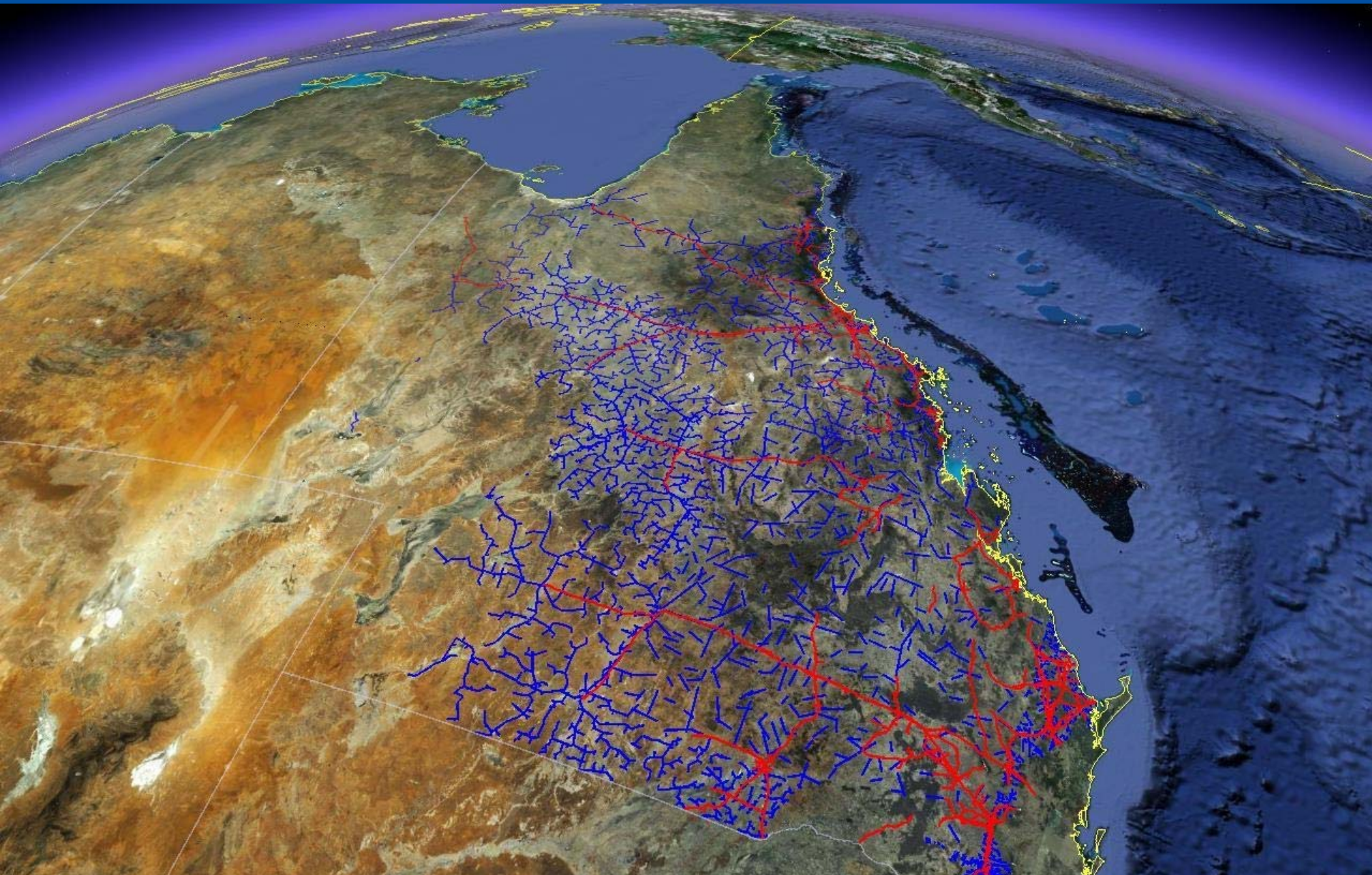
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Our Regulatory Proposal 2010-15

Delivering our Vision



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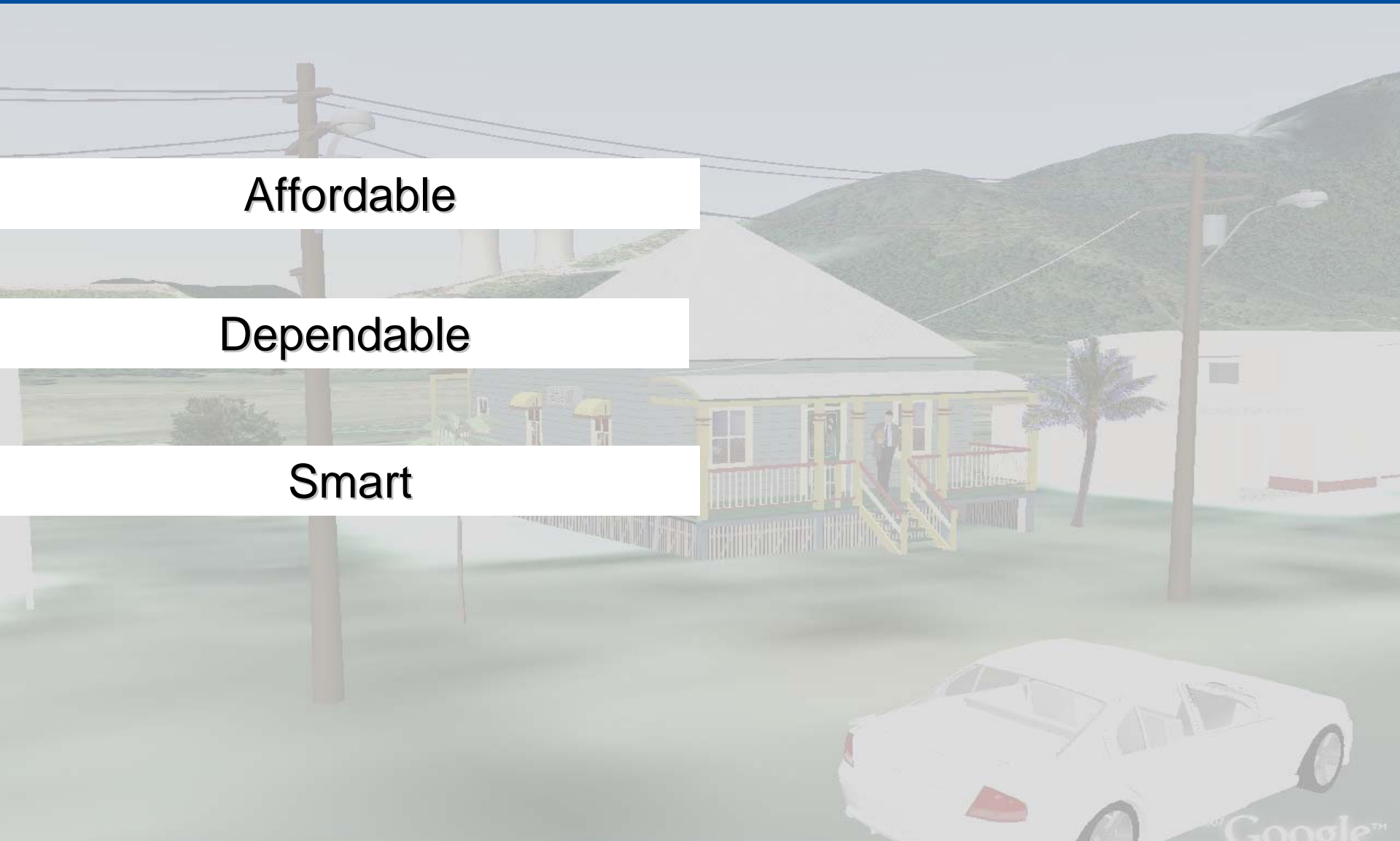
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Our customers

Affordable

Dependable

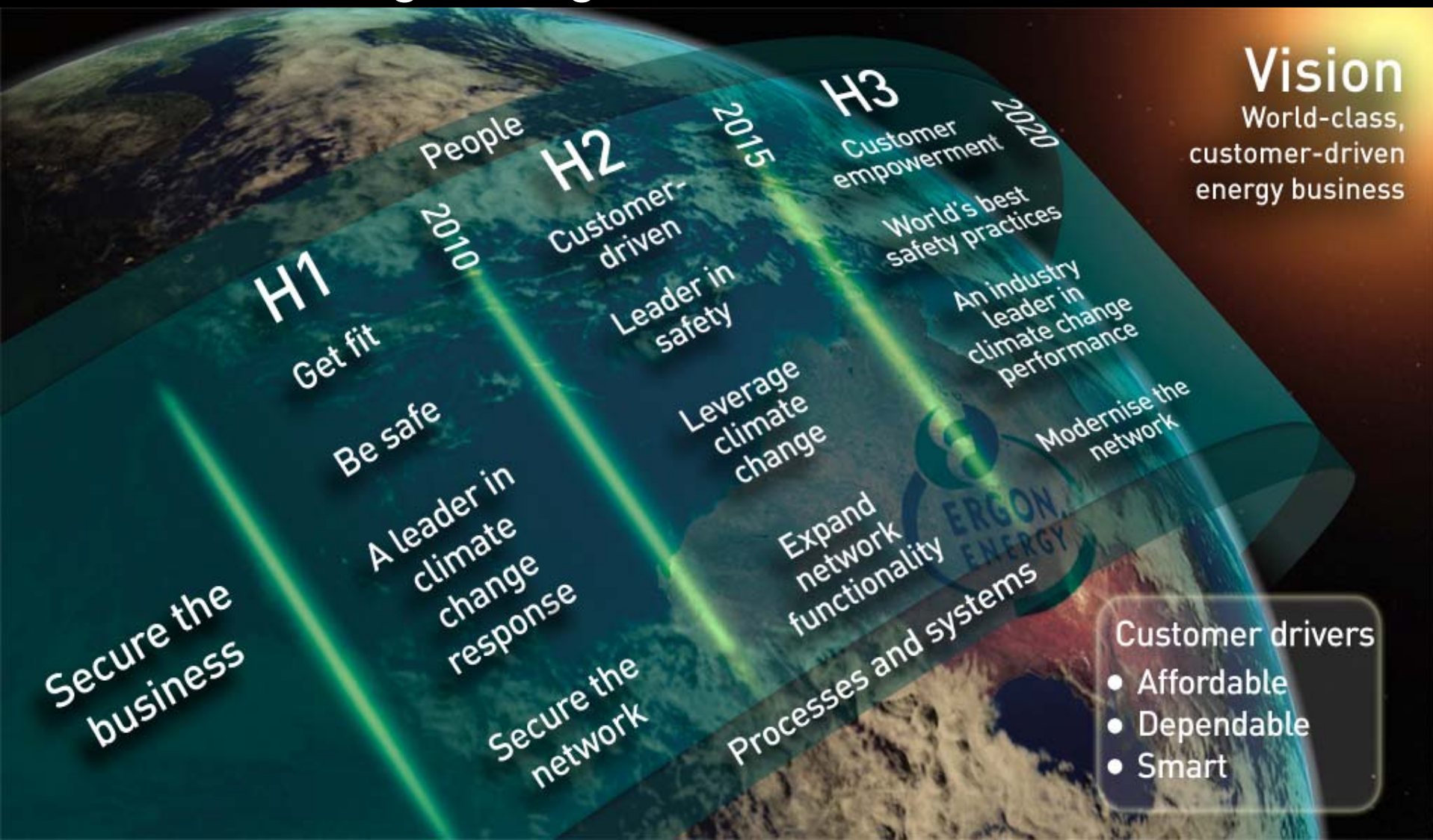
Smart





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Planning for regional Queensland's future



Vision
 World-class, customer-driven energy business

- Customer drivers**
- Affordable
 - Dependable
 - Smart



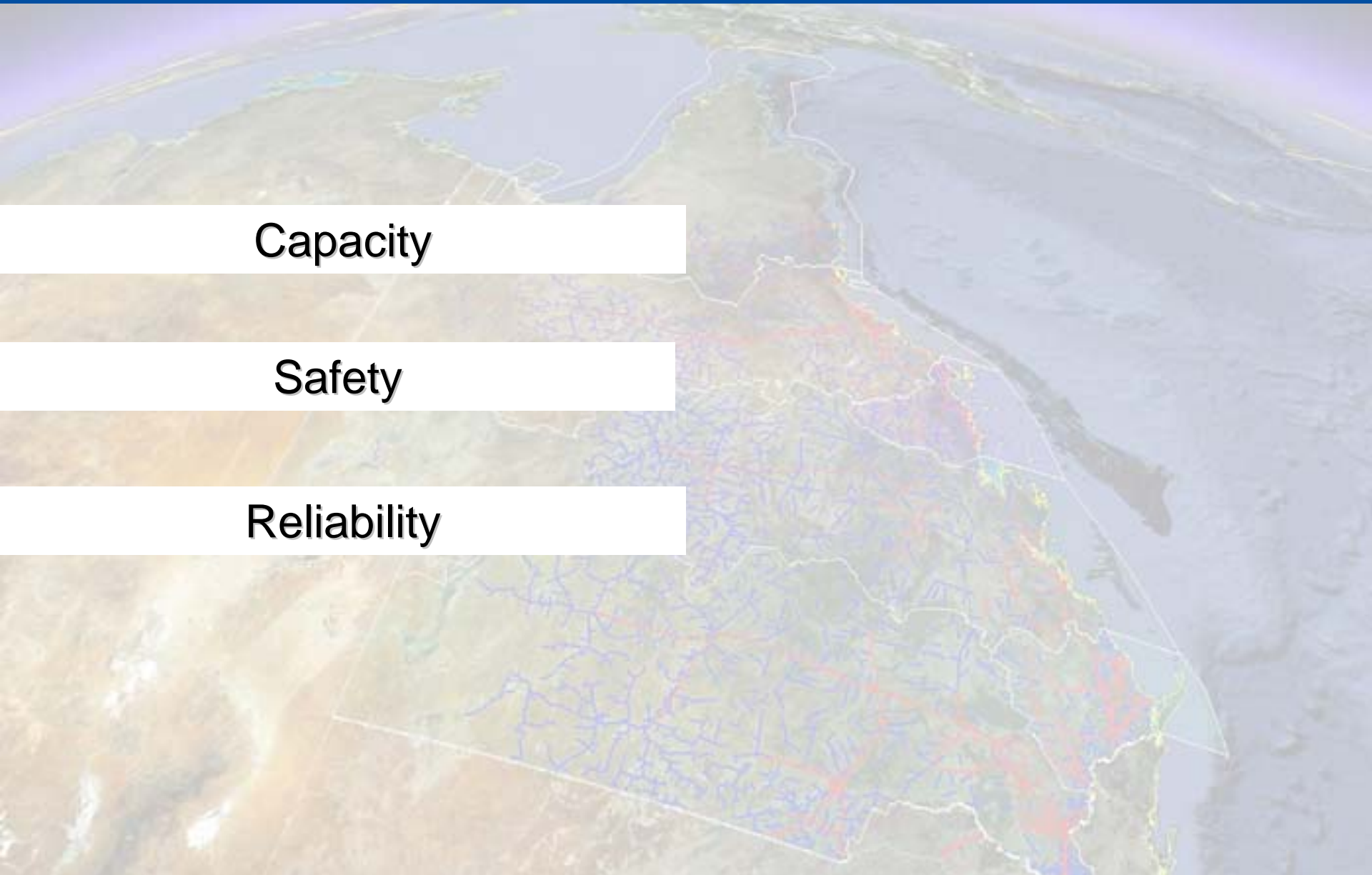
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Our network - history

Capacity

Safety

Reliability





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Our network - now



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Our network - future



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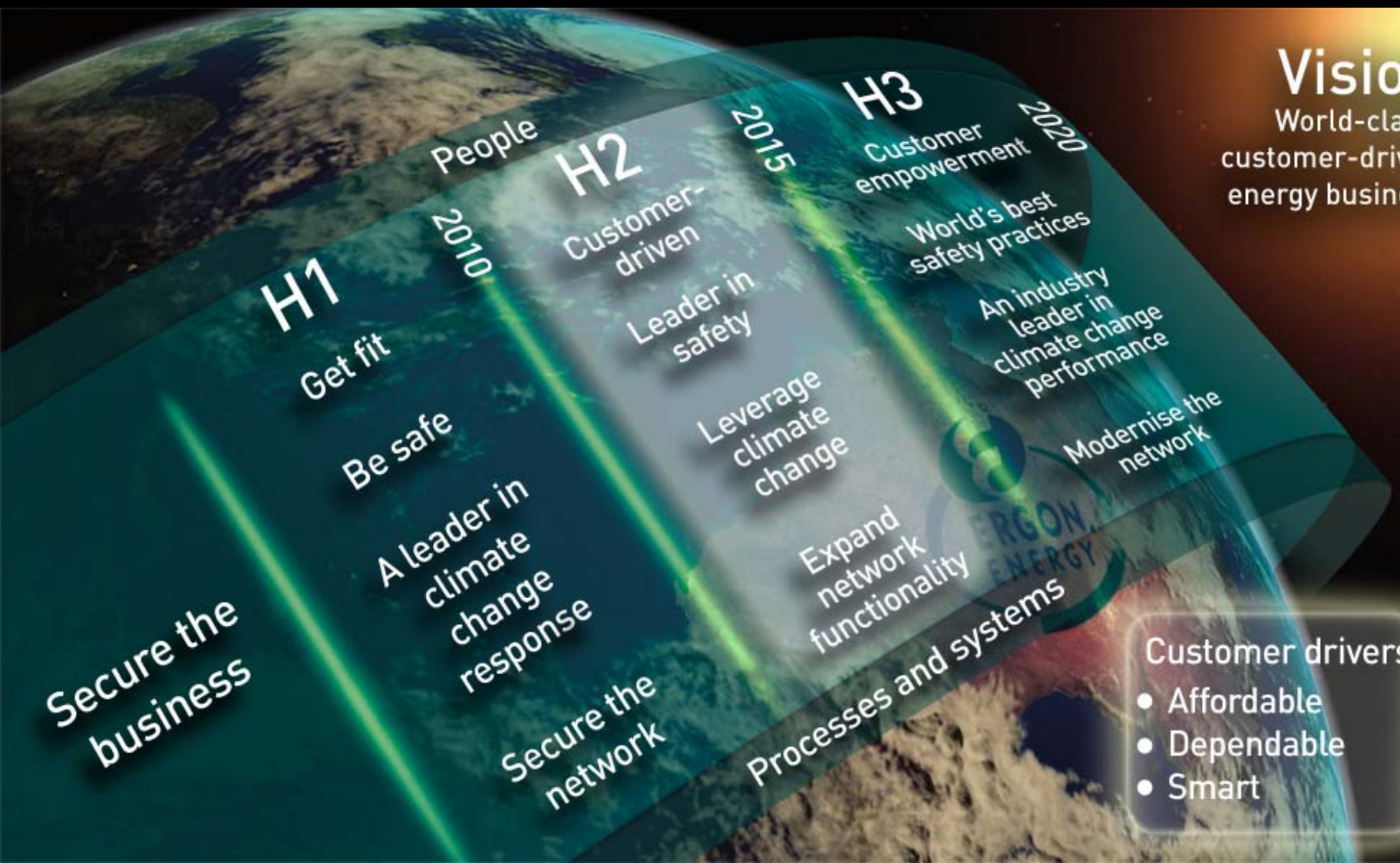
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The transition – our focus in 2010-15



Vision
 World-class, customer-driven energy business

- Customer drivers
- Affordable
 - Dependable
 - Smart



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Key challenges

- Ready the network for regional Queensland's economic recovery
- Improving security standards
- Improving network communications
- Meeting ever increasing customer demand for electricity

Key challenges – customer and demand growth



1995



2005

Left: Housing development Kirwan, Townsville
Below: Early signs of mining sector recovery

NEWS | 19

Ship bottleneck back

John McCarthy

ALMOST 60 ships, waiting for hundreds of millions of dollars worth of exports, have been off Queensland's coast for more than two weeks as the state's infrastructure again creaks under the strain.

Thirty-nine ships are waiting off the Dalrymple Bay coal terminal, near Mackay, despite a big increase in the port's capacity that came on line on July 1. The queue has recently held as many as 49 ships.

A further 17 ships are moored off Gladstone. The city is expecting 76 ships in the next month for coal and other commodities as the spike in demand shows no signs of abating.

After sacking thousands of workers earlier this year, mining companies are hiring again.

Macarthur Coal and Peabody have put on more than 50 staff recently and Xstrata has reopened a coal mine in central Queensland that it had shut when demand appeared to have stalled earlier this year.

BHP Billiton last week announced the expansion of a NSW coal mine.

Dalrymple Bay Coal Port said yesterday it expected the queue length to stay constant at between 30 and 40 ships for the next month. It said some ships would wait for up to 15 days, at

... these structural constraints will ultimately drive a tighter coal market and higher coal prices with the resumption of normal demand," the company said.

"Escalating congestion off Australia's coal ports, driven by spot Chinese buying, is now being exacerbated by the return of traditional Asian and European customers."

Queensland Resources Council chief executive Michael Roche said the bottleneck would ease when rail yards servicing Dalrymple Bay open soon.

But, Mr Roche said, it was possible Queensland could slip back into the lull days of 2007 when miners faced massive demurrage costs because of port delays.

Although the delays are a significant problem for Queensland, the unexpected demand does provide a boost to the state's economy and possibly royalties to the State Government.

Opposition Treasury spokesman Tim Nicholls said the return of demand was good "but the issue is how well prepared are we to cope?"

"What we have seen is the Government pull the funding for the northern missing link (rail line from the coal fields to Abbott Point) and we say they have pulled the funding too early. When the good times return, the infrastructure chain won't be there."

A Treasury spokesman said the recent increase in demand for Queensland coal was reflected in the 2009-10 Budget forecasts.

"China has recently entered the global market for good-quality coal and has increased purchases from various sources, including Queensland," he said. "However, demand for coal from two of our largest customers, Japan and South Korea, which comprise more than 45 per cent of total sales, is still subdued."

BIDDING TIME: Coal ships wait off Mackay for the chance to load at the Dalrymple Bay coal terminal.

Picture: Annette Dew

2009



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Our strategic responses

1. Affordable solutions to address peak demand
2. Greater customer choice
3. A safe and reliable network





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A focus on innovation

New technology and trials include:

- UbiNet Stage 1
- Smart meter trials

Behavioural change trials include:

- Townsville Solar City
- Cloncurry North SWER demand management
- Townsville commercial demand management pilot

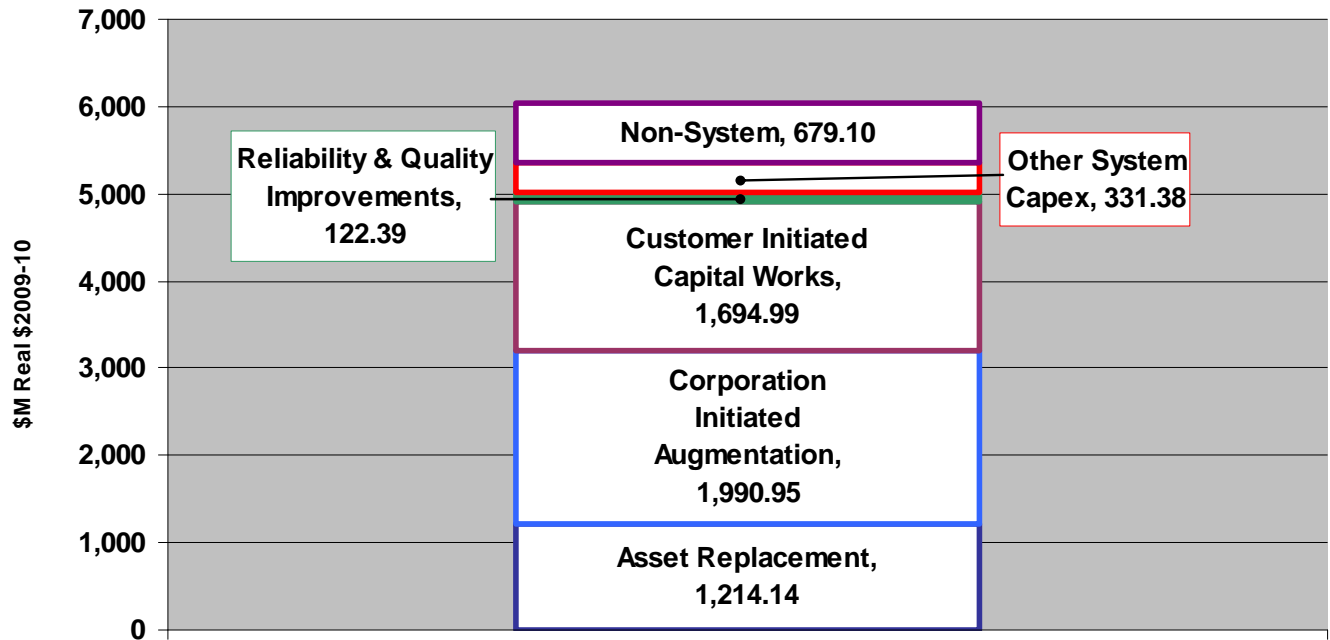


Our investment

Ergon Energy has proposed a total investment of \$8 billion. This includes:

- Capital expenditure – over \$6 billion

Forecast Capex by Category Driver - 2010-11 to 2014-15





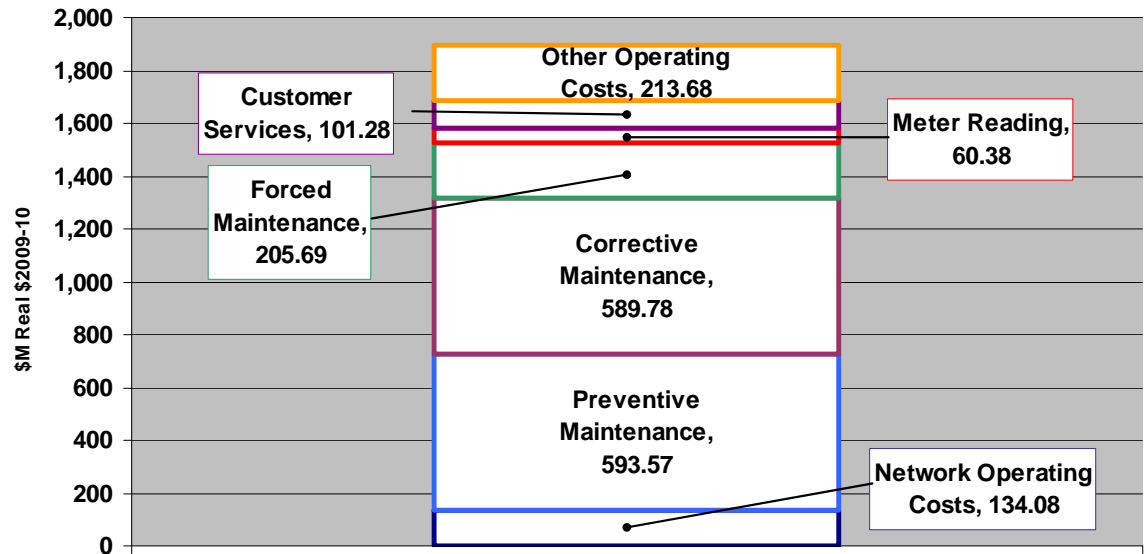
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Our investment

Ergon Energy has proposed a total investment of \$8 billion. This includes:

- Capital expenditure – over \$6 billion
- Operating expenditure – approx \$2 billion

Forecast Opex by Category Driver - 2010-11 to 2014-15





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What will our customers see?

- \$70 million in peak demand reduction initiatives
- 37 urban and 19 rural zone substations
- 100,000+ customer connections
- More remote monitoring to cover 90% of customers
- 17 strategies to modernise the SWER network
- More under-grounding of powerlines in cyclone areas



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What will our customers experience?

Affordable

- Affordable solutions to peak demand
- Help to use less electricity
- Efficient service delivery

Dependable

- Continuous reliability improvements

Smart

- More choice for customers



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In more detail

General Manager Regulatory Affairs - Tony Pfeiffer





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Our Regulatory Proposal 2010-15

In detail

Tony Pfeiffer – General Manager Regulatory Affairs

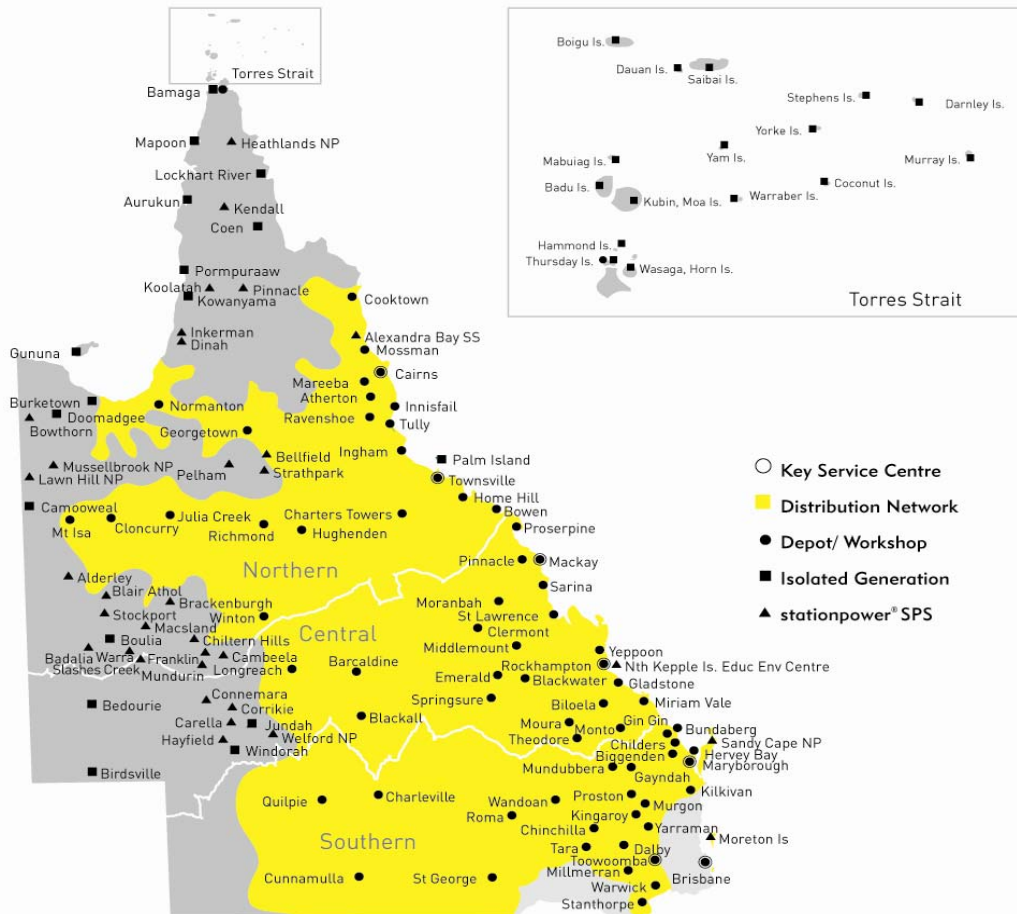


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Presentation Outline

- Network operating environment and challenges
- Our Regulatory Proposal
- Classification of Services
- Standard Control Services
 - Annual Revenue Requirement
 - Capex
 - Opex
 - Non Network Alternatives
 - Outcomes
- Alternative Control Services
- Delivering the Program

Our Operating Environment



- Vast distances and low customer density
- Large summer-winter and day-night temperature variations
- Extreme weather – high rainfall, floods, cyclones
- Diverse topography, soil conditions, vegetation
- Wildlife

Network Challenges

Safety

Reliability

- Minimum service standards become more stringent over time

Demand growth

- Average peak demand growth of 2.93% per annum
- Average customer number growth of 1.58% per annum
- The real challenge is varying growth rates across the service area

Table 3: Ergon Energy Demand Forecasts for 2010-15

	2010-11	2011-12	2012-13	2013-14	2014-15
EE Coincident peak (maximum) demand (MW) – September 2007	2,967	3,063	3,153	3,243	3,330
EE Total energy consumption (GWh)	15,870.51	16,450.40	16,874.17	17,432.66	17,887.16
EE Customer numbers	684,469	695,242	706,204	717,356	728,706



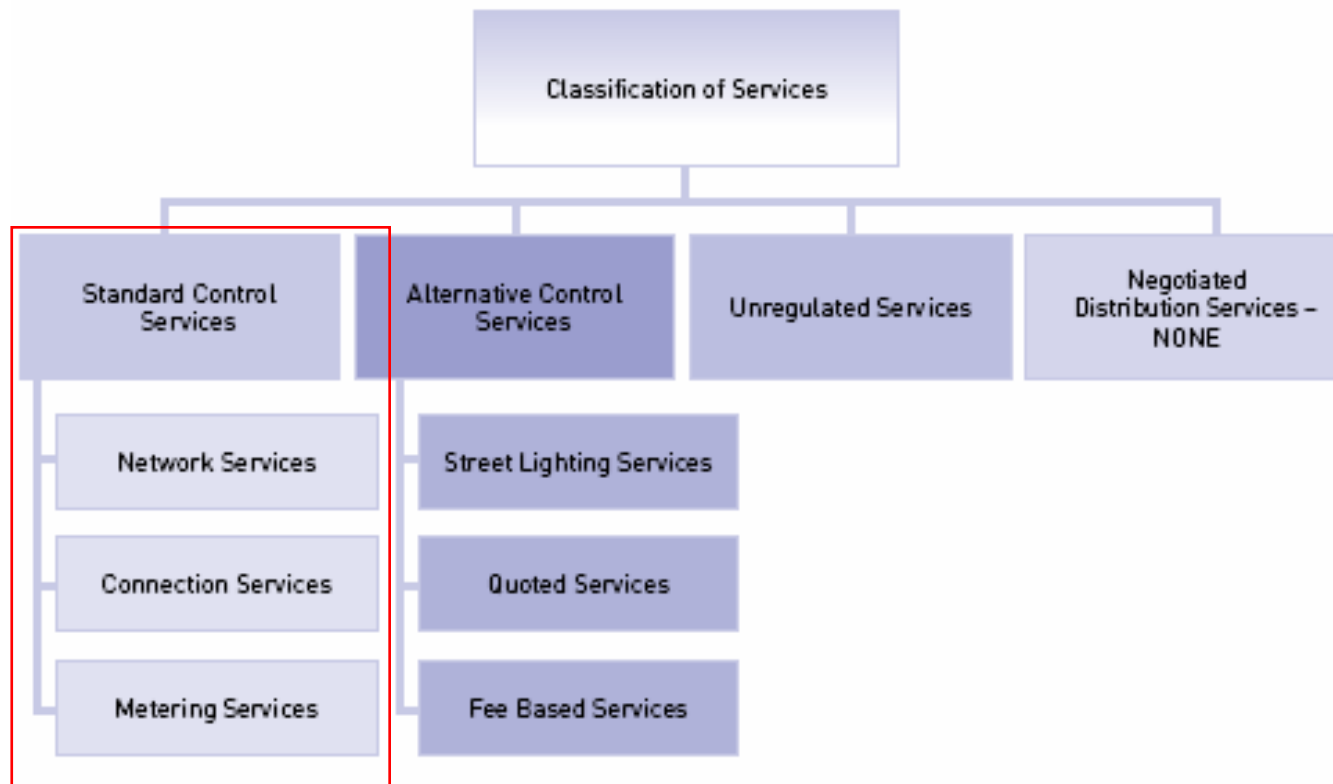
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Our 2010-15 Regulatory Proposal

- The purpose of our Regulatory Proposal is to propose what we consider are prudent revenue requirements for 2010-15.
- Our Regulatory Proposal has been prepared in accordance with the new National Electricity Rules and also the AER's Regulatory Information Notice (RIN).

Classification of Services

Figure 5: Classification of Services



Annual Revenue Requirement

Table 9: Annual Revenue Requirement for Standard Control Services for 2010-15 (\$ M Nominal)

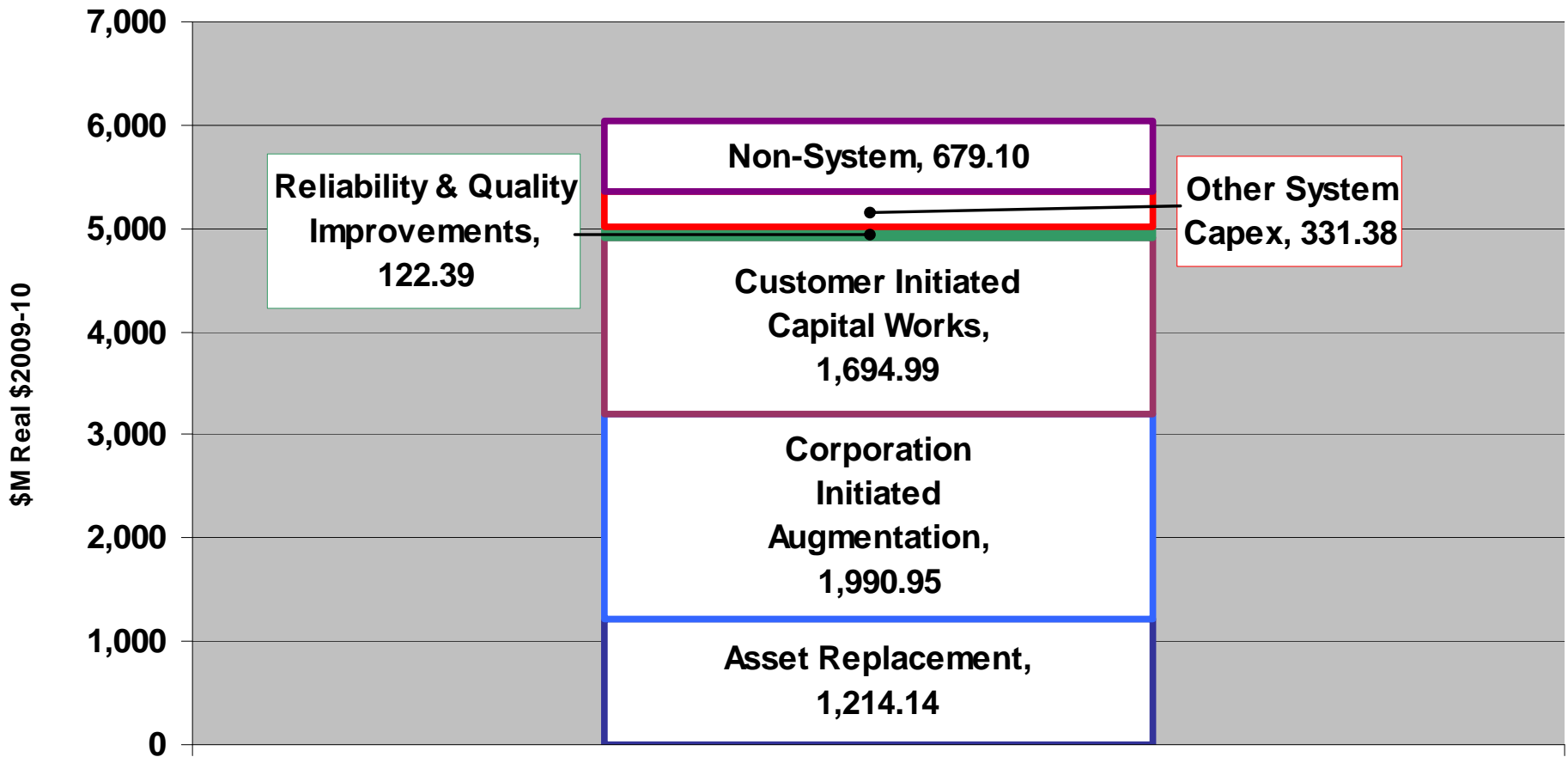
	2010-11	2011-12	2012-13	2013-14	2014-15	5 Year Total	Average of 5 Year Total
Annual Revenue Requirement (smoothed)	1,100.22	1,213.87	1,339.25	1,477.59	1,630.21	6,761.15	1,352.23

Table 11: X Factors for Standard Control Services for 2010-15 (per cent)

	2010-11	2011-12	2012-13	2013-14	2014-15
X factors	-27.05	-7.69	-7.69	-7.69	-7.69

Forecast Capital Expenditure 2010-15

Forecast Capex by Category Driver - 2010-11 to 2014-15



Asset Replacement

\$1.2 billion invested in defect based expenditure, condition based expenditure, and programs to meet service standards and regulatory obligations.

We will continue to roll out asset inspection programs, that determine replacement of assets in a way that is prudent, efficient and minimises disruption to customers.

Customers will experience:

- Improved public safety
- Improved reliability performance



Corporation Initiated Capital Expenditure

\$1.9 billion investment in network augmentation and improvements to meet maximum demand/load forecasts, and implement security of supply criteria.

Our network will continue to meet customers' demand for electricity, ensuring appropriate levels of supply security.

What customers experience:

- Maintenance of supply

Customer Initiated Capital Expenditure

\$1.7 billion to comply with regulatory obligations to connect customers.

We will continue to meet customer requests for new or upgraded connections.

What customers will experience:

- Customer connections will be met
- Developers will be able to continue to choose who constructs subdivision electrical infrastructure
- Commercial and industrial customers will be able to choose who constructs their connection asset



Reliability and Quality of Supply

\$122 million invested in works to meet customer service expectations and regulatory service standards.

We will continue to reduce the frequency and duration of outages.

What customers will experience:

- Enhanced network reliability
- Improved customer service
- Reduced duration of outages

Other System Capital Expenditure

\$331 million invested in a range of other programs, including UbiNet, safety programs, SWER enhancement and power line under-grounding.

These programs are ultimately aimed at improving network performance and safety.

What customers will experience:

- safety improvements
- reliability improvements
- quality of supply improvements

Non-System Capital Expenditure

\$679 million invested in tools and equipment, fleet requirements, ICT assets, and property expenditure.

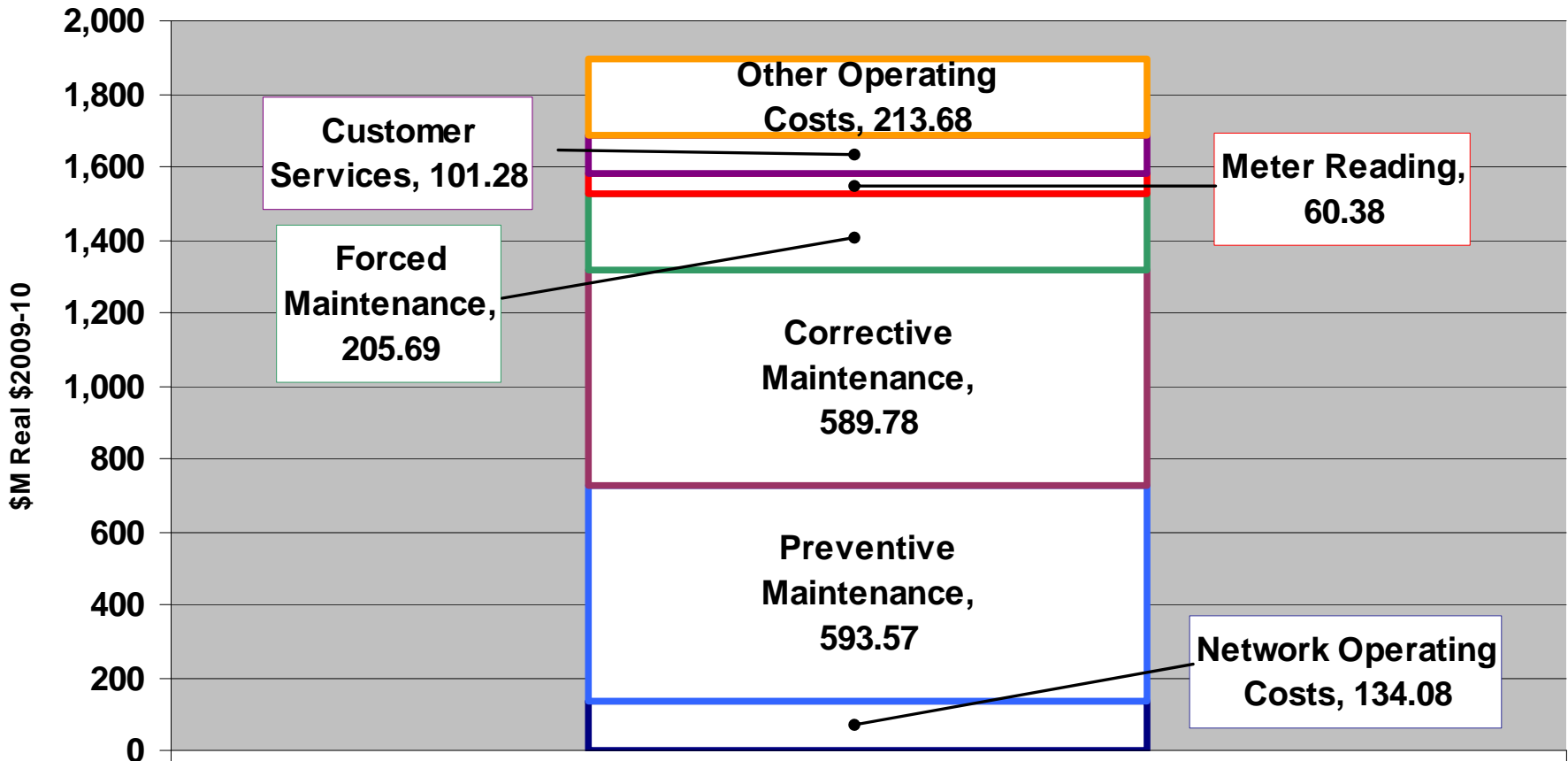
This will ensure Ergon Energy is appropriately equipped to deliver its works programs across its service area.

Property expenditure includes:

- A new Townsville facility to meet increased operational requirements
- Consolidation of all Cairns facilities above the tidal surge zone
- Redevelopment of the ageing Rockhampton and Maryborough sites

Forecast Operating Expenditure

Forecast Opex by Category Driver - 2010-11 to 2014-15





Network Operating Costs

\$134 million investment includes:

- Distribution network monitoring and control and coordination with AEMO
- Operations Control Centres in Townsville and Rockhampton
- Customer services, including outage communications
- Switching and outage coordination to minimise impacts
- Network monitoring and response to faults and alarms

We will continue to operate our network in a cost effective manner

Maintenance

\$1.4 billion investment includes:

- Preventive maintenance to minimise the probability of network failure
- Corrective maintenance to rectify identified faults and manage vegetation
- Force maintenance to repair damage, usually caused by severe weather

We will continue to ensure efficient delivery of maintenance programs



Other Operating Expenditure

\$375 million investment includes:

- Meter reading
- Customer service
- Self insurance expenditure
- Demand management innovation allowance
- Non-network expenditure

We will continue to ensure efficient delivery of operational programs



Non-Network Alternatives

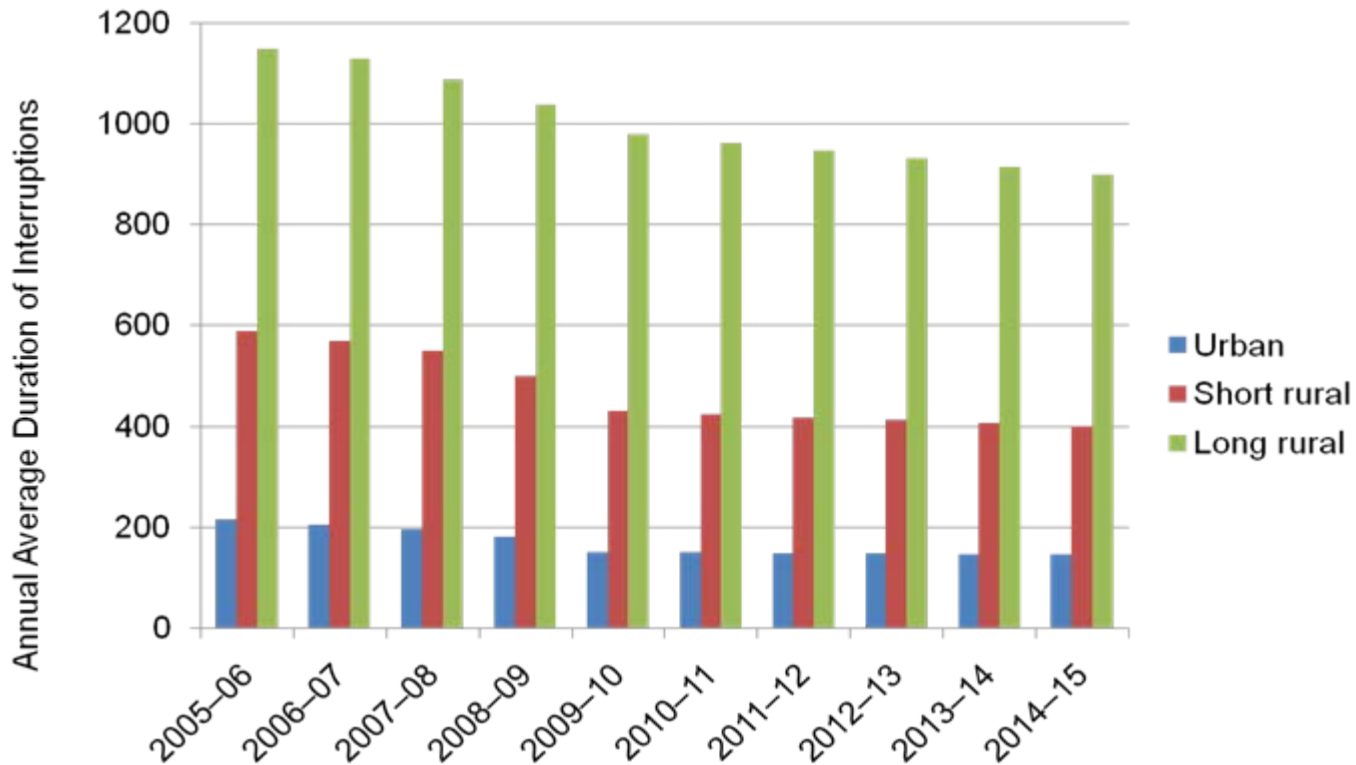
We propose almost **\$70 million for non-network alternatives**, including:

- Air conditioning direct load control (DLC)
- Pool pump and filtration DLC
- Energy audits
- Off peak pumping and storage
- Hot water promotion

These broad based programs and initiatives are targeted at residential, rural and commercial customers

Outcomes - Service Performance Targets

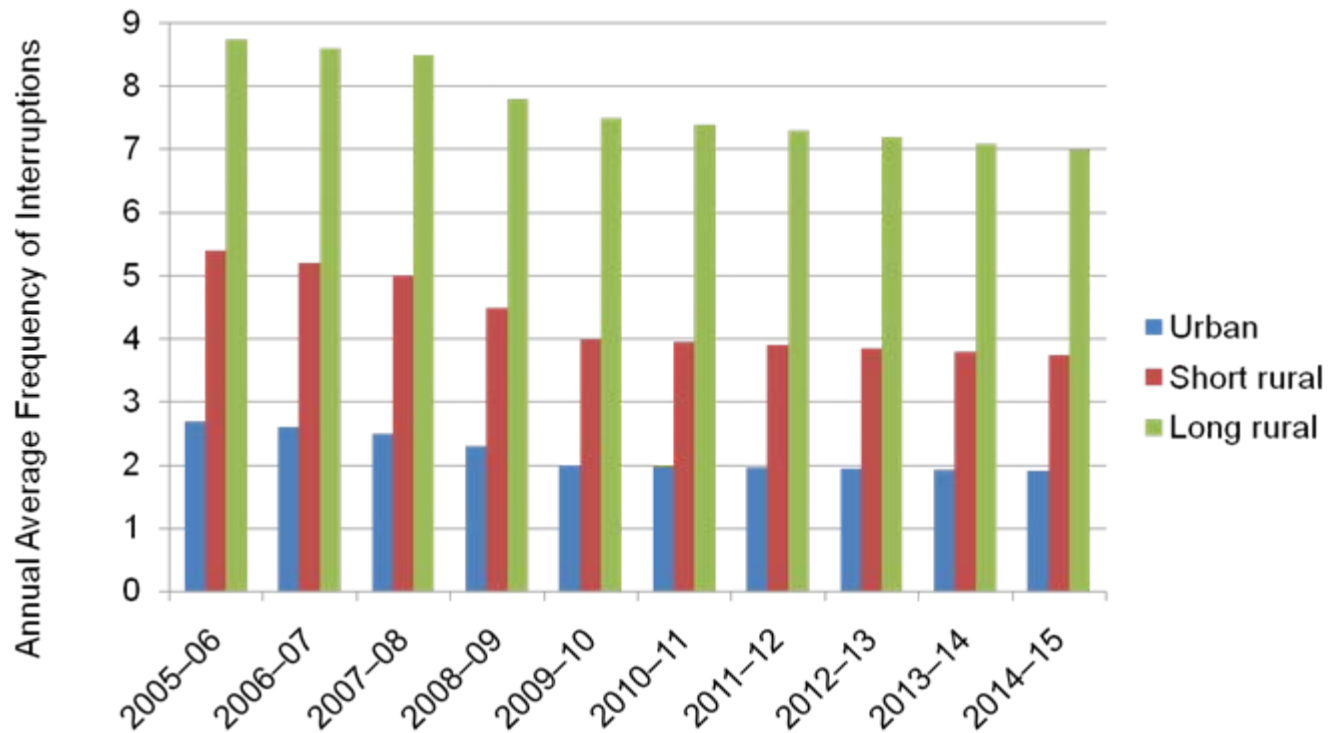
SAIDI



Expenditure program structured to meet increasingly onerous SAIDI standards under the Queensland Electricity Industry Code

Outcomes - Service Performance Targets

SAIFI



Expenditure program structured to meet increasingly onerous SAIFI standards under the Queensland Electricity Industry Code



Outcomes - Indicative Prices

- Indicative prices are based on our proposed Annual Revenue Requirement (ARR).
- The AER makes its decision that sets our actual ARR in April 2010.
- We will then prepare a pricing proposal which will accurately fix prices for customers.

Alternative Control Services – Street Lighting

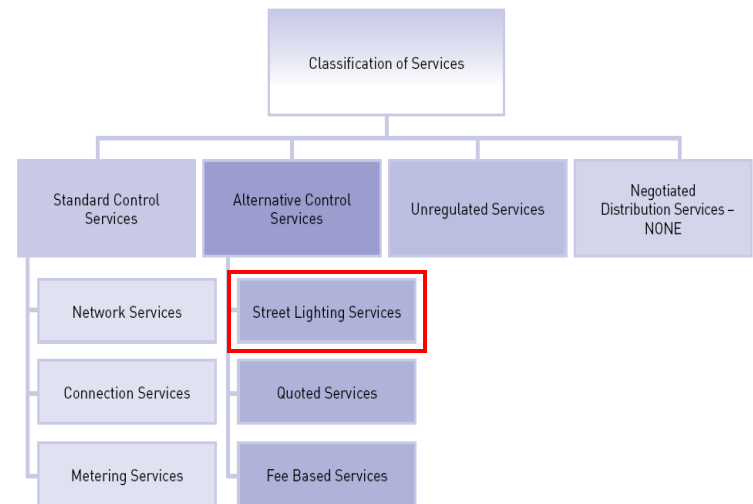
- Service 1 – provision of new assets

- Service 3 – alteration and relocation of existing assets

Quoted Service

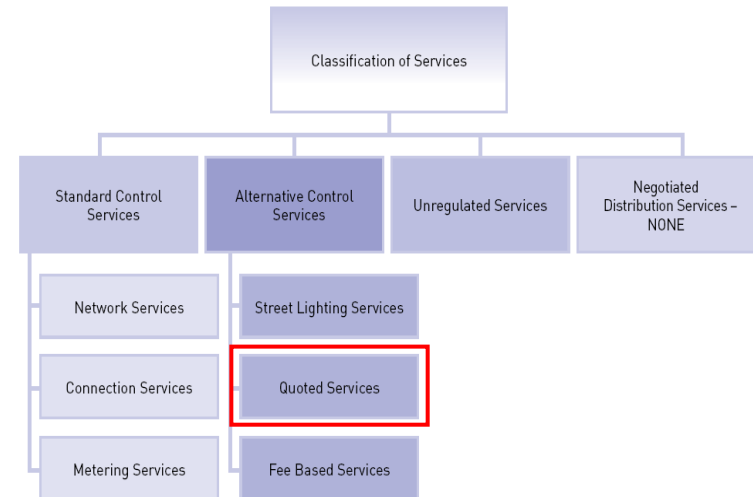
- Service 2 – operation, replacement and maintenance of assets owned by Ergon Energy only

Street lighting service



Alternative Control Services – Quoted Services

- Ergon Energy must make an assessment of the works required in order to determine cost
- Requested by retailers or customers and attract a customer-specific charge
- Examples:
 - The design and construction of new large customer connection assets;
 - The provision of emergency recoverable works; and
 - The removal or relocation of Ergon Energy's assets at a customer's request.



Alternative Control Services – Fee Based Services

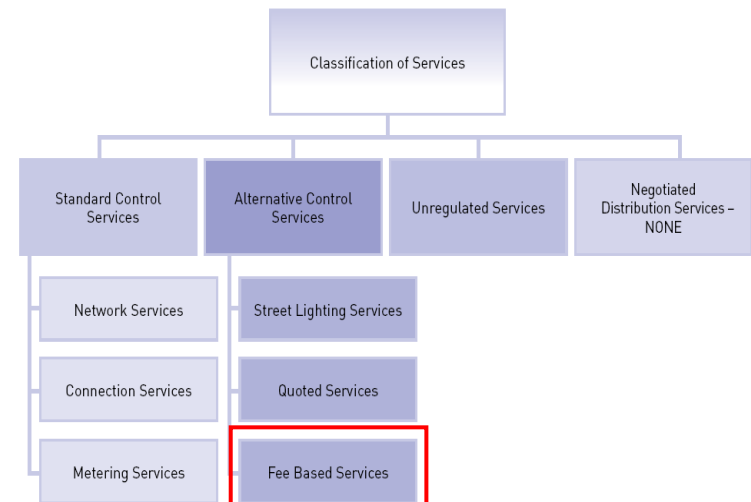
One-off services provided to specific customers for a fixed service fee.

Examples:

De-energisations and re-energisations

Temporary builder's supplies

Supply abolishments



Delivering the Program

Requirements:

- Average annual increase in physical work: 9.5%
- Annual productivity improvement: 3%
- Required annual system workforce growth: 6.5%

This is in line with historic trends and deliverable due to:

- trade and technical roles are largely self-sufficient through apprentice and graduate programs
- 25 engineering graduates in internal graduate program
- low attrition levels by industry standards





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In summary

Our Regulatory Proposal 2010-15

Delivering our Vision



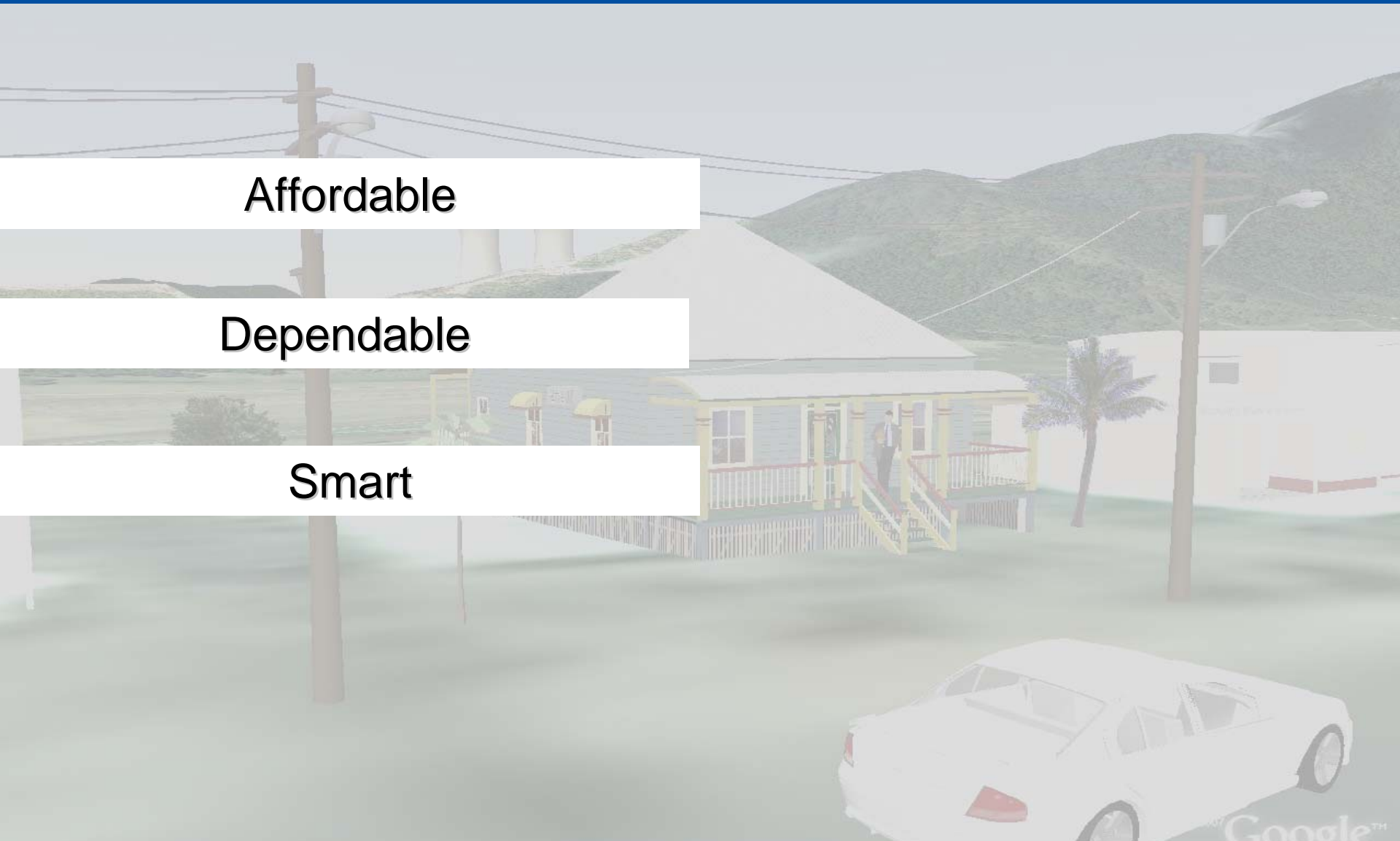
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Delivering for our customers

Affordable

Dependable

Smart



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Streaming 100%

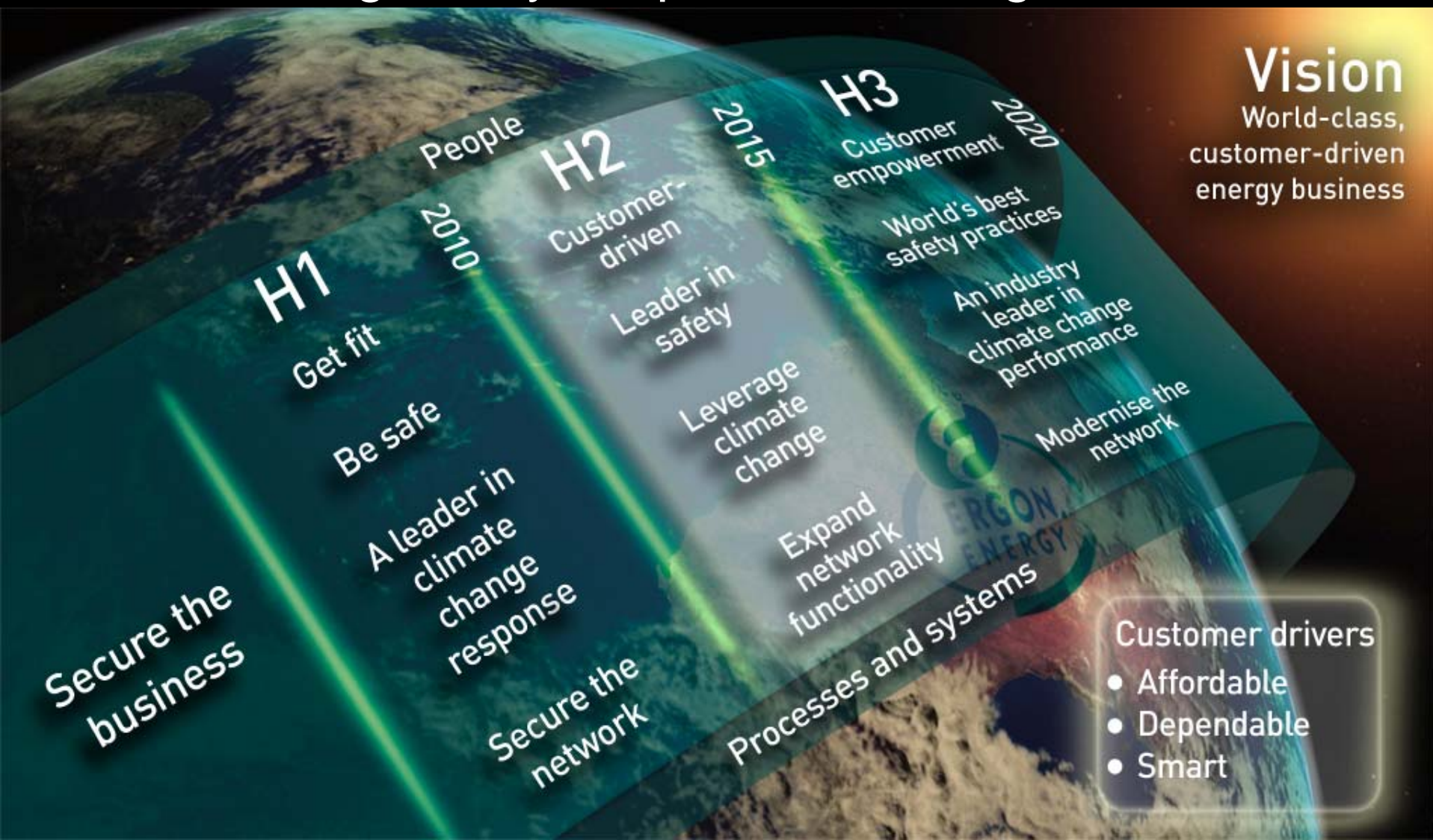
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2010-15 Regulatory Proposal: enabling our transition





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Questions