New South Wales Auditor-General's Report
Financial Audit

Volume Four 2011
focusing on Electricity

audit office
OF NEW SOUTH WALES

The role of the Auditor-General

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

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

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

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

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

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

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Pursuant to the *Public Finance and Audit Act 1983*, I present Volume Four of my 2011 report.

Peter Achterstraat.

Peter Achterstraat
Auditor-General
2 November 2011

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Significant Items

This summary shows the items I have highlighted in this report.

Recommendations

	Page
Cobbora Holding Company Pty Limited	
The Treasurer should consider releasing the Energy Reform Strategy relating to the development and ownership of the Cobbora Coal Project for public scrutiny to ensure transparency of the energy reform process. There should be a clearly articulated business plan to demonstrate to the people of New South Wales the benefits from the project.	29

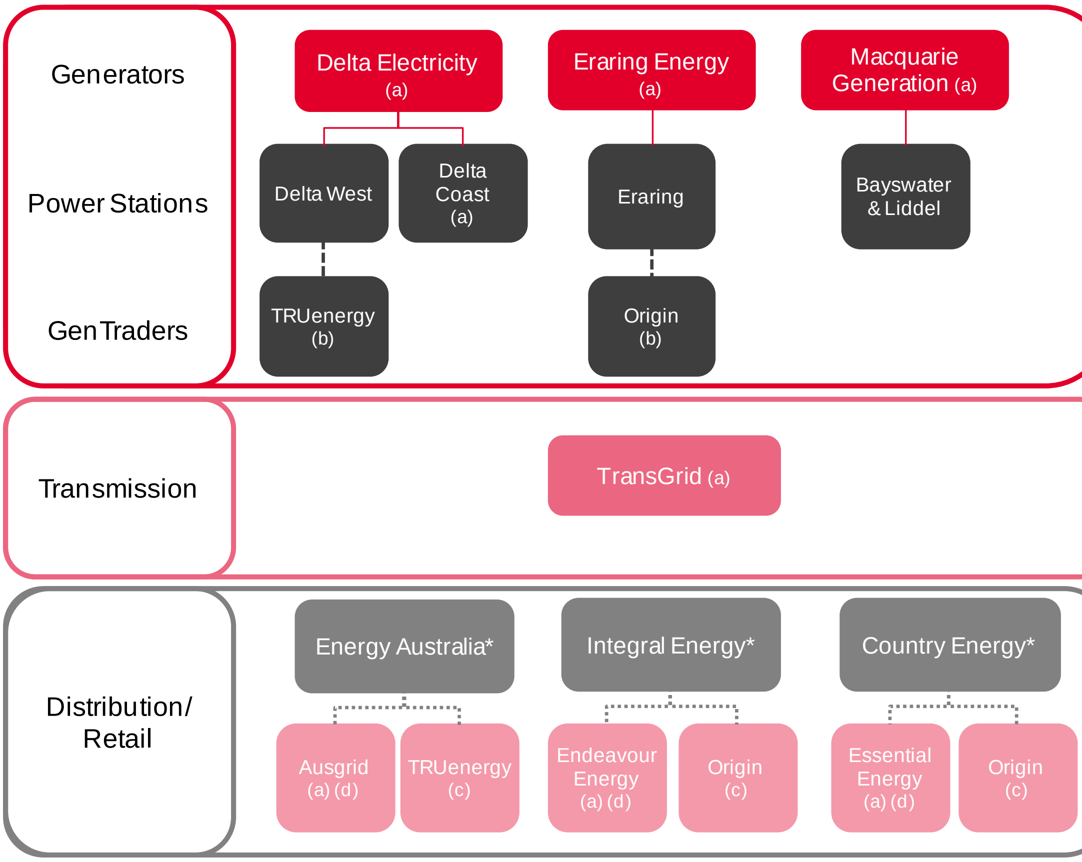
Section One

Overview

Electricity Industry Overview

Electricity Corporations and Audit Opinions

There were seven State owned corporations involved in the production and distribution of electricity prior to the Electricity Sale Transactions.



Key:

a government owned

b owns 100 per cent of generated electricity output

c purchased the retail operations and brand names of the former Government owned retailers

d electricity transmission and distribution network (poles and wires)

* brand names sold to purchasers.

The audits of the government owned corporations' financial statements for the year ended 30 June 2011 resulted in unmodified audit opinions within the Independent Auditor's Reports. The Independent Auditor's Reports for two generators, Macquarie Generation and Delta Electricity, drew attention to significant uncertainties in assessing the value of power station assets due to the unknown impacts of the Australian Government's carbon price scheme.

Key Issues

Sale of New South Wales Government's Electricity Retail and Trading Rights

Origin Energy and TRUenergy commenced trading the electricity outputs of the Eraring (Eraring power station and Shoalhaven) and Delta West power stations from 27 February 2011 and 1 March 2011 respectively. Origin Energy became the retail electricity provider for the customers of Integral Energy and Country Energy, while TRUenergy became the retail electricity provider for EnergyAustralia.

Overall Results of the sale transactions

The electricity sale transactions resulted in a net profit (based on book value) of $1.2 billion. This comprised a loss on the sale of the electricity generation output (GenTrader) and a profit on the sale of the electricity retail businesses. The results by sector are:

Sale Component	Sale proceeds $m	Net assets sold $m	Profit/(loss) $m
Generation (Delta West and Eraring)	1,506.9	3,355.9	(1,849.0)
Retail (EnergyAustralia, Integral Energy and Country Energy)	3,786.4	703.5	3,082.9
Totals	**5,293.3**	**4,059.4**	**1,233.9**

Proceeds from the electricity sale transactions were $5.3 billion resulting in a profit of $1.2 billion.

The significant loss incurred by the electricity generation businesses was primarily due to write-downs in the values of the power stations to reflect their sale price.

The proceeds from selling the generation output represented only 41.9 per cent of the carrying value of applicable power station assets at the time of sale. The carrying value represented Delta Electricity's and Eraring Energy's expectation of net cash to be earned over the remaining life of the power stations. The expectation for Delta Electricity did not include an estimate for the impact of a carbon price scheme.

Proceeds from sale of electricity generation output equals 41.9 per cent of the carrying value of power station assets

Last year, I reported the government's strategy was to significantly increase private sector investment in new generation capacity for New South Wales and increase competition in the NSW electricity market. I indicated that achieving this objective may require some trade-offs between maximising the financial return to the government and minimising potential ongoing government liabilities.

Sale of Electricity Generation Output

In this section, Origin Energy and TRUenergy are referred to as the GenTraders, while Delta Electricity and Eraring Energy (State owned corporations) are referred to as the Owners.

Under the government's Energy Reform Strategy, Generation Trading Agreements were executed on 1 March 2011 whereby all the electricity generation output of:

- Eraring and Shoalhaven power stations was sold to Origin Limited (GenTrader) with effect from 27 February 2011
- Mt Piper and Wallerawang power stations (Delta West) was sold to TRUenergy Pty Ltd (GenTrader) with effect from 1 March 2011.

The upfront sale proceeds and carrying values of the relevant assets immediately prior to the sale were:

	Delta Electricity $m	Eraring Energy $m	Total $m
Proceeds From Sale			
Right to generation output	453.8	867.1	1,320.9
Fuel stock and other items	76.0	92.4	168.4
Development sites	17.6	--	17.6
Total	**547.4**	**959.5**	**1,506.9**
Carrying Value of Assets Immediately Prior to Sale			
Power stations	1,348.7	1,805.7	3,154.4
Fuel stock and other items	96.8	100.7	197.5
Development sites	4.0	--	4.0
Total	**1,449.5**	**1,906.4**	**3,355.9**
Loss	**(902.1)**	**(946.9)**	**(1,849)**

Sale proceeds of $1.3 billion for the rights to the generation output were paid directly to the Crown. The Owners were permitted to retain the sale proceeds relating to fuel stock, development sites and other items.

An Australian Tax Office private ruling is currently being sought to clarify the tax deductibility of capacity charge payments made by the GenTraders. If a positive outcome is achieved, an additional amount of approximately $258 million will be received by the Crown (Delta Electricity $60.0 million and Eraring Energy $198 million).

The sale proceeds achieved were less than half the carrying value of the assets sold. The carrying value of the State's remaining generation assets were not adjusted based on the sale results because the sale was for a bundle of assets.

Sale of Electricity Retail Businesses

The sale of the electricity retail businesses to TRUenergy and Origin Energy (the purchasers) was completed on 28 February 2011 and 1 March 2011 respectively.

Profit on sale of retail businesses

The profit on sale of the three retail businesses and the Marulan development site (owned by EnergyAustralia) was $3.1 billion. The table below shows the proceeds received and related costs:

	EnergyAustralia $m	Country Energy $m	Integral Energy $m	Total $m
Sale proceeds	1,486.4	1,300.0	1,000.0	3,786.4
Transaction related costs and adjustments	238.5	224.3	240.7	703.5
Profit on Sale	**1,247.9**	**1,075.7**	**759.3**	**3,082.9**

Included in the sale were the vendors existing customer contracts and brand names. The vendors retained $380 million of the sale proceeds as reimbursement for transaction related expenses. The vendors paid the Crown the remaining sale proceeds of $3.4 billion as special dividends before 30 June 2011.

Each Vendor was required to rebrand their business, the new names are:

Former Name	New Name	Website
EnergyAustralia	Ausgrid	www.ausgrid.com.au
Integral Energy Australia	Endeavour Energy Australia	www.endeavourenergy.com.au
CountryEnergy	Essential Energy	www.essentialenergy.com.au

The vendors retain ownership of the local electricity distribution network.

The vendors continue to assist the purchasers in accordance with the Transitional Services Arrangements entered into as part of the Sale and Purchase Agreements.

Stranded costs

Stranded costs include staff redundancies, data migration and rebranding costs. The three corporations recognised provisions of $123 million for stranded costs at 30 June 2011, which will be settled over the next three to five years. Stranded costs estimated for each corporation are:

	Ausgrid $m	Essential Energy $m	Endeavour Energy $m	Total $m
Stranded cost provision recognised in 2010-11	71.1	50.0	2.0	123.1

Other stranded cost estimates not provided for include five year employment guarantees for affected Retail staff not yet formally notified.

Working capital and purchase price adjustment

A review of the working capital adjustment required under the Sale and Purchase Agreements was not finalised at the time of this report. The adjustments are to achieve working capital asset reconciliation amounts as allowed for in the agreements.

The final amounts will be settled once the results of an independent audit are agreed by the three corporations and the purchasers during November 2011.

Rationalisation of Distribution Businesses

To deliver more efficient outcomes for customers, the New South Wales Government announced plans to rationalise the existing distribution businesses from three to two, creating a single metropolitan and single regional distributor. The aim is to save $400 million in combined operating costs over four years. The government expects this process to be completed by the end of 2011-12, with the new entities established by June 2012.

Cobbora Coal Mine Development

In my 2010 Report, Volume Four, I recommended the government take steps to ensure the timely development of the Cobbora mine if it is to realise its plan to secure an efficiently priced coal supply for the electricity generators.

In January 2011, Cobbora Holding Company Pty Limited was established to facilitate the development of the Cobbora coal mine. The new company acquired all the shares of the three New South Wales owned generators' subsidiaries in the Cobbora Coal Mine joint venture for $115 million. Coal production is expected to commence in 2015.

Comment on Cobbora Holding Pty Limited appears later in this report.

Special Commission of Inquiry into the Electricity Sale Transaction

The Government announced a Special Commission of Inquiry into the Electricity Sale Transactions. The inquiry commenced on 29 April 2011 and is expected to report its findings on 31 October 2011. The government's future plans for the remaining State owned electricity assets are not yet known.

At the date of this report the government retains ownership of:

- Bayswater and Liddell power stations (Macquarie Generation)
- Vales Point, Munmorah and Colongra power stations (Delta Electricity)
- High-voltage transmission network (TransGrid)
- Local distribution network service providers (Ausgrid, Essential Energy and Endeavour Energy Australia).

Electricity Prices

Wholesale prices

Electricity wholesale prices in the National Electricity Market (NEM) decreased during 2011. The average spot price for 2010-11 in New South Wales was $36.74 per megawatt hour, a decrease of 16.9 per cent from the 2009-10 average of $44.19. The reduction was attributed to less extreme weather events resulting in fewer periods of high demands. Other less significant factors include: the end of the prolonged drought on generating capacity, fewer planned and unplanned outages and constraints on the flow of electricity into the State from other regions in the NEM.

The wholesale (spot) price of electricity has been subject to volatility since the inception of the NEM in 1997. The average spot price in New South Wales over the past five years has been around $38 per megawatt hour.

Average annual wholesale spot prices of electricity:

Year ended 30 June	NSW $/MWh	Vic $/MWh	Qld $/MWh	SA $/MWh	Tas $/MWh
2011	36.74	27.09	30.97	32.58	29.45
2010	44.19	36.28	33.30	33.31	29.37
2009	38.85	41.82	34.00	50.98	58.48
2008	41.66	46.79	52.34	73.50	54.68
2007	58.72	54.80	52.14	51.61	49.56

Source: Australian Energy Market Operator (AEMO) extract from *Average Annual Prices per Financial Year*.

Under the existing market rules for the NEM, average spot prices can range between a minimum of negative $1,000 and a maximum of $12,500 per megawatt hour. The price volatility introduces uncertainty to cash flows and returns on investment. In response, market participants manage the impact of price volatility through the use of electricity fixed price contracts (derivative financial instruments).

The highest and lowest electricity prices recorded in New South Wales in the year to 30 June 2011 were:

Highest/lowest half hour wholesale price and corresponding demand for NSW

Financial year ended	Price per MWh $	Demand (MW)	Date	Time
2011	12,136.17	14,525.73	1 Feb 11	4.00 pm
2010	9,283.95	13,266.99	20 Nov 09	1.00 pm
2011	(147.03)	10,399.64	30 May 11	1.30 pm
2010	(264.31)	12,572.39	11 Feb 10	3.30 pm

Source: Australian Energy Market Operator (AEMO): extract from daily *Price and Demand Data Sets*.

Highest/lowest average daily wholesale price for NSW

Financial year ended	Average price per MWh $	Date
2011	1,281.98	1 Feb 2011
2010	1,884.64	7 Dec 2009
2011	17.36	31 Oct 2010
2010	16.80	16 Aug 2009

Source: AEMO: extract from ‘Average Daily Prices – Historical’.

Electricity price outlook

The components of retail customers’ electricity bills comprise:

- energy costs (40 per cent of regulated electricity bills): purchasing wholesale electricity from the National Electricity Market, including costs associated with green schemes such as the Commonwealth Renewable Energy Target Scheme, the NSW Greenhouse Gas Reduction Scheme and the NSW Energy Saving Scheme (energy costs vary according to time of day and season)
- network charges (48 per cent of regulated electricity bill): charges for using the transmission (eight per cent) and distribution (40 per cent) networks to transport electricity from the power stations to customers’ properties (network costs vary by location)
- retail charges (12 per cent of regulated electricity bills): cost of running a retail business (e.g. transferring customers, reading meters, billing and dealing with customer enquiries) and the provision of a retail margin.

From 1 July 2011, regulated electricity retail prices for residential and small business customers increased by an average of 17.3 per cent.

The drivers behind regulated electricity retail price increases are network costs and green scheme costs, accounting for 87 per cent of the price increases.

The drivers of regulated electricity price increases are network and green scheme costs, which account for 87 per cent of increases.

In June 2011, the Independent Pricing and Regulatory Tribunal (IPART) issued the final report for changes in regulated electricity retail prices from 1 July 2011.

Cost increases for the next two years are shown below:

	Average price increase for each supply area from:		Increase in annual bill from 1 July 2011:		Estimated increase in annual bill from 1 July 2012:	
	1 July 2011 %	1 July 2012 (estimated) %	Residential Customers $	Business Customers $	Residential Customers $	Business Customers $
EnergyAustralia	17.9	10.0	230	359	151	236
Integral Energy	15.5	2.0	216	307	32	46
Country Energy	18.1	9.5	316	528	196	327

Source: IPART - Changes in regulated electricity retail prices from 1 July 2011 (June 2011).

IPART's estimated price increases from 1 July 2012 exclude the impact of the Australian Government's carbon price.

IPART states that the Australian Government's Renewable Energy Targets (RET) have recently emerged as a new factor contributing to increases in prices.

Price increases applicable from 1 July 2011 comprised:

Indicative increases in regulated electricity prices for 1 July 2011 (per cent)

	EnergyAustralia	Integral Energy	Country Energy
Increases in network charges	9.6	7.3	10.9
New costs arising from changes to RET	6.0	6.2	5.0
Increases in wholesale energy costs	0.9	1.5	1.2
Increases in retail costs and margin	0.9	0.8	1.0
Other	0.5	(0.2)	0.0
Cumulative increases on 1 July 2011	**17.9**	**15.5**	**18.1**

Source: IPART - Changes in regulated electricity retail prices from 1 July 2011 (June 2011).

Increases in network charges above are passed through to the distribution network service providers and form the regulated incomes of Ausgrid, Endeavour Energy Australia and Essential Energy.

Increases in network charges are caused by the significant capital investment programs network businesses undertake to:

- cope with growing loads and to meet rising peak demand as the State's population grows and patterns of energy use change
- replace aging assets
- meet more rigorous licensing conditions intended to improve network security and reliability.

Network costs may be higher than needed.

IPART expressed concern that network costs may be higher than needed. IPART made a series of recommendations to address inappropriate policy settings relating to network standards and the economic regulatory framework.

IPART stated that increased green scheme costs are largely as a result of the Australian Government's RET scheme. The RET scheme is designed to ensure that 20 per cent of Australia's electricity supply comes from renewable sources by 2020. IPART states that the cost of complying with this scheme increased significantly since 2010. Electricity retailers are able to recover the costs of meeting RET obligations from customers.

Sustainable Energy

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

Government initiatives and policies to develop and encourage the growth of sustainable energy sources include:

Renewable Energy

For the calendar years 2009 to 2010, electricity generation from black coal has reduced by 4.8 per cent while electricity for renewable sources has increased by 33.5 per cent. The largest increase came from wind generation, which has grown by 964 per cent over the twelve month period.

The Australian Bureau of Statistics data relating to the previous twelve months indicates that approximately seven per cent of New South Wales electricity is sourced from renewable energy sources. The New South Wales Government has set a target of 20 per cent renewable energy consumption by 2020 in line with the national Renewable Energy Target scheme.

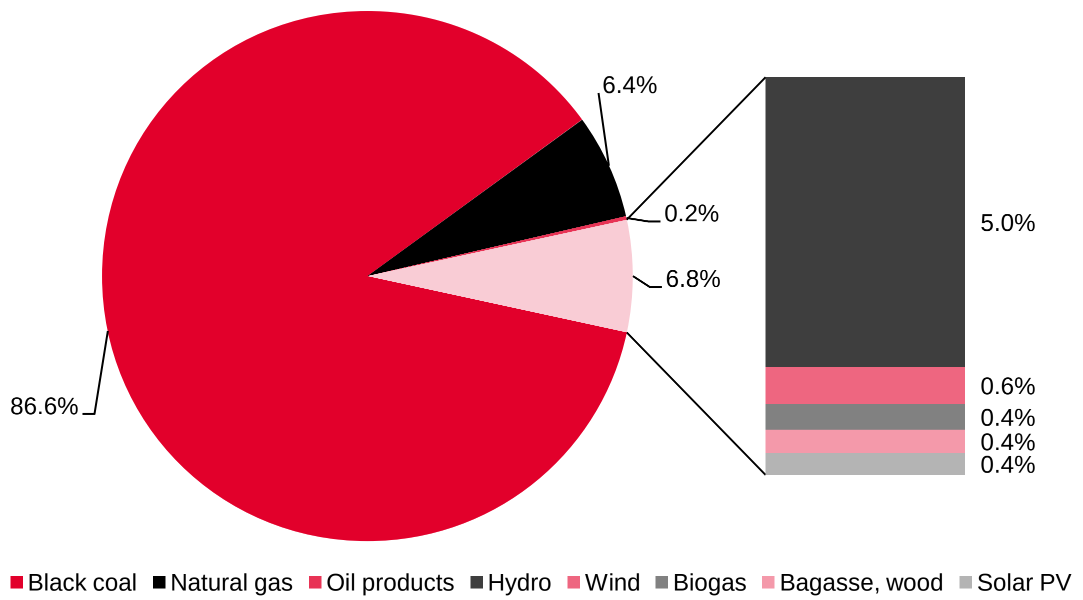
Energy from renewable sources in NSW

Energy source	2010 MWh	2009 MWh	change %
Hydro	3,695.4	3,021.4	22.3
Wind	470.3	44.2	964.0
Biogas	328.7	282.9	16.2
Bagasse, wood	295.3	291.3	1.4
Solar PV	278.0	156.0	78.2
Totals	**5,067.7**	**3,795.8**	**33.5**

Source: Australian Bureau of Statistics (ABS): extract from *Electrical Generation by Fuel Types.*

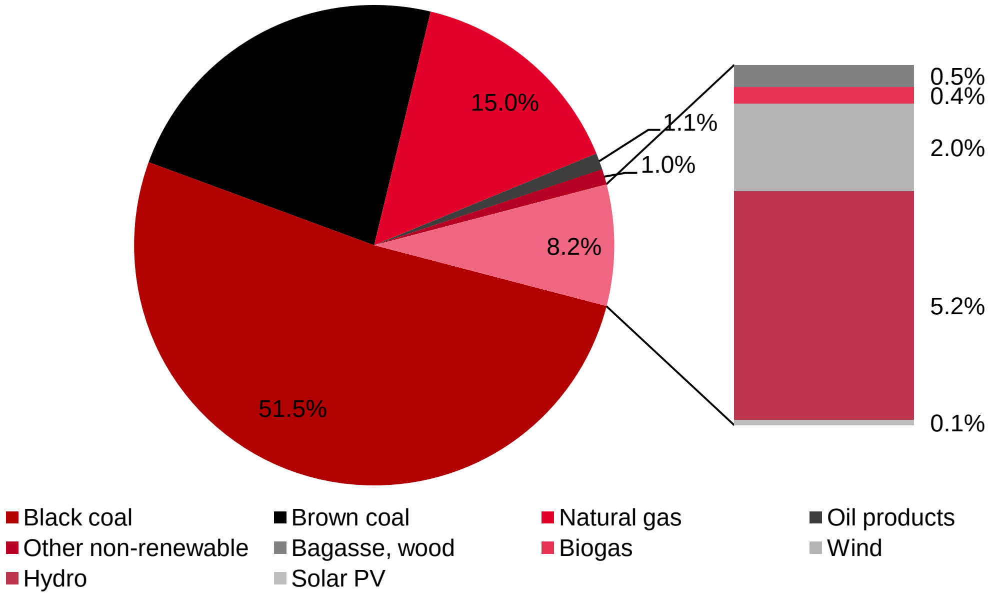
Black coal continues to be the major source of electricity generation in New South Wales as shown below.

Electricity Generation in NSW from all Sources 2010



On an Australian-wide NEM basis, coal-fired and non-renewable generation, currently supplies approximately 93 per cent of electricity generation, down 2.3 per cent from the previous period. The electricity sector still contributes 35 per cent of Australia's greenhouse gas emissions.

Electricity Generation in Australia from all Sources 2010



Source: Australian Bureau of Statistics (ABS): extract from *Electrical Generation by Fuel Types.*

Impact of Carbon Price

The Australian Government released 'Securing a Clean Energy Future – the Australian Government's Climate Change Plan' on 10 July 2011. The announcement provided a framework for a carbon reduction scheme, including the start date and the carbon price for the initial three year fixed period. A carbon price of $23 per tonne of CO2 is to commence by 1 July 2012 and will increase gradually until 2015 when a market based trading scheme commences.

Under the legislation, about 500 of the biggest carbon emitters will pay the carbon price. These include New South Wales Government owned electricity generating corporations. Government corporations are not entitled to any form of compensation under the legislation.

Delta Electricity's assessment of the impact of the scheme resulted in a $318 million write-down of its Central Coast power stations.

Current modelling by Macquarie Generation on the impact of a carbon price indicates there could be a significant reduction in the value of its power plant assets.

Under the GenTrader Agreements in place with Delta Electricity and Eraring Energy, the GenTrader, not the Owner, is responsible for any carbon tax liability arising from the carbon emissions of the Delta West and Eraring power stations.

Customer initiatives - GreenPower

When customers choose to buy a GreenPower product through their electricity retailer the extra price they pay is invested in renewable energy. In New South Wales for the year ending 30 June 2011, GreenPower customers decreased by 8,873 or 4.7 per cent compared to the previous year.

The table below highlights that residential customers in New South Wales decreased by 9.4 per cent compared with a 127 per cent increase in commercial customers.

	NSW		Australia	
	2011*	2010	2011*	2010
Residential Green Power:				
Customer numbers	165,120	182,296	720,282	802,628
Sales MWh	219,959	242,099	974,882	1,115,735
Commercial Green Power:				
Customer numbers	14,825	6,522	52,138	39,300
Sales MWh	318,666	278,616	1,108,808	1,107,652
Total Green Power customer numbers	**179,945**	**188,818**	**772,420**	**841,928**

Source: data extracted from the National GreenPower Accreditation Program Status Reports for the quarters ended 30 September 2009 to 31 March 2011.

* Data for the June 2011 quarter MWh has been substituted with 31 March 2011 quarter MWh data to enable annual comparison.

Solar Bonus Scheme

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

In the eighteen months to 30 June 2011, the Scheme achieved 132,061 customer connections (25,717 in 2010) and produced 226,929 megawatts hours of green electricity at a cost of $142 million to the New South Wales electricity distribution networks.

Details of the Scheme’s operations will be contained in my November 2011 Report to Parliament prepared under section 194(1) of the *Electricity Supply Act 1995.*

Electricity Supply and Demand Outlook

Projected electricity demand in New South Wales, with medium economic growth, is currently expected to exceed supply by 341 megawatts by 2018-19.

The Australian Energy Market Operator (AEMO) provides the supply and demand outlook for each State, which includes:

- an indication of the capability of existing and committed supply to meet projected demand for the next ten years
- the Low Reserve Condition (LRC) point, which indicates when reserves will fall below the required level to avoid possible shortage of supply
- the Reserve Deficit in megawatts (MW), which indicates the additional reserves potentially required at the LRC point.

Summary Overview of LRC and Reserve Deficit

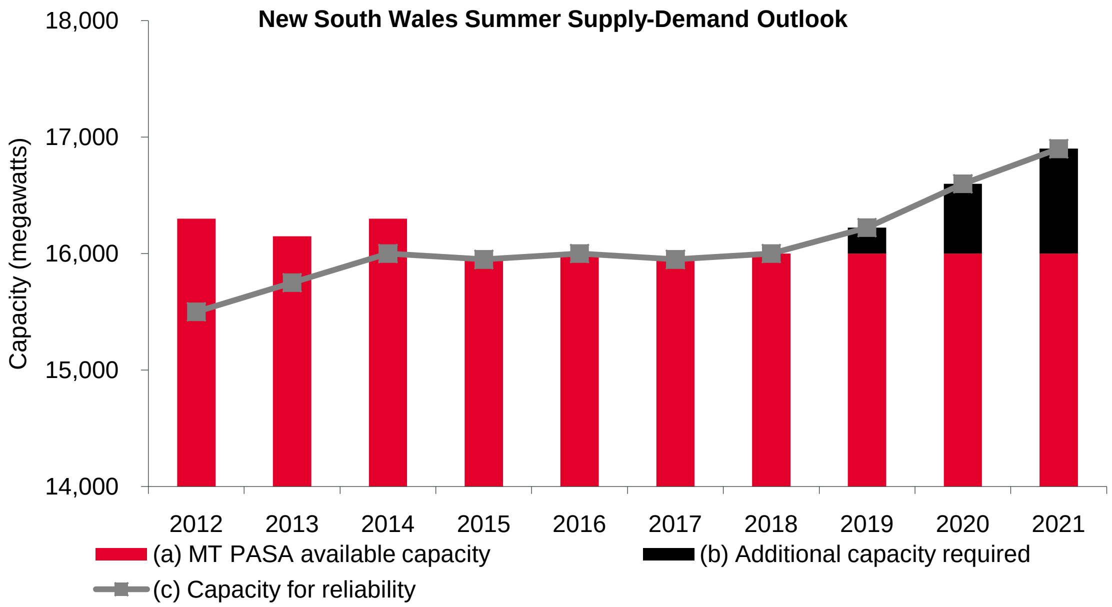
State	2011 LRC Point	2011 Reserve Deficit (MW)	2010 LRC Point	2010 Reserve Deficit (MW)
New South Wales	2018-19	190	2016-17	27
Queensland	2014-15	341	2013-14	726
Victoria	2016-17	96	2015-16	249
South Australia	2016-17	46	2015-16	50
Tasmania	Beyond 2019-20	N/A	Beyond 2019-20	N/A

Source: AEMO Electricity Statement of Opportunities (ESOO) 2009 and 2010.

In 2011, the LRC point for New South Wales was two years later than the 2010 projection. This is in part due to increases in existing generation capacity, the addition of new local generation and demand side management.

Highest Demand in Summer

For New South Wales, the tightest supply-demand conditions are again expected to occur during summer. The summer supply–demand outlook for the New South Wales region commencing in summer 2012-13 for the following eight years is shown in the following chart:



Source: AEMO extract from AEMO Electricity Statement of Opportunities for the National Electricity Market 2011.

a MT PASA Allocated Installed Capacity: Represents the current projection of installed generation capacity allocated to meet the reliability requirement for the region (Capacity for Reliability). It includes the available capacity within a region plus the allocated net import from neighbouring regions.

b Additional Capacity Required: Represents the difference between the Capacity for Reliability and the Allocated Installed Capacity. This also represents the reserve deficit.

c Capacity for Reliability: represents the capacity that needs to be allocated to meet the minimum reserve level.

The New South Wales LRC occurs in 2019 when the additional capacity required is 190 megawatts (MW). If the additional capacity is not created by this time, supply will fall below minimum reserve levels (as indicated by the solid line), which may necessitate load shedding and periods of blackouts for some customers.

The AEMO Electricity Statement of Opportunities for 2011 notes that with medium economic growth, New South Wales reaches its LRC point in 2018–19, when it will require at least 190MW of new generation or demand-side investment to delay this shortfall until the following year. Historical wind contribution factors at times of maximum demand indicate that new wind generation will contribute approximately nine per cent towards meeting the 190 MW deficit.

The projected LRC point does not necessarily mean generating capacity will be insufficient to meet expected demand at this time, but it provides investors with an indication of the opportunities that may exist for future investment.

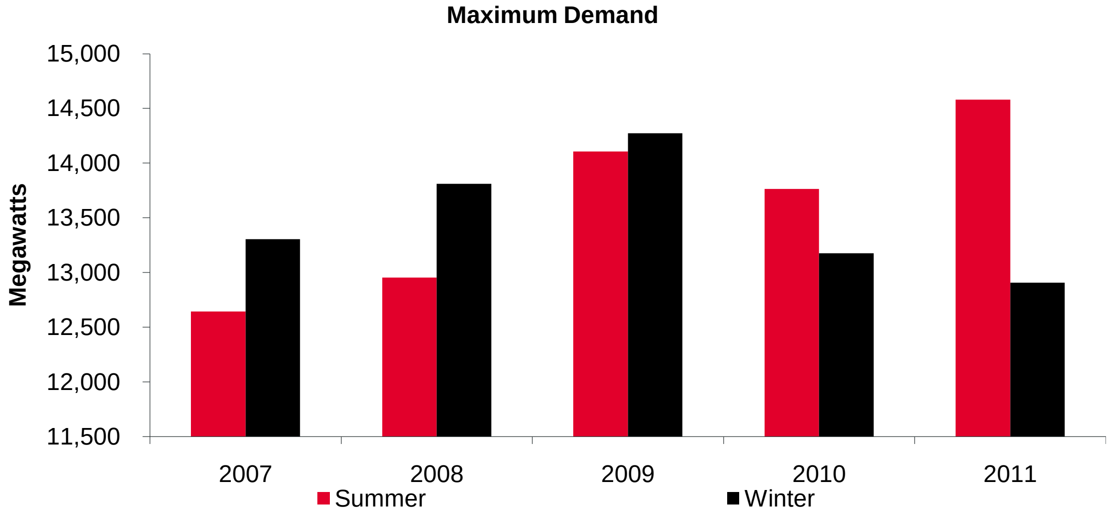
Peak and Average Demand and Energy Growth Rates

The AEMO reported the following average growth rates in energy consumption and peak demand growth rates per year for electricity in New South Wales.

Average Growth rate per year	2011	2010	2009
Peak demand increase/(decrease) (%)	2.0	2.3	(1.3)
Energy consumption increase/(decrease) (%)	1.6	1.8	(4.3)

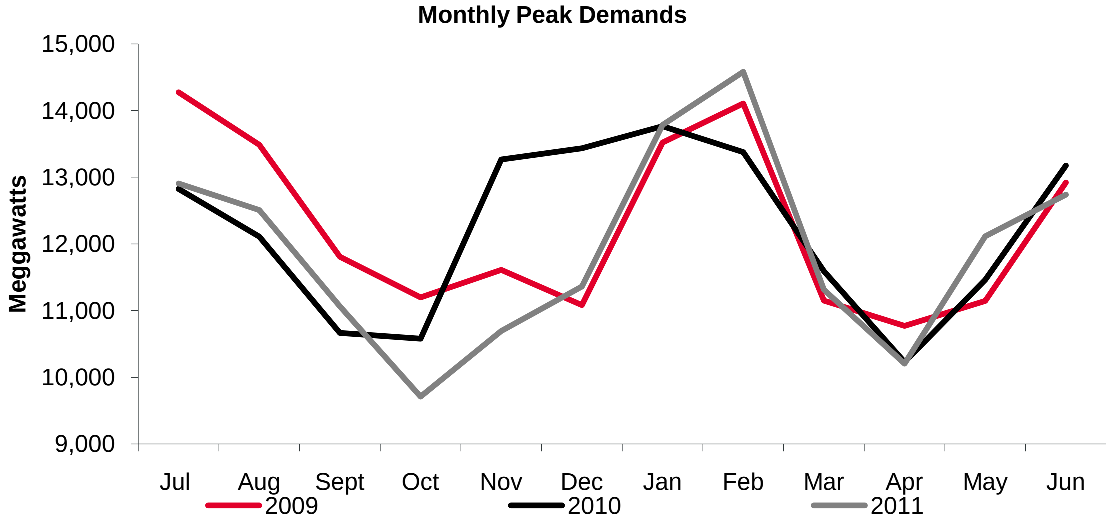
Source: AEMO Electricity Statement of Opportunities for the National Electricity Market 2009, 2010 and 2011.

AEMO attributes the decrease in peak demand and energy growth rates for 2011 in New South Wales primarily to lower than expected economic growth. AEMO notes that TransGrid's 2011–12 energy projection is 5.4 per cent lower than last year's due to slower than expected economic growth. The graph below highlights maximum demand (megawatts) in summer and winter over the last five years.



Source: AEMO NSW half hour demand data per financial year.

Peak demands for 2011 occurred in summer on 1 February 2011 and in winter on 2 July 2010.



Peaks in maximum demand

Year	Summer		Winter	
	MW	Date	MW	Date
2011	14,580	1 February 2011	12,908	2 July 2010
2010	13,765	22 Jan 2010	13,176	29 Jun 2010
2009	14,106	6 Feb 2009	14,274	28 July 2008

Performance Information

Financial Performance

Total revenue for the State owned New South Wales electricity businesses decreased by $425 million to $12.0 billion for 2010-11. Expenses, including tax, increased. However, profit after tax increased to $3.6 billion for the year ($1.2 billion in 2009-10) because the current year profit includes the gain arising from the sale of electricity assets.

Returns on equity and assets decreased from the previous year.

The following tables are based on analysis of the consolidated operations of the electricity businesses.

Year ended 30 June	2011	2010	2009
Return on average equity (%) (a)	4.7	11.5	8.9
Return on average assets (%) (b)	5.4	7.22	6.5
Interest cover times (c)	1.4	1.8	2.3
Debt to equity ratio (%) (d)	153.2	151.6	157.9

Calculated as:

a profit after income tax expense divided by average equity.

b profit before tax and interest expense divided by average assets.

c operating profit plus interest and tax expense divided by interest expense.

d external debt divided by equity (net assets).

Targets for these key ratios are not set for the New South Wales electricity industry. However, targets for individual agencies are detailed in the comment for each agency elsewhere in this report.

The change in ratios from 2009-10 to 2010-11 was due to the impact of the electricity sale transactions on generators.

Generators and Distributors

Profit after tax of the distributors increased from $686 million in 2009-10 to $3.8 billion in the current year including $3.1 billion profit on sale of retail operations. Profits after tax from generators decreased from $323 million profit to $370 million loss for the same period.

The table below shows key financial ratios for generators and distributors:

	Generators			Distributors		
	2011	2010	2009	2011	2010	2009
Return on average equity (%) (a)	(10.4)	9.6	5.8	14.5	1652	12.2
Return on average assets (%) (b)	(2.2)	7.8	4.7	7.1	7.9	7.3
Interest cover times (c)	(0.9)	3.4	3.1	1.7	1.3	2.1
Debt to equity ratio (%) (d)	49.6	71.9	68.4	253.4	243.2	287.8
Net assets ($m)	3,373	3,806	3,848	4,981	4,786	3,553
Profit/(loss) after tax ($m)	(369.5)	322.6	322	3,792.7	686.3	661

Calculated as:

a operating profit after income tax expense divided by average equity expressed as a percentage.

b operating profit before tax and interest expense divided by average assets expressed as a percentage.

c operating profit plus interest and tax expense divided by interest expense.

d external debt divided by equity (net assets).

Generators

The overall loss after tax was incurred largely due to the impairment of power station assets on executing the GenTrader agreements.

Financial performance worsened this year compared to the previous year. The major factor contributing to the deterioration in financial performance, after the power stations' impairment, was the decreased margins earned from the sale of electricity. Generators were impacted by an overall decrease in the average spot price for electricity.

Overall debt levels for generators decreased following the electricity sale transactions. The Crown assumed $700 million of Eraring's borrowings and $450 million of Delta Electricity's borrowings.

Distributors

Overall financial performance met or exceeded all financial performance targets, due largely to increased margins from the sale of electricity resulting primarily from increases to the regulated network tariff. Total assets increased mainly due to increased capital expenditure programs for distribution networks, funded by increases to the regulated network tariff and increased debt levels. The capital expenditure programs were announced as part of the distribution businesses current five year determination under the National Electricity Rules.

Profits after taxes and dividends paid by the distributors were higher than in the previous year.

Dividends for the current year included proceeds received from the electricity sale transactions that were paid to the Crown.

Transmission

TransGrid performed well against its targets. It made a profit before tax of $243 million in 2010-11 ($225 million) enabling it to return contributions to government totalling $210 million. These comprised a dividend of $134 million and taxation of $76.0 million.

Profit increased as a result of higher transmission income because of increases to the revenue cap approved by the regulator. In November 2009, the Australian Competition Tribunal granted TransGrid an increase in its prescribed revenue for the 2009-10 to 2013-14 regulatory period based on the substantial capital works proposed by TransGrid over the regulatory period.

Financial Information

Distribution to Government

Electricity entities' accrued and paid distributions to the government of $4.6 billion ($1.4 billion in 2009-10), comprising $569 million ($528 million) in taxation and $4.0 billion ($867 million) in dividends. Dividends paid in the current year included special dividends specifically relating to the electricity sale transactions of $3.4 billion.

Distributions to government	2011 $m	2010 $m
Profit after tax excluding the sale transactions	1,095.5	1,171.0
Dividends excluding special dividends	637.0	866.6
Profit on sale transactions	1,233.9	--
Special dividends	3,406.3	--

Dividend Policy

Dividend policies are agreed at the beginning of the financial year by the government's shareholding ministers and the individual agencies in each agency's Statement of Corporate Intent:

- generators pay 100 per cent of retained earnings after adjusting for fluctuations in superannuation actuarial adjustments and unrealised gains/losses on derivative valuation movements
- distributors and TransGrid pay between 44 and 80 per cent of retained earnings after adjusting for fluctuations in superannuation actuarial adjustments and unrealised gains/losses on derivative valuation movements.

There is a need for shared understanding and application of Treasury policies relating to dividends.

Delta Electricity and Eraring Energy reported after tax losses of $195 million and $300 million in 2010-11 respectively. Due to the losses both corporations did not declare dividends.

Following the electricity sale transactions, Treasury proposed changing the basis for calculating dividends for Eraring Energy and Delta Electricity as well as the timing of dividend payments by the distributors to the Crown. The proposed changes would have breached Treasury's polices on dividends that required agreement between the voting shareholder and the Corporation. The proposed changes were determined to be invalid and did not occur. However, the issue highlighted the need for a clearly shared understanding, interpretation and application of policies relating to dividends.

Industry Borrowings

Borrowings increased by $1.8 billion or 13.2 per cent over the last three years with annual borrowing costs increasing by $450 million or 51.1 per cent over the same period.

Borrowing costs (including capitalised interest) for the year were $1.3 billion compared to $1.2 billion in the previous year. The industry's borrowings at 30 June 2011 were $16.6 billion ($16.6 billion). The table and graph below highlight the trend in borrowings, which have increased in line with the significant capital works projects being undertaken.

	2011 $m	2010 $m	2009 $m
Generators			
Borrowing costs	201	215	145
External debt	1,673	2,737	2,631
Distributors			
Borrowing costs	963	865	616
External debt	12,624	11,640	10,170
TransGrid			
Borrowing costs	166	160	125
External debt	2,271	2,194	1,989
Total Borrowing Costs	**1,330**	**1,240**	**886**
Total External Debt	**16,568**	**16,571**	**14,789**

Other Information

Regulatory Pricing

The Australian Energy Regulator (AER) is the regulator for electricity. On 30 April 2009, it made a five year determination under the National Electricity Rules, which established the revenue requirements for each electricity distributor from 1 July 2009 until 30 June 2014. The determination is estimated to increase an average retail customer's annual electricity bill by $1.41 to $1.50 per week.

IPART is responsible for regulating electricity prices for small retail customers choosing to remain on a regulated tariff in New South Wales. In March 2010, a new regulated electricity tariff determination was made for the period from 1 July 2010 to 30 June 2013. The determination allows increases of between two and three per cent per annum over the determination period.

Analysis of the combined impact of the AER and IPART determination appears earlier in this report.

The AER is responsible for the regulation of transmission network charges. A determination for TransGrid's transmission services was issued on 28 April 2009, allowing a nominal return of four per cent on the weighted average cost of capital. This determination covers a five year period from 1 July 2009 to 30 June 2014.

The AER regulates the wholesale electricity market and is responsible for the economic regulation of the electricity transmission and distribution networks in the NEM. The AER is also responsible for the economic regulation of gas transmission and distribution networks and enforcing the national gas law and national gas rules in all jurisdictions except Western Australia.

The AEMC is responsible for developing the rules and providing policy advice on how best to develop energy markets over time in relation to the NEM and elements of natural gas markets.

Background

All New South Wales public sector electricity entities are statutory State owned corporations.

The entities have common objectives of:

- operating a successful business
- protecting the environment
- operating efficient, safe and reliable facilities for generating and distributing electricity and other forms of energy.

The shareholders of the corporations are the Treasurer and the Minister for Finance.

Industry Financial Tables

The abridged combined 2010–11 financial statements of consolidated entities for generators, distributors and TransGrid for and the previous year are shown below. Individual comments for each entity follow this section.

	Generators		Distributors		Transmission (TransGrid)		Total	
	2011 $m	**2010 $m**	**2011 $m**	**2010 $m**	**2011 $m**	**2010 $m**	**2011 $m**	**2010 $m**
Abridged Financial Statements (year ended 30 June)								
Revenue -Continuing operations	2,738.4	2,809.7	5,391.4	4,313.3	758.3	695.0	8,888.1	7,818.0
Revenue - Discontinuing operations	6.0	7.8	3,095.1	4,588.7	--	--	3,101.1	4,596.5
Total revenue	**2,744.4**	**2,817.5**	**8,486.5**	**8,902.0**	**758.3**	**695.0**	**11,989.2**	**12,414.5**
Profit/(loss) after income tax	**(369.5)**	**322.6**	**3,792.7**	**686.3**	**167.4**	**162.1**	**3,590.6**	**1,171.0**
Contributions to government -								
Dividends	130.0	291.1	3,779.4	440.4	133.9	135.1	4,043.3	866.6
Income tax paid	149.4	207.9	343.3	269.2	76.0	50.5	568.7	527.6
Total Assets	**7,380.8**	**9,349.8**	**23,146.7**	**21,841.0**	**6,182.0**	**5,939.1**	**36,709.5**	**37,129.9**
Total Liabilities	**4,007.6**	**5,544.1**	**18,165.4**	**17,055.2**	**3,722.8**	**3,598.6**	**25,895.8**	**26,197.9**
Net Assets	**3,373.2**	**3,805.7**	**4,981.3**	**4,785.8**	**2,459.2**	**2,340.5**	**10,813.7**	**10,932.0**
Retained earnings/ (losses) (at 30 June)	(390.1)	132.6	1,244.8	1,226.2	89.7	45.9	944.4	1,404.7
Financial Performance Indicators* (year ended 30 June)								
Return on average equity (%) (a)	(10.3)	8.4	14.5	16.5	7.0	7.5	4.7	11.5
Return on average assets (%) (b)	(2.2)	7.8	8.9	9.1	6.5	6.6	6.0	8.4
Interest cover (times) (c)	(1.8)	3.4	2.1	2.1	2.4	2.3	1.5	2.4
Debt/equity (%) (d)	49.6	71.9	253.4	243.2	92.3	93.8	153.2	151.6

Calculated as:

a operating profit after income tax expense divided by average equity expressed as a percentage.

b operating profit before tax and interest expense divided by average assets expressed as a percentage.

c operating profit plus interest and tax expense divided by interest expense.

d external debt divided by equity (net assets) expressed as a percentage.

Section Two

Agencies with Individual Comments

Minister for Resources and Energy

Treasurer

Ausgrid

The profit on sale of Ausgrid's retail operations and the Marulan development site was $1.2 billion.

Audit Opinion

The audits of Ausgrid and its controlled entities' financial statements for the year ended 30 June 2011 resulted in unmodified audit opinions within the Independent Auditor's Reports.

Unless otherwise stated, the following commentary relates to the consolidated entity.

Operational Snapshot

Ausgrid (formerly EnergyAustralia) supplies electricity to 1,619,988 customers in Sydney, the Central Coast and the Hunter Region in New South Wales.

Ausgrid made a profit of $1.5 billion after tax in 2010-11 which included a profit $1.2 billion on sale of its retail business and paid a special dividend of $1.4 billion to government from the proceeds of the sale.

Key Issues

Sale of Retail Business

As part of the government's Energy Reform Strategy, the electricity and gas retail assets of EnergyAustralia and one development site were sold to TRUenergy Pty Ltd on 1 March 2011. Included in the sale were EnergyAustralia's retail net assets, along with customer contracts, the EnergyAustralia brand name and one development site at Marulan. EnergyAustralia's name was subsequently changed to Ausgrid on 2 March 2011.

Ausgrid retains ownership of the electricity distribution network and continues to provide services to TRUenergy in accordance with the transitional services arrangement entered into with TRUenergy as part of the Sale and Purchase Agreement.

The profit on disposal of Ausgrid's retail operations and the Marulan development sites was $1.2 billion.

	$m
Proceeds for Sale	
Sale of retail business	1,480.0
Development sites	6.4
Total	**1,486.4**
Transaction related costs and adjustments	(238.5)
Profit	**1,247.9**

See the 'Electricity Industry Overview' section appearing earlier in this report for further details on the whole retail sales transaction.

Performance Information

Ausgrid provided the following information regarding its performance.

Operational Performance

The following table shows its performance in relation to customer satisfaction, employee safety and customer numbers.

Year ended 30 June	Target*	Actual				
	2011	2011	2010	2009	2008	2007
Customer satisfaction index (%) ***	95	93	96	96	97	94
Minutes customers were without supply	102	99	79	109	100	102
Lost time injury frequency – (hours per million hours worked)	<3	4.4	3.5	4.1	3.9	2.9
Customers at year end (000's)**	--	1,600	1,606	1,591	1,581	1,568

Source: Ausgrid Annual Report 2010-11 (unaudited).

* Target agreed with the Statement of Corporate Intent (SCI) 2010-11.

** Customer network connections at 30 June 2011.

*** Target applicable to 28 February 2011.

Customer minutes without electricity supply were better than target this year due to less severe disruption incidents, significant investment in the electricity network and overall milder weather conditions.

Financial Performance

Year ended 30 June	Actual				
	2011	2010	2009	2008**	2007
Earnings before interest and tax ($m)***	984.1	913.0	596.0	574.4	594.1
Return on average equity (%) (a)	17.2	19.0	12.4	12.1	12.4
Return on average assets (%) (b)	9.1	9.5	7.1	7.5	7.6
Debt to equity (%)	356.0	316.0	276.9	207.1	144.6
Interest cover (times)	2.1	2.1	2.2	2.5	2.7
Total distributions to government ($m)* (c)	1,733.7	386.5	272.0	272.1	277.7
Capital expenditure ($m) (excluding capital contribution)	1,577.8	1,319.0	1,291.0	951.1	783.5

* For 2011 includes special dividend of $1,370 million paid to the government from retail sale proceeds.

** From 2008 superannuation actuarial gains and losses are recognised directly in equity.

*** The 2010 and 2011 financial years includes profits from discontinued operations which were reported separately in the abridged statement of comprehensive income.

a Profit after income tax expense divided by average equity.

b Profit before tax and interest expense divided by average assets.

c Dividends plus income tax expense

Ausgrid's results for 2010-11 exceeded the financial performance of the previous year because the network business performed very well, reflecting higher than planned energy volumes and lower operating expenditure.

Earnings from the sale of electricity increased significantly after regulatory network and retail price increases came into effect on 1 July 2010.

Total distributions and other payment to government were significantly higher than the prior year due to a payment of $1.4 billion made to New South Wales Government from the retail sale proceeds received from TRUenergy on 1 March 2011.

Other Information

Environmental Performance

Ausgrid met its obligations under Commonwealth and State Government renewable energy schemes for 2011. The obligations placed on Ausgrid under the schemes relate to its former retail business and will be fully acquitted during 2012.

The retail business surrendered 1.24 million large scale generation certificates in February 2011 as part of its obligations under the Commonwealth Renewable Energy Target.

Under the New South Wales Greenhouse Gas Abatement Scheme, EnergyAustralia delivered 3.19 million tonnes of greenhouse gas savings associated with electricity use until the end of February 2011.

Solar Bonus Scheme

The New South Wales Government commenced the Solar Bonus Scheme (the Scheme) on 1 January 2010. The Scheme applies to small scale, grid connected, solar systems and wind turbines. The government tariff of 60 or 20 cents per kilowatt hour is paid to small customers for electricity that is fed back into the electricity network. The Scheme was closed to new applicants from midnight 28 April 2011 and will continue to run until 31 December 2016.

Ausgrid advised that $37.7 million was paid to customers for the eighteen month period to 30 June 2011. The Scheme achieved 46,365 Ausgrid network customer connections, with a further 7,007 awaiting connection. This represents a total of over 110 megawatts of renewable electricity capacity as at 30 June 2011.

Transition to a Network-Only Business

Following completion of the sale of the retail assets, Ausgrid started operating a Transition Services Agreement (TSA) with TRUenergy. The TSA covers both short-term services (such as sales, marketing and forecasting) and longer-term functions (such as billing and the call centre). Each function is defined in a service schedule, which includes agreed key performance indicator targets. The cost of providing services to TRUenergy will be fully recovered by Ausgrid.

Network Capital Expenditure

Ausgrid’s capital program spending is aimed at augmenting its network to meet growing demand in the Sydney CBD, replacing ageing and obsolete assets and to comply with enhanced licence conditions.

The Australian Energy Regulator’s determination in 2009 provided Ausgrid with a capital expenditure program of $8.3 billion over the 2009-14 regulatory period. Ausgrid is in the third year of the five year program, with an overall capital program of $1.6 billion to deliver in the 2011-12 financial year.

Electricity Sale Transaction

Working capital and purchase price adjustment

A review of the working capital adjustment required under the retail sales agreement was not finalised at the date of this report. The final amount will be settled once an independent review is conducted and the results are agreed between Ausgrid and the purchaser before December 2011.

Stranded costs

Ausgrid recognised provisions for restructuring costs of $71.1 million at 30 June 2011. The provision represents a best-estimate of stranded costs associated with the sale of its retail assets and included estimates for:

- stamp duty payable
- staff redundancies
- data migration and
- rebranding costs.

Ausgrid has developed a plan to manage the financial impact of stranded costs and there is an expectation that the costs will be reduced.

Financial Information

Abridged Statement of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Revenue from continuing operations	**2,635,600**	**1,997,900**	**2,635,600**	**1,997,900**
Profit Before Finance Costs, Depreciation and Tax	**1,144,300**	**814,000**	**1,144,300**	**814,000**
Finance costs	469,700	431,700	469,700	431,700
Depreciation and amortisation	374,600	322,600	374,600	322,600
Profit Before Tax	**300,000**	**59,700**	**299,700**	**59,700**
Income tax equivalent expense	124,700	9,500	124,000	9,500
Profit after tax from continuing operations	**175,300**	**50,200**	**175,200**	**50,200**
Profit after tax from discontinuing operations	**1,398,500**	**294,800**	**1,398,500**	**294,800**
Profit After Tax	**1,573,800**	**345,000**	**1,573,700**	**345,000**
Other Comprehensive Income				
Increase/(decrease) in fair value of cash flow hedges	30,600	(2,600)	30,600	(2,600)
Increase on revaluation of land and buildings	25,200	4,300	25,200	4,300
Defined benefit superannuation actuarial gain/(loss)	8,300	(33,400)	8,300	(33,400)
Income tax (expense)/ credit on other comprehensive income items	(18,300)	8,800	(18,300)	8,800
Total Other Comprehensive Income/(Expense)	**45,800**	**(22,900)**	**45,800**	**(22,900)**
Total Comprehensive Income	**1,619,600**	**322,100**	**1,619,500**	**322,100**
Dividends*	**1,545,100**	**250,200**	**1,545,100**	**250,200**

* For 2011 includes special payments of $1,370 million paid to the Government from retail sale proceeds.

Total revenue of $4.1 billion ($4.0 billion in 2010) compared $2.6 billion from continuing operations and $1.5 billion from discontinud operation. Included was $3.8 billion ($3.8 billion) for the sale and delivery of energy (electricity and gas) to retail customers and public lighting system charges. Costs associated with the distribution of energy totalled $3.1 billion ($3.0 billion). The wholesale price of electricity was marginally lower than in the previous year.

Revenue from continuing operations of $2.6 billion ($2.0 billion) includes $2.3 billion ($1.8 billion) from network use of system income. The increase in revenue came largely from a regulatory network price increase that came into effect on 1 July 2010. Costs associated with the distribution of energy totalled $1.9 billion ($1.5 billion) and were also higher than the previous year reflecting additional costs associated with recent network expansion.

Increased finance costs of $470 million ($432 million) was due to higher borrowings necessary to fund the Corporation's capital projects; borrowing costs also include $108 million ($110 million) relating to government loan guarantee fees. Depreciation expense increased to $333 million ($283 million) as a result of the increased spending on capital projects.

Profit after tax increased mainly due to the sale of retail business to TRUenergy on 1 March 2011. The increase in profit after tax from continuing operations is due to increased network income.

Abridged Statement of Financial Position

At 30 June	Consolidated		Parent	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Current assets	811,800	1,056,500	811,800	1,056,600
Non-current assets	10,458,600	9,281,000	10,458,600	9,281,000
Total Assets	**11,270,400**	**10,337,500**	**11,270,400**	**10,337,600**
Current liabilities	1,743,000	1,800,400	1,743,000	1,800,400
Non-current liabilities	7,597,800	6,682,000	7,597,800	6,682,000
Total Liabilities	**9,340,800**	**8,482,400**	**9,340,800**	**8,482,400**
Net Assets	**1,929,600**	**1,855,100**	**1,929,600**	**1,855,200**

The decrease in current assets was largely due to reduction in trade and other receivables of $150 million arising from the retail sales transaction. Non-current assets increased because of significant capital expenditure of $1.6 billion relating to the planned expansion of the distribution network, replacement of ageing assets and compliance with additional licence conditions specifically to reduce the risk of supply interruptions.

Liabilities increased largely due to an increase in borrowings of $1.0 billion resulting in borrowings of $6.8 billion at year end.

Entity Activities

See the 'Electricity Industry Overview' section appearing earlier in this report for general industry comment.

Ausgrid (formerly named EnergyAustralia), a statutory State owned corporation, was established in March 1996 under the *Energy Services Corporations Act 1995*. Its principal function is to distribute electricity in the national electricity market.

For further information on Ausgrid, refer to www.ausgrid.com.au.

Controlled Entities

The following controlled entities have not been reported on separately as they are not considered material by their size or the nature of their operations to the consolidated entity.

Entity Name
Ausgrid Pty Limited
Downtown Utilities Pty Limited

Cobbora Holding Company Pty Limited

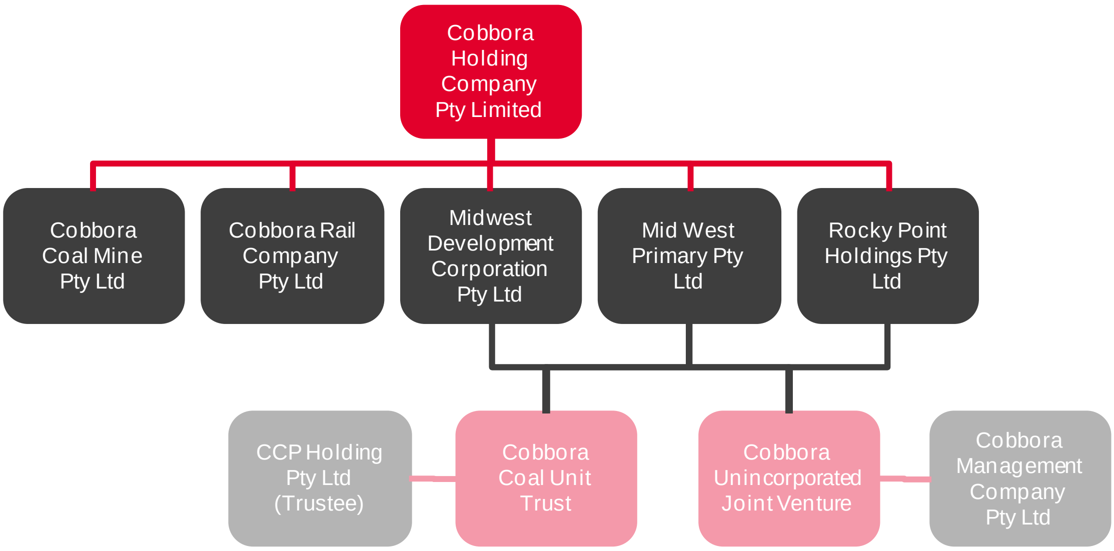
The strategy and business plan for the government's new coal mine should be made public.

Audit Opinion

The audits of Cobbora Holding Company Pty Limited and its controlled entities' financial statements for the year ended 30 June 2011 resulted in unmodified audit opinions within the Independent Auditor's Reports.

Operational Snapshot

Cobbora Holding Company was incorporated in January 2011 and acquired all the shares of the three New South Wales owned generators' subsidiaries in the Cobbora Coal Mine joint venture to facilitate the development of a coal mine. The current structure of the group is:



Unless otherwise stated, the following commentary relates to the consolidated entity.

Key Issues

Cobbora Coal Project

Recommendation

The Treasurer should consider releasing the Energy Reform Strategy relating to the development and ownership of the Cobbora Coal Project for public scrutiny to ensure transparency of the energy reform process. There should be a clearly articulated business plan to demonstrate to the people of New South Wales the benefits from the project.

The Cobbora Holding Company was incorporated to facilitate the development of the Cobbora Coal Project.

The open cut coal mine is located at Cobbora in western New South Wales. The project application covers 288 square kilometres and it is proposed that the mine will produce up to 12 million tonnes of coal per annum. The majority of coal produced will be used in the State's power stations to generate electricity.

The project's aim is to secure coal supplies for New South Wales' coal-fired electricity generators at a discount to international prices. It is scheduled to start production in 2015.

Financial Information

Abridged Statement of Comprehensive Income

Year ended 30 June	Consolidated 2011 $'000	Parent 2011 $'000
Total Revenue	**172**	**127**
Loss Before Finance Costs, Depreciation And Tax	**(7,120)**	**(507)**
Finance costs	1	1
Depreciation	74	--
Loss Before Tax	**(7,195)**	**(508)**
Income tax benefit	659	152
Loss After Tax	**(6,536)**	**(356)**
Other Comprehensive Income	**--**	**--**
Total Other Comprehensive Income	**--**	**--**
Total Comprehensive (Expense)	**(6,536)**	**(356)**

Abridged Statement of Financial Position

At 30 June	Consolidated 2011 $'000	Parent 2011 $'000
Current assets	5,868	4,140
Non-current assets	112,494	119,437
Total Assets	**118,362**	**123,577**
Current liabilities	1,598	633
Non-current liabilities	--	--
Total Liabilities	**1,598**	**633**
Net Assets	**116,764**	**122,944**

Cobbora Holding Company and its subsidiaries have approval from the New South Wales Treasurer to obtain sufficient funding under the *Public Authorities (Financial Arrangements) Act 1987* for the purposes of acquiring and developing the coal resource.

Entity Activities

Entities in the consolidated group are fully owned by Cobbora Holding Company Pty Limited (CHC) and are listed as follows:

Midwest Development Corporation Pty Limited

Midwest Development Corporation Pty Limited was incorporated on 13 August 2008 under the *Corporations Act 2001*. On 25 February 2011, CHC acquired all shares in Midwest Development Corporation Pty Limited from Macquarie Generation for $43.2 million.

Mid West Primary Pty Limited

Mid West Primary Pty Limited was incorporated on 7 August 2008 under the *Corporations Act 2001*. On 25 February 2011, CHC acquired all shares in Mid West Primary Pty Limited from Delta Electricity for $43.2 million.

Rocky Point Holdings Pty Limited

Rocky Point Holdings Pty Limited was incorporated on 6 August 2008 under the *Corporations Act 2001*. On 25 February 2011, CHC acquired all shares in Rocky Point Holdings Pty Limited from Eraring Energy for $27.7 million.

Cobbora Management Company Pty Limited

Cobbora Management Company Pty Limited was incorporated on 11 February 2009. The principal activity of Cobbora Management Company Pty Limited is to act as agent for the Cobbora Unincorporated Joint Venture.

Cobbora Unincorporated Joint Venture is an unincorporated joint venture between Midwest Development Corporation Pty Limited, Mid West Primary Pty Limited and Rocky Point Holdings Pty Limited. The principal activities of the Cobbora Unincorporated Joint Venture are the development and production of coal reserves.

CCP Holding Pty Limited

CCP Holdings Pty Limited was incorporated on the 5 September 2008. The principal activity of CCP Holdings Pty Limited is to act as trustee for the Cobbora Coal Unit Trust.

Cobbora Coal Unit Trust

Cobbora Coal Unit Trust is a unit trust formed on 10 October 2008. The principal activities of the Cobbora Coal Unit Trust are to hold assets to assist in the sourcing and development of a coal resource in New South Wales.

Cobbora Rail Company Pty Limited

Cobbora Rail Company Pty Limited was incorporated on 13 January 2011. The principal activity of Cobbora Rail Company Pty Limited is to invest in rail operations for the Cobbora Coal Mine.

Cobbora Coal Mine Pty Limited

Cobbora Coal Mine Pty Limited was incorporated on 13 January 2011. The principal activity of Cobbora Coal Mine Pty Limited is to invest in the mining operations of the Cobbora Coal Mine.

Delta Electricity

The loss resulting from the electricity sale transaction was $902 million.

Proceeds from sale of electricity generation output equals 33.6 per cent of the carrying value of power station assets.

Audit Opinion

The audit of Delta Electricity's financial statements for the year ended 30 June 2011 resulted in an unmodified audit opinion within the Independent Auditor's Report.

The Independent Auditor's Report drew attention to significant uncertainty regarding the effects of the Australian Government's carbon price scheme.

Unless otherwise stated, the following commentary relates to the consolidated entity.

Operational Snapshot

Delta Electricity generates and provides electricity to its customers in different ways:

Coal fired thermal power stations	Open cycle gas turbine power station	Mini hydro generators
Vales Point	Colongra	Mount Piper
Munmorah		Chichester Dam Dungog Water Treatment Plant

Delta Electricity also operates and maintains the Mount Piper and Wallerawang coal fired thermal power stations. The output from these stations has been purchased by TRUenergy Pty Ltd (see below for details).

Delta Electricity made a loss of $196 million after tax in 2010-11. The total cost to operate and maintain the power stations for the year was $1.4 billion, which included an asset impairment of $381 million. No dividend was paid to the government for the year.

Key Issues

Electricity Sale Transaction

As a result of the government's Energy Reform Strategy, GenTrader Transaction Implementation Deed were executed with TRUenergy Pty Ltd on 14 December 2010. Under the agreements all generation output for the expected useful lives of the Mt Piper (33 years) and Wallerawang (19 years) power stations (known as Delta West) was sold to TRUenergy Pty Ltd (GenTrader) with effect from 1 March 2011.

The upfront proceeds from the sale and the carrying value of assets immediately prior to the sale were:

Delta West	$'000
Proceeds From Sale:	
Right to generation output	453,800
Fuel stock	75,996
Development sites	17,611
Total	**547,407**
Carrying Value of Assets at Time of Transaction:	
Power stations	1,348,748
Electricity derivative contracts	22,402
Fuel stocks	74,391
Development sites	4,029
Total	**1,449,570**
Loss	**(902,163)**

The proceeds from selling the generation output were 33.6 per cent of the carrying value of applicable power station assets. The carrying value represented Delta Electricity's expectation of net cash to be earned over the remaining life of the power stations. The expectation did not include an estimate for the impact of a carbon price scheme.

Last year, I reported the government's strategy was to significantly increase private sector investment in new generation capacity for New South Wales and increase competition in the NSW electricity market. I indicated that achieving this objective may require some trade-offs between maximising the financial return to the government and minimising potential ongoing government liabilities.

An Australian Tax Office private ruling is currently being sought to clarify the tax deductibility of capacity charge payments made by the GenTrader. If a positive outcome is achieved, an additional amount of approximately $60.0 million will be received.

In Volume One of my 2011 Report to Parliament, I identified a number of risks and uncertainties for Delta Electricity arising from the sale. The following is a summary of the financial impact of the risks for the period 1 March to 30 June 2011:

Uncertainties/Risks	Update
Availability Liquidated Damages	
Where contracted availability targets are not achieved, Delta Electricity must pay liquidated damages to the GenTrader. The annual amount of liquidated damages is capped.	Delta Electricity paid liquidated damages of $221,479 1 March to 30 June 2011. Liquidated damages of $46.3 million are forecast over the next four years. The Crown will reimburse Delta Electricity for liquidated damages above an agreed threshold.
Fixed Operating (Including Salaries and Wages), Maintenance and Capital Costs	
The variability between costs associated with operating and maintaining the power stations and the fixed, variable and pass through charges in the GenTrader Agreements is the responsibility of Delta Electricity.	Measures to manage the risk of cost overruns include establishment of cost reduction performance targets.
Risks associated with timing mismatches between fixed cash inflows from the GenTrader and variable cash outflows by Delta Electricity are Delta Electricity's responsibility.	Delta Electricity currently has cash surpluses associated with the variability between cash inflows and outflows.
Generation of Excess Electricity	
Delta Electricity must pay the GenTrader over-generation charges when more electricity is generated than instructed by the GenTrader.	Delta Electricity advised that controls are in place to manage the risk of over generation. Over generation charges paid during the year were minimal.
Development Sites	
The GenTrader agreements do not require the GenTrader to develop sites within specified timeframes.	The transaction involved the sale of development sites at Marulan and Mt Piper to the GenTrader and Bamarang to Lumo Generation NSW Pty Ltd resulting in a net gain on sale of $13.6 million.
Mt Piper site encompasses a rehabilitated open cut mine area. Delta Electricity is liable for unlimited remediation costs at the site prior to development.	The sale of the Mt Piper development site was completed by 21 October 2011. The GenTrader is required to perform a contamination survey to determine whether the site has pre existing contamination. If contamination is identified, a remediation action plan will need to be developed at Delta Electricity's cost. I understand a contamination survey has not yet been performed and Delta Electricity is not aware of any contamination.

Uncertainties/Risks	Update
Coal	
The cost of remedial action to manage clinkering (the removal of incombustible residue arising from the burning of coal) is the responsibility of Delta Electricity.	Delta Electricity has advised that the likely impact of clinkering is minimal.

Entitlement to Reimbursement Under the *State Owned Corporations Act*

Under the *State Owned Corporations Act 1989* (SOC Act) a State owned corporation is entitled to be reimbursed for the cost of complying with ministerial directions that the entity's Board consider to not be in the commercial interests of the entity.

On 14 December 2010, the Special Minister of State issued a direction under section 20N(1) of the SOC Act to the Directors of Delta Electricity to, among other things, enter into the GenTrader Agreements. The directors advised that the transaction was not in the commercial interests of their entity.

Delta Electricity has issued three letters to Treasury seeking reimbursement of costs associated with ministerial directions made under the SOC Act.

As at the date of this report, total net costs to be claimed have not been quantified.

Update on the Financial Status of Delta Electricity Australia Pty Limited (the Company) and Ongoing Obligations for Delta Electricity

In Volume Four of my 2010 Report to Parliament, I reported that Delta Electricity's subsidiary company had breached its loan covenants and was trying to sell assets to repay $68.0 million in bank loans. The sale process failed and the company was placed into receivership on 28 February 2011.

In my 2010 report, I recommended Delta Electricity review and identify the factors contributing to the losses incurred from its participation in the joint venture (see below). Delta Electricity completed this review and identified the following contributing factors:

- the commissioning of the plant taking longer than planned
- lower than forecast quantities of fuel (bagasse) for co-generation plants to burn
- limited availability and higher than expected costs of alternative fuel supplies
- the price of renewable energy certificates being lower than forecast.

The joint venture was established to design, construct and operate two 30 megawatt renewable energy electricity co-generation plants at Condong and Broadwater. Delta Electricity has ongoing obligations to the joint venture under a Power Purchase Agreement and Cost Sharing Deed. These agreements terminate in November 2023.

Costs incurred during 2011 were $11.4 million ($3.8 million in 2009-10). Future obligations were estimated at $40.8 million.

Adjustment to Delta Electricity's Dividend as a Result of the GenTrader Transaction

Prior to the GenTrader transaction Delta Electricity agreed the basis for calculating dividends for 2010-11 with its shareholders. Following the GenTrader transaction the basis was changed, at the request of Treasury, to take into account the changed circumstances. The proposed dividend under this basis was $62.3 million. However, because the amended basis was not approved by the voting shareholders by 30 June 2011 the proposed dividend was determined to be invalid. The final result was that no dividend was recognised because the operating result for the year was a loss.

Performance Information

Delta Electricity provided the following information regarding its performance:

Year ended 30 June	Target	Actual			
	2011	2011	2010	2009	2008
Generation of electricity – gigawatt hours sent out	22,738	21,501	21,999	23,746	24,054
Plant availability – total all stations (%)	88.4	91.4	92.0	86.8	77.3
Thermal efficiency – total all stations (%)	35.7	34.9	34.6	34.6	35.0
Earnings before interest and tax ($m) (c)	184.1	(176.1)	189.7	146.4	212.1
Return on equity (%) (a) (c)	5.8	(38.3)	6.2	7.5	12.7
Return on assets (%) (b) (c)	6.1	(8.1)	5.9	4.5	7.7
Interest cover (times) (c)	1.7	(1.7)	1.7	3.2	4.9
Debt to equity (%) (c)	128.6	166.2	149.8	130.3	86.5
Total Distributions to Government ($m) (c)	**72.7**	**--**	**59.2**	**84.6**	**180.0**
Capital expenditure ($m) (c)	84.5	52.4	97.1	379.5	251.8

a profit after tax divided by equity.

b earnings before interest and tax divided by total assets.

c the 2011 figures are impacted by the sale transaction. As a result, comparison of financial performance with target or prior year information is not practicable.

Production of electricity was below target in 2010-11 mainly as a result of the sustained periods of low spot prices which made production of electricity uneconomical.

Targeted plant availability was exceeded as a result of the maintenance expenditure program focusing on reliability issues.

The production of electricity by Delta Electricity releases carbon dioxide and other greenhouse gases directly into the atmosphere. Based on draft data provided, Delta Electricity had direct carbon dioxide emissions of 19.8 million tonnes during 2010-11.

Thermal efficiency is a performance measure commonly used by power stations. The thermal efficiency percentages above indicate the average percentage of energy contained in the coal used by Delta's Electricity's power stations to produce electricity (i.e. measure of the overall fuel conversion efficiency for the electricity generation process). New South Wales government-owned coal fired power stations outperform reported worldwide averages for thermal efficiency.

Thermal efficiency is influenced by the design, age and condition of a power plant, as well as by the quality of coal used. A new state of the art power station can expect to achieve a thermal efficiency in excess of 45 per cent.

Other Information

Special Commission of Inquiry into the Electricity Sales Transactions

The government announced a Special Commission of Inquiry into the Electricity Sales Transactions, which commenced on 29 April 2011. The Special Commission has been established to report on a number of aspects relating to the electricity transactions including;

- the value for money achieved for the State compared to the retention value of the assets to the State
- the costs and benefits to the State of the electricity transactions, including potential risks and liabilities and the extent to which the transactions can deliver the stated objectives for entering into them.

The terms of reference of the Special Commission requires a final report to be issued on or before 31 October 2011.

Further information, including the full Terms of Reference for the Special Commission can be found on the Special Commission of Inquiry into Electricity Transactions website http://www.lawlink.nsw.gov.au/lawlink/Special_Projects/ll_splprojects.nsf/pages/sciet_index

Valuation and Remaining Life of Power Station Assets

The carrying value of Delta Electricity's remaining power stations of $777 million represents 16 per cent of their gross replacement cost of $4.9 billion. This indicates the power stations have, on average, less than one sixth of their service potential left and future capital investment may be required if the government wishes to maintain Delta Electricity's generating capacity.

The remaining lives for most of Delta Electricity's power stations range from 18 to 29 years, except for Munmorah, which has only two years left. Delta Electricity's total generation capacity decreased from 4,988 MW to 2,588 MW or 48 per cent, as a result of the GenTrader agreement. This includes 600 MW for Munmorah, which is unlikely to operate in 2011-12 because of the age of the plant, start up costs and electricity price volatility.

Approval was granted last year for a $500 million upgrade to Munmorah under the government's revised energy reform strategy. Recommendations from the Special Commission of Inquiry and the government's response may affect the future of Munmorah. Delta Electricity's Board and management continually review the future operational role of Munmorah power station. The most recent review confirmed that Munmorah was unlikely to operate in 2011-12. Most staff have been relocated to Vales Point, and most costs are incurred in keeping the site secure, storing the plant to remain suitable for future refurbishment, safety works and environmental protection. Closing the station may enable cost savings.

Impact of Carbon Price

The Australian Government released 'Securing a Clean Energy Future – the Australian Government's Climate Change Plan' on 10 July 2011. The announcement provided a framework for the scheme, including the start date and the carbon price for the initial three year fixed period.

Delta Electricity assessed the expected impact of the scheme on the carrying amount of its remaining power station assets at Vales Point, Munmorah and Colongra (Delta Coast) using a discounted cash flow analysis. This necessitated a $318 million write down in the carrying value of these assets.

Under the GenTrader Agreements, the GenTrader is responsible for any carbon tax liability arising from the carbon emissions of the Delta West power stations.

Delta Electricity provided the following information regarding direct carbon dioxide emissions at Delta Coast power stations during 2010-11:

Power Station	Carbon Emissions (tonnes) *
Vales Point	5,508,445
Munmorah	178,813
Colongra	38,535

* based on draft data only and may be subject to change.

Major Projects

Colongra Gas Turbine Power Station

The 667 megawatt, $500 million Colongra gas turbine was completed during 2010. Colongra operates as a peaking plant supplying electricity at short notice during times of high demand. Colongra sent out 57 gigawatt hours of electricity this year.

Carbon Capture Project

In February 2010, Delta Electricity received grant funding of $28.3 million for stage one of a demonstration scale carbon capture and storage project. The project aims to demonstrate post combustion capture, road transport and permanent geological storage of 100,000 tonnes of carbon dioxide per annum.

Coal Supply

Coal prices have increased significantly in recent years, increasing the risk for Delta Electricity in securing supplies of coal at competitive prices. Delta Electricity has entered into a long term supply contract with the government-owned Cobbora Holding Company Pty Limited to supply coal at competitive prices. Further details appear in the Energy Industry Overview earlier in this report.

Financial Information

Abridged Statement of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Total Revenue From Continuing Operations	**1,109,473**	**1,042,270**	**1,109,772**	**1,043,549**
Profit/(Loss) Before Finance Costs, Depreciation and Tax From Continuing Operations	**(78,833)**	**362,638**	**(82,345)**	**305,884**
Finance costs	96,898	103,722	96,898	103,722
Depreciation	100,969	118,470	100,969	118,470
Profit/(Loss) Before Tax From Continuing Operations	**(276,700)**	**140,446**	**(280,212)**	**83,692**
Income tax equivalent (benefit)/expense	(79,629)	39,666	(82,082)	39,921
Profit/(Loss) After Tax From Continuing Operations	**(197,071)**	**100,780**	**(198,130)**	**43,771**
Gain/(Loss) from discontinued operations after income tax	1,488	(44,963)	--	--
Profit/(Loss) After Tax	**(195,583)**	**55,817**	**(198,130)**	**43,771**
Other Comprehensive Income				
Gain on cash flow hedges taken to equity	77,921	51,640	77,921	53,646
Cash flow hedges losses transferred to Statement of Comprehensive Income	(149,937)	(34,476)	(149,937)	(38,264)
Defined benefit superannuation actuarial loss	(1,712)	(27,442)	(1,712)	(27,442)
Loss on revaluation of property	(854,700)	(150,000)	(854,700)	(150,000)
Income tax benefit on items of other comprehensive income	278,528	48,084	278,528	48,618
Total Other Comprehensive Income/(Expense)	**(649,900)**	**(112,194)**	**(649,900)**	**(113,442)**
Total Comprehensive (Expense)	**(845,483)**	**(56,377)**	**(848,030)**	**(69,671)**
Dividend provided	--	36,608	--	36,608

Total revenue included $803 million in electricity sales compared to $1.0 billion in the previous year. The reduction is primarily due to the sale of Delta West generation rights from 1 March 2011 and a reduction in the average price for electricity by 17 per cent from $44.19 to $36.74 per megawatt hour. The decrease was partially offset by $88.1 million received from the GenTrader for operating costs.

A loss before and after tax was incurred largely due to the $381 million impairment of Delta West and Delta Coast power stations on entering the GenTrader agreement.

Abridged Statement of Financial Position

At 30 June	Consolidated		Parent	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Current assets	570,400	434,131	570,400	403,581
Non-current assets	1,598,618	2,696,173	1,598,618	2,733,668
Total Assets	**2,169,018**	**3,130,304**	**2,169,018**	**3,137,249**
Current liabilities	317,435	278,747	317,435	283,144
Non-current liabilities	1,340,419	1,944,911	1,340,419	1,944,911
Total Liabilities	**1,657,854**	**2,223,658**	**1,657,854**	**2,228,055**
Net Assets	**511,164**	**906,646**	**511,164**	**909,194**

Current assets increased mainly due to a $150 million increase in cash and cash equivalents and a $95.2 million increase in receivables, offset by a $73.9 million reduction in fuel stock sold to the GenTrader. The significant increase in cash and cash equivalents was due to:

- the sale of Delta Electricity's shares in Mid West Primary Pty Ltd to Cobbora Holding Company Pty Ltd on 28 February 2011. The shares were sold for $43.2 million, equivalent to Delta Electricity's investment in the company, as part of the NSW Energy Reform process
- sale of fuel stocks for $76.0 million to the GenTrader
- sale of development sites for $17.6 million.

Non-current assets decreased mainly due to a $1.2 billion reduction in the value of power stations following the sale of the right to generation output and introduction of the carbon price scheme.

The reduction in non-current liabilities is largely due to a $450 million debt assumption by Treasury and a reduction in deferred tax liabilities associated with the sale transaction. Delta Electricity advises that Treasury intends to further reduce Delta Electricity's debt following a review of its earning capacity in the post sale environment. This review is expected to be finalised in 2011-12.

Corporation Activities

See the 'Electricity Industry Overview' section earlier in this report for general industry comment.

Delta Electricity was constituted in March 1996 as an electricity generator under the *Energy Services Corporations Act 1995* and as a statutory State owned corporation under the *State Owned Corporations Act 1989*. The voting shareholders are the Treasurer and the Minister for Finance and Services.

Delta Electricity operates the Mount Piper, Vales Point, Wallerawang and Munmorah coal-fired power stations, and three mini hydro generators. The Colongra gas turbine power station was opened in December 2009. The output from the Mount Piper and Wallerawang power stations is purchased by TRUenergy Pty Ltd, whilst Delta Electricity maintains ownership of output from its other power stations. Delta Electricity provides around 12 per cent of electricity to the National Electricity Market.

For more information on Delta Electricity, refer to www.de.com.au.

Controlled Entities

Delta Electricity Australia Pty Ltd

As noted above, the company was placed in receivership on 28 February 2011. Although Delta Electricity continues to own the shares in the company, it no longer exerts control. As a result, the company's assets and liabilities were derecognised in the consolidated financial statements.

Mid West Primary Pty Ltd

Mid West Primary Pty Ltd was formed on 7 August 2008. The company is a participant in a joint venture to explore, investigate and operate coal resources in New South Wales. The company has a 38.3 per cent interest in the joint venture and is entitled to 38.3 per cent of the output.

As part of the NSW Energy Reform process, Delta Electricity sold its shares in the company to Cobbora Holding Company Pty Ltd on 28 February 2011 for $43.2 million, equivalent to Delta Electricity's investment in the company.

The proceeds were retained by Delta Electricity for working capital purposes.

Endeavour Energy

Audit Opinion

The audit of Endeavour Energy's financial statements for the year ended 30 June 2011 resulted in an unmodified audit opinion within the Independent Auditor's Report.

Operational Snapshot

Endeavour Energy (the network business of the former Integral Energy) manages a $3.3 billion electricity distribution network for 877,339 customers or 2.1 million people. The network spans 24,500 square kilometres in Sydney's Greater West, the Illawarra, Blue Mountains and the Southern Highlands. It comprises over 170 major substations, 315,000 power poles and 28,000 smaller substations bound together by 33,000 kilometres of underground and overground cables.

It made a profit of $203 million after tax in 2010-11 from continuing operations and paid a special dividend of $864 million to the government from the sale of its retail net assets.

The profit on sale of Endeavour Energy's retail operations was $759 million.

Key Issues

Sale of Retail Net Assets

On 14 December 2010, the New South Wales Government, as part of its Energy Reform Transaction Strategy, entered into a sale agreement to dispose of the net assets of Integral Energy's retail business. As a result, Integral Energy's retail net assets, customer contracts and brand name were sold on 1 March 2011 to Origin Energy. Activities relating to the purchase and sale of electricity ceased from that date and control of the retail business passed to Origin Energy. The network-only business was rebranded as Endeavour Energy.

Proceeds from the sale and the carrying value of assets immediately prior to the sale were:

	2011 $'000
Proceeds from sale of retail business	1,000,000
Transaction related costs and adjustments	(240,720)
Profit	**759,280**

Transition to a Network-Only Business

Since the sale of the retail business, Endeavour has been operating a Transition Services Agreement (TSA) with Origin Energy, which will be in place for 25 months. The TSA covers both short-term services (such as sales, marketing and forecasting) and longer-term functions (such as billing and the call centre). Each function is defined in a service schedule, which includes agreed key performance indicator targets. The cost of providing TSA services to Origin Energy will be fully recovered by Endeavour.

The establishment of a sustainable network-only business model will require effective management of sale related issues including:

- managing the impact of the restructure and related redundancies on staff and staff morale
- managing negative customer perceptions around the impact of the loss of public infrastructure on quality, price and customer hardship programs
- ensuring Endeavour is able to comply with key performance indicators specified in the TSA, to limit the incidence of penalties
- ensuring the effective management of the transfer of retail operations and supporting data to Origin Energy.

I understand Endeavour will, amongst other things, establish a project team to manage the transition to a Network-only business and the transition of remaining Retail operations to Origin Energy.

Controlling Increases in Network Tariffs

Endeavour advises that customers connected to its network have seen their electricity bills rise by 62 per cent since 2008. Prices may be impacted further by the Australian Government's planned carbon tax from 1 July 2012. Customer satisfaction has decreased as a result of the adverse price increases. (See Performance Information Section below for more information).

Endeavour is addressing these concerns through projects within its current corporate plan. Project aims include reducing corporate and administration overheads, and the real cost of serving customers.

Performance Information

Operational Performance

Statistics provided by Endeavour on its operational performance against targets shows:

Year ended 30 June	Target	Actual		
	2011	2011	2010	2009
Customer satisfaction index (%)	82	79	80	83
Network reliability – average minutes customers were without supply	87	72	79	89
Lost time incidents	12	24	18	22
Reportable environmental incidents	1	2	1	2
Total Network Customer Connections	**879,992**	**877,339**	**866,767**	**859,519**

Customer satisfaction has declined over the last three years, and is now also below target. The CSI measure is the percentage of customers who rated Endeavour as 'good' or 'very good' in relation to certain aspects of its performance. Endeavour advised the decline is due to the adverse impact of price increases and unwelcome 'door knocking' marketing activities by Endeavour contractors in New South Wales and Queensland.

Network reliability improved a further 9.3 per cent over last year. Endeavour attributed the significant improvement to a combination of capital investment, which reduced the susceptibility of the network to faults, targeted activity at the regional level, and benign weather. Endeavour has targeted improvements to achieve a sustainable 73 minutes by 2013-14, to meet customer expectations.

Endeavour's lost time incidents increased from 18 to 24 in 2010-11. Endeavour's analysis of data has highlighted the need for a targeted program to reduce manual handling injuries.

Financial Performance

Year ended 30 June	2011	2010	2009
Earnings before interest and tax ($m)*	546.9	439.3	355.7
Return on equity (%) (a)	20.5	17.3	14.6
Return on assets (%) (b)	10.8	9.5	8.7
Debt to equity	2.1	2.1	2.5
Interest cover (times)	2.9	2.3	2.4
Total distributions to government ($m) ** (c)	1,130.1	215.3	167.1
Capital expenditure ($m)	496.4	417.4	442.9

* Excludes the impact of the gain on sale of Retail net assets.

** For 2011 includes special dividend of $864 million paid to the government from retail sale proceeds.

a Profit after income tax expense divided by average equity.

b Earnings before interest expense and tax divided by average assets.

c Dividend plus income tax expense.

Earnings before interest and tax increased over the past three years mainly due to increases in Network Use of System income driven by tariff increases in line with regulatory allowances. Additionally, increases are a result of moderate growth in Endeavour's network supply area which continues to contribute to the increasing numbers of connections to the network, controlled operating cost programs and productivity initiatives.

Total distributions to government for 2011 were higher than the previous year due to the increased profitability and special dividend payment of proceeds from the retail sale of $864 million.

Other Information

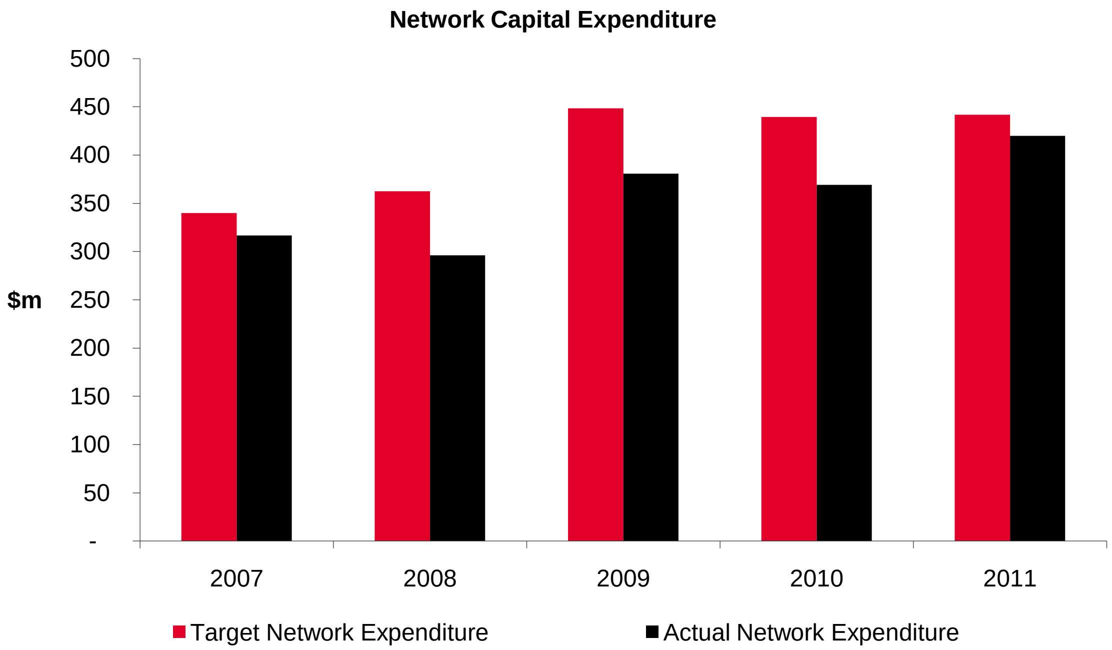
Network Capital Expenditure

According to Endeavour's internal assessments, the population in its region is forecast to grow by six per cent by 2013-14, and the maximum demand for electricity by 11.1 per cent over the same period. Many of the network assets were built between the 1960s and the 1980s and are nearing the end of their useful lives (for example, 40 per cent of major power transformers have been in service for 36 years or more).

Asset renewal has been a core component of Endeavour's capital expenditure program. This will increase above historic levels over the next few years to ensure sufficient network capacity in the future. Endeavour has developed a Strategic Asset Management Plan that focuses on achieving effective management of strategic asset renewal and network maintenance programs in a sustainable manner.

Endeavour advises that the Australian Energy Regulator determination in May 2009 provided it with the scope for a capital expenditure program of $2.7 billion over the 2009-14 regulatory periods. Endeavour is in the third year of the five year program, with a record overall capital program of $674 million to deliver in the 2011-12 financial year.

The chart below shows actual capital expenditure on the network compared to target for the last five years.



Source: Information provided by Endeavour (unaudited).

In 2010-11 Endeavour spent $496 million of the total capital budget of $518 million.

Review of Endeavour's Capital Structure

Treasury has engaged external consultants to undertake a capital structure review of Endeavour, with recommendations expected to be finalised in 2011-12.

Impact of Carbon Tax

Endeavour advised that a detailed assessment of its greenhouse gas emissions indicates it will not be liable under the carbon tax. It considers its direct (scope 1) facility emissions are well below the threshold of 25,000 tonnes of CO2-e.

Solar Bonus Scheme

0n 1 January 2010, the Solar Bonus Scheme (the Scheme) commenced operation. Its objectives include encouraging and supporting those wanting to generate renewable energy as a response to climate change and to increase public exposure to renewable energy technology. Endeavour is forecasting approximately 47,300 Scheme participants in its network area, with annual rebates of $78.0 million and total rebates of approximately $480 million over the life of the Scheme.

Financial Information

Abridged Statement of Comprehensive Income

Year ended 30 June	2011 $'000	2010 $'000
Total Revenue	**1,282,256**	**2,272,145**
Profit Before Borrowing Costs, Depreciation, Amortisation and Tax	**651,575**	**588,974**
Borrowing costs	192,586	187,610
Depreciation and amortisation	164,660	149,718
Profit Before Tax	**294,329**	**251,646**
Income tax equivalent expense	91,602	72,667
Profit After Tax	**202,724**	**178,979**
Profit From Discontinued Operation After Income Tax	**801,270**	**--**
Other Comprehensive Income		
Gain on revaluation of fixed assets	61,136	330,035
Defined benefit plan actuarial gains/(losses)	(5,443)	(3,566)
Gain/(loss) from changes in fair value of cash flow hedges	81,160	(31,467)
Income tax on other comprehensive income	(41,056)	(88,502)
Total Other Comprehensive Income	**95,797**	**206,500**
Total Comprehensive Income	**1,099,791**	**385,479**
Dividend provided for during the year	156,758	142,610
Dividend paid during the year	1,006,310	103,619

Total revenue from discontinued operations included $830 million in electricity sales ($1.2 billion in 2009-10) and continuing operations revenue included $1.1 billion in network use of system charges ($977 million).

Profit after tax from discontinued operations was $801 million, including a profit on sale of the retail net assets of $759 million. Endeavour paid a special dividend to the government of $864 million, sourced primarily from proceeds of the sale of the retail net assets.

Abridged Statement of Financial Position

At 30 June	2011 $'000	2010 $'000
Current assets	341,662	599,973
Non-current assets	4,817,409	4,340,621
Total Assets	**5,159,071**	**4,940,594**
Current liabilities	1,047,882	1,190,076
Non-current liabilities	2,878,007	2,596,669
Total Liabilities	**3,925,889**	**3,786,745**
Net Assets	**1,233,182**	**1,153,849**

The increase in total assets has resulted from the capital expenditure program and asset revaluation increments. The revaluation increased system asset values by $55.0 million, while $383 million ($287 million) of system assets were added.

Borrowings at 30 June 2011 were $2.6 billion ($2.4 billion).The majority of the borrowings are from New South Wales Treasury Corporation. The increase in borrowings helped finance the capital expenditure program.

Endeavour Activities

See the 'Electricity Industry Overview' section earlier in this report for general industry comment.

Endeavour is a statutory State owned corporation constituted by the *Energy Services Corporations Act 1995*. Its principal functions are to establish, maintain and operate network distribution services for the distribution of electricity and other forms of energy. The voting shareholders are the Treasurer and the Minister for Finance.

For more information on Endeavour, refer to www.endeavourenergy.com.au.

Eraring Energy

The loss associated with the electricity sale transaction was $947 million.

Proceeds from sale of electricity generation output equals 50 per cent of the carrying value of power station assets.

Audit Opinion

The audit of Eraring Energy's consolidated financial statements for the year ended 30 June 2011 resulted in an unmodified audit opinion within the Independent Auditor's Report.

Operational Snapshot

During 2010-11, Eraring Energy produced 14,344 gigawatt hours of electricity and received $610 million in revenue from all sources. During the year, the right to the electricity generation of the Eraring and Shoalhaven power stations was sold to Origin Energy Electricity Ltd (GenTrader) for $867 million. Asset write downs and losses associated with this transaction totalled $947 million and resulted in a loss before tax of $285 million. No dividend to the government has been provided for this year.

Key Issues

Electricity Sale Transaction

As a result of the government's Energy Reform Strategy, the GenTrader Transaction Implementation Deed was executed between the Government, Eraring Energy and Origin Energy Electricity Ltd on 14 December 2010. Under the Generation Trading Agreements executed on 1 March 2011, all the electricity generation output for the expected useful lives of the Eraring and Shoalhaven power stations (22 and 28 years respectively) was sold to the GenTrader with effect from 27 February 2011.

The effect of the difference between the upfront proceeds received in this transaction and the carrying value of the assets is shown below:

Eraring	**$'000 (excluding GST)**
Proceeds From Sale of:	
Right to generation output	867,080
Fuel stock	69,707
Electricity derivatives	21,729
Transition costs	191
Residual derivative contracts	832
Total Proceeds	**959,539**
Carrying Value of Assets at Time of Transaction:	
Power stations	1,805,663
Fuel stocks	67,881
Electricity derivative contracts	32,834
Total Asset Carrying Value	**1,906,378**
Asset Write Downs and Net Loss	**(946,839)**

The proceeds from selling the generation output were 50 per cent of the carrying value of applicable power station assets. The carrying value represented Eraring Electricity's expectation of net cash to be earned from use of the power station's plant assets over their remaining life.

Last year, I reported that the government's strategy was intended to significantly increase private sector investment in new generation capacity for New South Wales and increase competition in the New South Wales electricity market. I indicated that achieving this objective may require some trade-offs between maximising the financial return to the government and minimising potential ongoing government liabilities.

The asset values of Eraring and Shoalhaven Power Stations prior to the GenTrader Agreement were around $1.8 billion. The value of these was written down by $939 million to the GenTrader bid price of $867 million prior to entering into the GenTrader Agreements.

An Australian Tax Office private ruling is currently being sought to clarify the tax deductibility of capacity charge payments made by the GenTrader. If a positive outcome is achieved, an amount of approximately $198 million will be received.

In Volume One of my 2011 Report to Parliament, I identified risks and uncertainties for Eraring Energy arising from the transaction. Of these risks, the following have had a financial impact on Eraring Energy in the period 27 February to 30 June 2011:

Uncertainties/Risks for Eraring Energy	Update
Availability Liquidated Damages	
Where contracted availability targets are not achieved, Eraring Energy must pay liquidated damages to the GenTrader. The annual amount of liquidated damages is capped.	The Crown is reimbursing Eraring Energy for any incurred liquidated damages paid to the GenTrader less a monthly deductible. Eraring Energy incurred net liquidated damages (after a recovery of a monthly deductible amount) of around $2 million in the period 27 February to 30 June 2011. Net liquidated damages after deductibles are budgeted at $6.7 million for 2011-12.
Generation of Excess Electricity	
Eraring Energy must pay the GenTrader over generation charges when more electricity is generated than instructed by the Gentrader.	Eraring Energy advised that satisfactory controls are in place to manage the risk of over generation. No over generation charges were paid during the period 27 February to 30 June 2011.
Fixed Operating (Including Salaries and Wages), Maintenance and Capital Costs	
The variability between costs associated with operating and maintaining the power stations and the fixed, variable and pass through charges included in the Generation Trading Agreements are the responsibility of Eraring Energy.	Measures to manage the risk of cost overruns include the establishment of cost management strategies.
Risks associated with timing mismatches between fixed cash inflows from the GenTrader and variable cash outflows by Eraring Energy are Eraring Electricity's responsibility.	Eraring Energy currently has cash surpluses associated with the variability between cash inflows and outflows, a solvency guarantee from the Treasurer and approved working capital facilities under the *Public Authorities (Financial Arrangements) Act 1987*.
Coal	
The cost of remedial action to manage clinkering (the removal of incombustible residue arising from the burning of coal) is the responsibility of Eraring Energy.	Eraring has advised that there was one clinkering event that incurred minor expenditure in the period 27 February to 30 June 2011.

Adjustment to Eraring's Dividend as a Result of the Gentrader Transaction

Acting on a request from Treasury, Eraring Energy initially calculated its dividend payable based on underlying pre-tax group profits from electricity trading activities up to 26 February 2011, excluding adjustments arising from the fixed asset write downs and the close out of derivative positions on entering the GenTrader Agreements.

This basis for calculating the dividend payable was determined to be invalid because it had not been approved by the voting shareholders before 30 June 2011. In fact, no dividend was payable when calculated on the approved basis and therefore none was declared.

Entitlement to Reimbursement under the *State Owned Corporations Act1989*

Under the *State Owned Corporations Act 1989* (SOC Act), a State owned corporation is entitled to be reimbursed for the cost of complying with Ministerial Directions the entity's Board determines not to be in the commercial interests of the entity.

On 14 December 2010, the Special Minister of State issued a direction under section 20N(1) of the SOC Act to the Directors of Eraring Energy to, among other things, enter into the GenTrader Agreements.

Eraring Energy has written to the former and current shareholding Ministers seeking clarification of reimbursement of costs associated with ministerial directions made under subsection 20N(1) of the SOC Act.

Performance Information

Operational Performance

Eraring Energy manages a diverse portfolio of generating assets comprising thermal coal, hydro and wind. Most of its generation comes from Eraring Power Station, which uses thermal coal. Eraring Power Station produced 13,971 gigawatt hours of electricity in 2010-11.

Generation has trended downwards over the past three years primarily due to planned outages for work to be undertaken on the capacity upgrade project at Eraring Power Station.

Some of the indicators Eraring Energy uses to assess its electricity generation performance are shown below.

Year ended 30 June	**Actual**			
	2011	**2010**	**2009**	**2008**
Generation of Electricity - Gigawatt Hours as Generated				
Thermal coal	13,971	14,116	15,426	17,283
Hydro	350	123	101	92
Wind	23	27	30	24
Total	**14,344**	**14,266**	**15,557**	**17,399**
Plant availability (%)	74.6	78.7	86.1	92.5
Thermal efficiency as generated (%)	37.9	37.8	37.8	37.9

Source: Eraring Energy (unaudited).

Plant availability measures the total time Eraring Power Station's generating units were producing electricity or able to produce electricity over a given period. Plant availability is directly impacted by the amount of time required for maintenance and capital improvements. Eraring's plant availability was impacted by the planned capacity upgrade project in 2011. As a result of the project, Eraring Power Station was running at approximately 75 per cent plant availability for most of the financial year.

Thermal efficiency is a performance measure commonly used by power stations. Thermal efficiency is influenced by the design, source of cooling water, age and condition of a power plant, as well as by the quality of coal used. The thermal efficiency percentages above indicate the percentage of energy contained in the coal used by Eraring Power Station to produce the electricity. That is, a measure of the overall fuel conversion efficiency for the electricity generation process.

Other Information

Special Commission of Inquiry into the Electricity Sale Transaction

The government announced a Special Commission of Inquiry into the Electricity Sales Transactions, which commenced on 29 April 2011. The Special Commission has been established to report on a number of aspects relating to the electricity transactions including;

- the value for money achieved for the State compared to the retention value of the assets to the State
- the costs and benefits to the State of the electricity transactions, including potential risks and liabilities and the extent to which the transactions can deliver the stated objectives for entering into them.

The terms of reference of the Special Commission requires a final report to be issued on or before 31 October 2011.

Further information, including the full Terms of Reference for the Special Commission can be found on the Special Commission of Inquiry into Electricity Transactions website: http://www.lawlink.nsw.gov.au/lawlink/Special_Projects/ll_splprojects.nsf/pages/sciet_index

Major Project Expenditure

Work continues on the Eraring Power Station capacity upgrade. The project will increase the nominal capacity of each of the Eraring Power Station's four units from 660 megawatts to 720 megawatts. This will increase the station's capacity to generate electricity and extend its life. Eraring Energy capital expenditure program from 1 July 2010 to 26 February 2011 totalled $112 million. $495 million has been spent of the project's $659 million budget to 30 June 2011.

The upgrade process reduced plant availability because units were out of service. The upgrade is scheduled for completion by December 2012, after which Eraring Power Station will have the largest capacity of all New South Wales power stations.

Eraring Energy's new system for storing fly ash successfully completed its first year of operation. The new system permits more compact storage, which enables longer use of existing storage capacity. Fly ash is a product of the coal combustion process that can be recycled in cement and other industries. Eraring Energy is pursuing a target of 80 per cent recycling of fly ash by 2015.

Disposal of Rocky Point Holdings Pty Limited

The Generation Trading Agreements transferred the responsibility for coal from Eraring Energy to the GenTrader. On 25 February 2011, a direction issued by the Special Minister of the State directed the transfer of Eraring Energy's shares in Rocky Point Holdings to Cobbora Holding Company Pty Limited. Eraring Energy received the proceeds of the sale of its shares to Cobbora for $27.8 million on 28 February 2011 and used these proceeds to pay down debt.

Eraring made a $2.8 million gain on the sale of Rocky Point Holdings, which had incurred an operating loss of $200,000 for the period up to 28 February 2011. During that period, Rocky Point Holding's incurred capital expenditure of $2.8 million primarily related to land purchases.

Financial Information

The following consolidated financial information is for Eraring Energy and its controlled entity.

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Total Revenue	**609,478**	**603,613**	**606,695**	**603,604**
Profit/(Loss) Before Borrowing Costs, Depreciation And Tax	**(179,843)**	**223,986**	**(182,402)**	**224,625**
Borrowing costs	39,034	38,847	39,034	38,847
Depreciation	65,823	85,011	65,823	85,011
Profit/(Loss) Before Tax	**(284,700)**	**100,128**	**(287,259)**	**100,767**
Income tax equivalent expense	14,908	29,789	14,945	29,951
Profit/(Loss) After Tax	**(299,608)**	**70,339**	**(302,204)**	**70,816**
Other Comprehensive Income (net of income tax)				
Movement in asset revaluation reserve	48,304	26,032	48,304	26,032
Defined superannuation benefit actuarial loss	(5,785)	(12,279)	(5,785)	(12,279)
(Loss)/gain on cash flow hedges	(10,530)	33,327	(10,530)	33,327
Loss on generation assets	(397,937)		(397,937)	
De-recognition of deferred tax balance on exit from National Tax Regime	1,828	--	1,828	--
Total Other Comprehensive Income/(Expense)	**(364,120)**	**47,080**	**(364,120)**	**47,080**
Total Comprehensive Income/(Expense)	**(663,728)**	**117,419**	**(666,324)**	**117,896**
Dividend provided	--	64,678	--	64,678

Total revenue included $389 million in electricity sales compared to $597 million in the previous year. The decrease was primarily due to the sale of the Eraring and Shoalhaven power station generation rights with effect from 27 February 2011 and lower generation levels during the year.

Revenue was boosted by a $22.8 million gain on electricity derivatives sold to the GenTrader and $189 million in charges received from the GenTrader to cover the remaining capacity upgrade costs, production and other costs associated with operating the power stations.

Depreciation expenses decreased as a result of the effective disposal of $939 million in assets under the GenTrader Agreements. Borrowing costs remained similar to the prior year even though Eraring Energy retired all debt on 4 March 2011. Only $4.6 million in borrowing costs relating to the upgrade of Eraring Power Station were capitalised in 2010-11 compared to $12.6 million in 2009-10.

Profit before tax was significantly impacted by the need to recognise $370 million of the asset write down as a loss, while the remaining $569 million was recognised against the asset revaluation reserve. Income tax expense decreased because Eraring Energy exited the National Tax Regime on the 26 February 2011 on the assumption it will no longer make profits.

Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Current assets	312,732	143,169	312,732	142,835
Non-current assets	865,342	1,963,977	865,342	1,966,692
Total Assets	**1,178,074**	**2,107,146**	**1,178,074**	**2,109,527**
Current liabilities	160,694	358,994	160,694	358,779
Non-current liabilities	18,852	729,382	18,852	729,382
Total Liabilities	**179,546**	**1,088,376**	**179,546**	**1,088,161**
Net Assets	**998,528**	**1,018,770**	**998,528**	**1,021,366**

The execution of the GenTrader Agreements significantly impacted both assets and liabilities.

- The asset values of Eraring and Shoalhaven Power Stations prior to entering into the GenTrader Agreements were around $1.8 billion. The asset values were written down to the GenTrader bid price resulting in a decrease in value by $939 million. Of this, $569 million was written down against the asset revaluation reserve and the balance of $370 million against profit.
- A finance lease receivable of $867 million was recognised for the trading rights to the output of Eraring and Shoalhaven Power Stations based on future cash inflows receivable for capacity charge payments.
- Eraring received the first payment under the agreement of $56.5 million prior to 30 June 2011 and agreed with the New South Wales Government that it recognised this as a repayment of capital on 30 June 2011.
- Eraring is no longer responsible for the procurement of coal and disposed of $67.9 million worth of inventory.
- Electricity derivatives worth $32.8 million were closed out as Eraring Energy is no longer exposed to the risk of fluctuations in electricity prices.
- Eraring Energy disposed of all shares in its wholly owned subsidiary, Rocky Point Holdings Pty Limited, for their carrying value $27.8 million.
- The New South Wales Government assumed $700 million of Eraring Energy's term debt on 1 March 2011. This, together with the proceeds of the GenTrader completion amounts and the proceeds of the sale of Rocky Point Holdings, enabled Eraring Energy to retire all its debt on 4 March 2011.
- Eraring Energy's exit from the National Tax Regime on 26 February 2011 resulted in de-recognition of all its deferred tax balances.

Current assets increased mainly due to the recognition of the $133 million current portion of the finance lease receivable created by the GenTrader Agreements and an $84.0 million investment of surplus funds with New South Wales Treasury Corporation. The increase in current assets was partially offset by the disposal of inventory and electricity derivatives.

Non-current assets decreased by over one billion dollars. Property, plant and equipment decreased by $1.7 billion mainly due to the disposal of Eraring and Shoalhaven power station plant assets. This decrease was partially offset by the recognition of the $678 million dollar non-current portion of the finance receivable, de-recognition of deferred tax assets and an increase in the value of renewable assets.

Current liabilities decreased mainly due to the retirement of all debt during the year and no provision for dividend this year.

The decrease in non-current liabilities is mainly due to the retirement of all debt during the year and the de-recognition of deferred tax liabilities.

Corporation Activities

See the 'Electricity Industry Overview' section earlier in this report for general industry comment.

Eraring Energy was established as a statutory State owned corporation in August 2000 under the *State Owned Corporations Act 1989* and *Energy Services Corporations Act 1995*.

For further information on Eraring Energy, refer to www.eraring-energy.com.au.

Essential Energy

Audit Opinion

The audits of Essential Energy (formerly Country Energy) and its controlled entity's financial statements for the year ended 30 June 2011 resulted in unmodified audit opinions within the Independent Auditor's Reports.

Unless otherwise stated, the following commentary relates to the consolidated entity.

The profit from the sale of Essential Energy's retail operations was $1.1 billion.

Operational Snapshot

Essential Energy supplies electricity to more than 800,000 customers primarily across regional and rural New South Wales.

It made a profit of $44.0 million after tax in 2010-11 from its continuing operations and $95.1 million from its discontinued operations. It paid a special dividend of $1.2 billion from the proceeds of the sale of its retail business.

Key Issues

Electricity Sales Transactions

The State Government entered into a sales agreement to dispose of electricity assets on 14 December 2010. On 1 March 2011, Essential Energy sold its retail operations, including its retail assets, customer contracts and brand name, to Origin Energy Ltd. Activities relating to the purchase and sale of electricity ceased from that date and control of the retail business passed to Origin Energy. The remaining network services business was rebranded as Essential Energy.

The profit on disposal of the retail business is as follows:

	2011 $'000
Proceeds from the sale of the retail business	1,300,000
Transaction related costs and adjustments	(224,258)
Profit	**1,075,742**

Transition to a Network Services Business

A Transitional Services Agreement (TSA) between Essential Energy and Origin Energy will operate for the transitional period following the sale. The TSA commenced on 1 March 2011 and will operate for a scheduled period of 43 months. The TSA covers both short-term services (such as sales, marketing and forecasting) and longer-term functions (such as billing and the call centre). Within the 43 month period, services will be progressively handed over to Origin Energy. Each service has a scheduled termination date specified in the TSA at which point Essential Energy will stop providing the service.

Sale of Subsidiary

Country Energy Gas Pty Limited, a wholly owned subsidiary of Essential Energy, was sold during the year. See comments under 'Country Energy Gas Pty Limited' later in this report.

Performance Information

Operational Performance

Essential Energy is committed to delivering a safe and reliable supply of energy to its customers. Essential Energy uses the following indicators to assess its performance:

	Target*	Actual			
	2011	2011	2010	2009	2008
System average interruption duration index - customer minutes without supply	317	238	196	267	225
Corporate satisfaction survey – service meeting and exceeding customer expectation	85	86	88	86	92
Lost time injury frequency rate – lost time injuries per one million hours worked	(a)	2.4	3.5	1.7	2.8

* Targets provided by Essential Energy.

a Target not applicable

The increase in customer minutes without supply is attributable to high levels of storm activity as well as flooding in regional New South Wales during 2010-11.

The corporate satisfaction survey index has been relatively stable over the past four years and remains above target.

The lost time injury frequency rate improved from the previous year, reflecting the impact of a comprehensive behavioural safety program undertaken by Essential Energy as part of its 'Safety First' culture. Essential Energy's goal is to achieve 'zero harm' in its work place.

Financial Performance

	Actual			
	2011	2010	2009	2008
Earnings before interest and tax ($m)	464.1	498.2	349.2	267.0
Return on equity (%) (a)	7.7	12.5	13.4	7.1
Return on assets (%) (b)	7.0	8.5	7.3	5.8
Interest cover (times)	1.4	1.7	1.8	1.3
Debt to equity (%)	200.2	187.2	350.0	272.8
Total distributions to government ($m) (c)	1,354.1	137.7	100.9	54.2
Capital expenditure ($m)	751.5	739.6	600.6	579.2

a Profit after tax divided by average equity.

b Earnings before interest and tax divided by average total assets.

c Distribution to government in 2010-11 includes a special dividend of $1.2 billion from sale of retail business.

Note: Earnings and ratios exclude the impact of fair value gains and losses on financial instruments and superannuation actuarial gains and losses.

The actual figures for 2010-11 and the commentary below reflect the impact of the sale of the retail business at 1 March 2011 and the commencement of transitional services from that date.

Essential Energy's earnings before interest and tax exceeded its budget by $157 million. This was mainly due to a more favourable gross margin, which exceeded budget by $63.1 million, and $52.0 million lower than budgeted operating expenses. The improvement in the gross margin was due mainly to more favourable wholesale cost outcomes than budgeted.

Earnings from the sale of electricity increased significantly after regulatory network and retail price increases came into effect on 1 July 2009.

Other Information

Environmental Performance

Solar Bonus Scheme

The New South Wales Government commenced the Solar Bonus Scheme (the Scheme) on 1 January 2010. The Scheme applies to small scale, grid connected, solar systems and wind turbines. The government tariff of 60 or 20 cents per kilowatt hour is paid to small customers for electricity that is fed back into the electricity network. The Scheme was closed to new applicants from midnight 28 April 2011 and will continue to run until 31 December 2016.

Essential Energy advised that the cost of the scheme was $57.6 million for the eighteen month period to 30 June 2011.

Network Capital Expenditure

Essential Energy's capital program spending is required to meet the growing need of households and businesses in regional and rural New South Wales. 2010-11 was the second year of a five year network plan aimed at replacing ageing assets and to comply with enhanced licence conditions.

The Australian Energy Regulator's determination in 2009 provided Essential Energy with a capital expenditure program of almost $4.0 billion over the 2009-14 regulatory period.

Electricity Sale Transaction

Working capital and purchase price adjustment

A review of the working capital adjustment required under the retail sales agreement was not finalised at the date of this report. Essential Energy recognised an estimated payment of $21.9 million for 'working capital purchase price adjustment' as at 30 June 2011.

The final amount will be settled once an independent review is conducted and the results are agreed between Essential Energy and the Origin Energy.

Stranded costs

Essential Energy recognised provisions for restructuring costs of $50.0 million at 30 June 2011. The provision represents a best-estimate of stranded costs associated with the sale of its retail business and included estimates for:

- employee related stranded costs
- data migration and
- costs of removing the 'Country Energy' brand.

Financial Information

Abridged Statement of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Revenue From Continuing Operations	**1,473,555**	**1,239,000**	**1,481,031**	**1,228,532**
Profit Before Borrowing Costs Depreciation, Amortisation and Tax	**653,835**	**526,820**	**667,460**	**519,977**
Borrowing costs	288,173	244,383	288,173	244,383
Depreciation and amortisation	307,455	203,287	305,846	198,459
Profit Before Other Gains and Tax	**58,207**	**79,150**	**73,441**	**77,135**
Fair value gains on financial instruments	1,933	413	1,933	413
Profit Before Tax	**60,140**	**79,563**	**75,374**	**77,548**
Income tax equivalent expense	16,128	25,375	15,250	24,344
Profit After Tax from Continuing Operations	**44,012**	**54,188**	**60,124**	**53,204**
Profit From Discontinued Operations After Fair Value Gains and Tax	**95,100**	**108,154**	**95,100**	**108,153**
Gain on Disposal of Discontinued Operations	**1,075,742**	**--**	**1,075,742**	**--**
Other Comprehensive Income				
Gain on revaluation of fixed assets	--	1,243,750	--	1,243,750
Defined benefit plan actuarial gains/(losses)	456	(21,475)	456	(21,475)
Gain/(loss) from changes in fair value of cash flow hedges	57,431	(46,676)	57,431	(46,676)
Income tax on other comprehensive income	(17,366)	(352,679)	(17,366)	(352,679)
Total Other Comprehensive Income	**40,521**	**822,920**	**40,521**	**822,920**
Total Comprehensive Income	**1,255,375**	**985,262**	**1,271,487**	**984,277**
Ordinary dividend provided for during the year	41,200	47,600	41,200	47,600
Ordinary dividend paid during the year	47,600	29,200	47,600	29,200
Special dividend paid during the year	1,172,600	--	1,172,600	--

Total revenue included $831 million ($1.4 billion in 2009-10) in retail electricity sales, which were discontinued on 1 March 2011, and $1.5 billion ($1.2 billion) in network use of system charges.

The sale of the retail business resulted in a profit from discontinued operations of $1.1 billion. Essential Energy paid a special dividend of $1.2 billion sourced primarily from the proceeds of the sale of the retail operation.

Abridged Statement of Financial Position

At 30 June	Consolidated		Parent	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Current assets	347,549	562,534	347,549	618,840
Non-current assets	6,369,655	6,000,386	6,369,655	5,928,728
Total Assets	**6,717,204**	**6,562,920**	**6,717,204**	**6,547,568**
Current liabilities	792,819	860,535	792,819	863,885
Non-current liabilities	4,105,918	3,925,493	4,105,918	3,922,903
Total Liabilities	**4,898,737**	**4,786,028**	**4,898,737**	**4,786,788**
Net Assets	**1,818,467**	**1,776,892**	**1,818,467**	**1,760,780**

The decrease in current assets was largely due to a reduction in trade receivables, unread meters accrual and financial derivatives arising from the retail sales transaction.

Non-current assets increased because of significant capital expenditure for planned expansion of the distribution network, replacement of ageing assets and compliance with additional licence conditions specifically to reduce the risk of supply interruptions.

Total Liabilities increased largely due to additional borrowings of $315 million. At year end borrowings totalled $3.6 billion.

Country Energy Gas Pty Limited

On 29 October 2010, the corporation sold Country Energy Gas Pty Limited, which operated, maintained and constructed gas assets. The sale proceeds of $108 million (including $56.5 million to repay an intercompany loan) were received in cash. The profit on sale is analysed below:

	2011 $'000
Proceeds from the sale of the company (less intercompany loan repayment)	51,185
Net assets sold	(40,327)
Transaction related costs	(4,360)
Profit	**6,498**

Corporation Activities

See the 'Electricity Industry Overview' section appearing earlier in this report for general industry comment.

Essential Energy is a statutory State owned corporation constituted by the *Energy Services Corporations Act 1995*. Its principal function is to distribute electricity to the national electricity market. The voting shareholders are the Treasurer and the Minister for Finance and Services.

For more information on Essential Energy, refer to www.essentialenergy.com.au.

Controlled Entities

The following controlled entity has not been reported on separately as it is not considered material by size or the nature of its operation to the consolidated entity.

Entity Name
NorthPower Energy Services Pty Limited

Macquarie Generation

Audit Opinion

The audits of Macquarie Generation and its controlled entity financial statements for the year ended 30 June 2011 resulted in unmodified audit opinions within the Independent Auditor's Reports.

The Independent Auditor's Report for Macquarie Generation drew attention to significant uncertainty regarding the potential impact on the corporation's asset values due to the Australian Government carbon price scheme.

Operational Snapshot

Macquarie Generation owns and operates Liddell and Bayswater Power Stations with a combined generating capacity of 4,640 megawatts.

The corporation made a total profit of $126 million for the year ended 30 June 2011 and paid a dividend of $130 million to the New South Wales Government.

Performance Information

Operational Performance

Year ended 30 June	2011	2010	2009	2008
Generation of electricity (gigawatt hours sent out)				
Bayswater	13,661	15,176	15,864	15,430
Liddell	7,763	9,394	11,135	10,851
Total	**21,371**	**24,570**	**26,999**	**26,281**
Plant availability				
Bayswater (%)	92.7	91.8	92.3	91.5
Liddell (%)	69.5	72.3	79.4	78.9
Thermal efficiency				
Bayswater (%)	34.6	35.0	35.2	35.4
Liddell (%)	31.9	32.8	32.5	33.2
Equivalent forced outages (%)	10.5	12.4	6.3	5.4

Plant availability measures the total time generation units produced electricity or were able to produce electricity over a given period. Plant availability is directly impacted by the time required for maintenance and capital improvements. Liddell's plant availability continued to decrease due to a significant generator failure in 2010-11 and unforseen technical malfunctions.

Thermal efficiency measures the overall fuel conversion efficiency for the electricity generation process. It is influenced by the design, age and condition of a power plant, source of cooling water, and the quality of coal used.

Macquarie Generation's market share of the National Electricity Market was 11.2 per cent in 2010-11 (13 per cent in 2009-10).

Financial Performance

Year ended 30 June	Target*	Actual	
	2011	2011	2010
Earnings before interest and tax ($m)	238.3	228.1	334.4
Return on equity (%)	9.5	9.5	14.4
Return on assets (%)	6.0	5.6	7.8
Interest cover (times)	4	4.6	6.0
Debt to equity (%)	44.2	44.2	43.7
Total distributions to government ($m)	183.7	182.5	273.4
Capital expenditure ($m)	44.3	41.4	40.2

* Targets agreed with shareholder ministers in the Statement of Corporate Intent.

Earnings were below target due to a fall in operating revenue caused by lower pool prices and reduced electricity demand. This resulted a $90.9 million (33 per cent) fall in distributions to government compared to last year.

Other Information

Coal Supply

Macquarie Generation's long term contracts ensure a relatively low cost of coal. It has executed contracts with Cobbora Holding Company Pty Limited to meet its budgeted future coal requirements. However, coal will not be available from the Cobbora project for at least two years and the corporation will require additional coal to meet its forward production plans. As a result the corporation may have to purchase coal at premium prices in the competitive higher priced export coal market.

Impact of Carbon Price

The Australian Government released 'Securing a Clean Energy Future – the Australian Government's Climate Change Plan' on 10 July 2011. The announcement provided a framework for a carbon reduction scheme, including the start date and the carbon price for the initial three year fixed period.

Macquarie Generation's current modelling indicates that the implementation of a carbon price could significantly reduce the value of the power plant assets at Bayswater and Liddell.

Major Projects

Macquarie Generation is undertaking a range of developments aimed at meeting the increasing need for power, environmental improvements and the exploration of renewable energy options.

Bayswater B extension project

On 12 January 2010, the Minister for Planning gave concept approval for the Bayswater B extension project subject to a number of conditions. The project involves developing a fuel neutral 2,000 megawatt power station, located adjacent to the existing Bayswater power station. If constructed as a coal plant with access to existing water and coal delivery infrastructure, it is expected to cost approximately $3.6 billion. If constructed as a gas plant with a new gas well and pipeline infrastructure, it is expected to cost approximately $2.3 billion. Current legal proceedings are challenging the validity of this concept approval.

Tomago Gas-Fired Power Station

Macquarie Generation has development approval to construct a gas-fired power station at Tomago, north of Newcastle. The project is designed to provide open cycle gas generation capacity of 500 megawatts or, alternatively, 790 megawatts of combined cycle capacity. The project could be completed within 24 months at an approximate cost of $500 million.

Expansion of Liddell Solar Thermal Project

Macquarie Generation is expanding the Liddell Solar Thermal Plant, making it the largest solar thermal power project in the southern hemisphere. Largely funded by a $9.3 million grant from the government, the project is expected to cost approximately $10.4 million. Construction of the 18,000 square metre solar field is expected to be completed by mid 2012. During its anticipated 20-year operational life, the solar field will cut greenhouse emissions by approximately 5,000 tonnes per annum.

Financial Information

Abridged Statement of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Total Revenue	**1,019,422**	**1,167,017**	**1,019,422**	**1,167,017**
Profit Before Borrowing Costs, Depreciation and Tax	**411,995**	**510,846**	**410,752**	**511,469**
Borrowing costs	64,838	64,078	64,838	64,078
Depreciation	169,004	166,678	169,004	166,678
Profit Before Tax	**178,153**	**280,090**	**176,910**	**280,713**
Income tax equivalent expense	52,453	83,608	52,453	83,608
Profit After Tax	**125,700**	**196,482**	**124,457**	**197,105**
Other Comprehensive Income:				
Change in fair value of cash flow hedges	(10,935)	3,471	(10,935)	3,471
Defined benefit superannuation actuarial loss	(1,486)	(12,395)	(1,486)	(12,395)
Total Other Comprehensive Income/(Expense)	**(12,421)**	**(8,924)**	**(12,421)**	**(8,924)**
Total Comprehensive Income	**113,279**	**187,558**	**112,036**	**188,181**
Dividend Provided	130,000	189,800	130,000	189,800

Profit after tax decreased by $70.8 million from the previous year because of decrease in the sale of electricity as a result of fall in demand.

Abridged Statement of Financial Position

At 30 June	Consolidated		Parent	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Current assets	717,333	641,664	717,333	640,855
Non-current assets	3,316,386	3,470,719	3,316,386	3,472,819
Total Assets	**4,033,719**	**4,112,383**	**4,033,719**	**4,113,674**
Current liabilities	422,723	440,891	422,723	440,939
Non-current liabilities	1,747,436	1,791,211	1,747,436	1,791,211
Total Liabilities	**2,170,159**	**2,232,102**	**2,170,159**	**2,232,150**
Net Assets	**1,863,560**	**1,880,281**	**1,863,560**	**1,881,524**

The corporation's working capital ratio (current assets available to pay current liabilities) remains healthy, increasing from 1.46:1 last year to 1.70:1.

Current and non-current liabilities decreased due to a $59.8 million reduction in the 2010-11 dividend and a significant decrease in current and deferred tax liabilities.

Corporation Activities

See the 'Electricity Industry Overview' section earlier in this report for general industry comment.

Macquarie Generation operates the Bayswater and Liddell coal-fired power stations in the Upper Hunter Valley.

Macquarie Generation was constituted in March 1996 as an electricity generator under the *Energy Services Corporations Act 1995* and as a statutory State owned corporation under the *State Owned Corporations Act 1989*. The voting shareholders are the Treasurer and the Minister for Finance.

For further information on Macquarie Generation, refer to www.macgen.com.au.

Controlled Entity

Midwest Development Corporation Pty Limited

On 25 February 2011, under a direction from New South Wales Treasury, Macquarie Generation sold its investment in Midwest Development Corporation Pty Limited to Cobbora Holding Company Pty Limited.

TransGrid

Audit Opinion

The audit of TransGrid's financial statements for the year ended 30 June 2011 resulted in an unmodified audit opinion within the Independent Auditor's Report.

Operational Snapshot

TransGrid owns and manages one of the largest high-voltage transmission networks in Australia, and connects electricity generators, distributors and major end-users in New South Wales.

The network includes over 12,600 kilometres of transmission lines, linking New South Wales to Queensland and Victoria and facilitating interstate energy trading.

TransGrid made a profit of $167 million after tax in 2010-11 and provided for a dividend of $134 million to the government during the year.

Performance Information

Operational Performance

Reliability of Transmission Network

The Australian Energy Regulator (AER) monitors the performance of transmission networks against AER targets set for the regulatory period 2009-14. TransGrid provided the following information on performance for the years ended 31 December 2008 to 31 December 2010:

Year ended 31 December	Target	Actual		
	2010-15	2010	2009	2008
Transmission line availability (%)	99.26	98.76	98.00	98.54
Transformer availability (%)	98.61	98.38	98.26	98.53
Reactive plant availability (%)	99.12	95. 44	97.66	99.00
Frequency of lost supply events greater than 0.05 mins	4	3	3	2
Frequency of lost supply events greater than 0.25 mins	1	1	1	--
Average outage duration (minutes)	824	861	817	869

Source: Australian Energy Regulator and TransGrid.

TransGrid's performance was generally close to target. Transmission line and transformer availability were below target due to longer than planned outage for reconstruction of the Yass to Wagga 132kV transmission line. Reactive plant availability was lower than target because some reactive plants reached the end of their useful lives, for which a replacement project was scheduled.

Energy Maximum Demands

Energy use in New South Wales has increased by an average of 1,310 gigawatt hours (GWh) per annum over the last ten years. For the last three years TransGrid reported the following peak demands:

Year ended 30 June	Peak Demands (MW)		
	2011	2010	2009
Winter peak demand	12,908	13,176	14,274
Summer peak demand	14,580	13,765	14,106

Source: Australian Energy Market Operator – extracts from aggregated price and demand data files.

TransGrid estimates peak electricity demand in New South Wales will increase on average by two per cent annually for the next ten years. TransGrid will spend $2.6 billion on its capital works program over the five year regulatory period from 1 July 2009 to 30 June 2014 to meet increasing electricity demand. TransGrid spent $379 million in 2011 on capital expenditure, which was funded by revenue from transmission charges and additional borrowings of $76.0 million, increasing total debt to $2.3 billion.

Financial Performance

Year ended 30 June	Target*	Actual		
	2011	2011	2010	2009
Earnings before interest and tax ($m)	387	394.6	362.4	320.5
Return on equity (%) (a)	7.2	7.0	7.5	8.0
Return on assets (%) (b)	6.7	6.5	6.5	6.8
Dividends to government ($m)	125	133.9	135.1	120.2
Capital expenditure	457	378.6	428.7	619.9

* Source: TransGrid 30 June 2011 Statement of Corporate Intent (SCI).
a net profit after tax divided by average equity.
b earnings before interest and tax divided by average assets.

Earnings increased as a result of higher transmission income due to increases to the revenue cap approved by the regulator.

Contributions to government for 2010-11 were $157 million, comprising a dividend of $134 million ($135 million in 2009-10) and tax paid of $22.5 million ($50.5 million).

For the five years (2009–14) AER allowance of $2.6 billion, approximately 30 per cent of the program had been delivered at 30 June 2011. The program is on target following accelerated expenditure earlier in 2009.

Financial Information

Abridged Statement of Comprehensive Income

Year ended 30 June	2011 $'000	2010 $'000
Total Revenue	**758,311**	**695,033**
Profit Before Borrowing Costs, Depreciation, Amortisation and Tax	**613,282**	**545,349**
Borrowing costs	152,173	138,753
Depreciation and Amortisation	217,656	181,299
Profit Before Tax	**243,453**	**225,297**
Income tax equivalent expense	76,019	63,224
Profit After Tax	**167,434**	**162,073**
Other Comprehensive Income		
Net increase in revaluations, including impairments	112,972	513,250
Cash Flow Hedge Reserve: net movement in equity	(3,598)	(3,706)
Superannuation Actuarial gains/(losses)	11,299	(44,034)
Income tax expense relating to components of other comprehensive income	(36,183)	(139,654)
Total Other Comprehensive Income	**84,490**	**325,856**
Total Comprehensive Income	**251,924**	**487,929**
Dividend provided	133,947	135,058

Total revenue includes $739 million ($675 million) from the transmission of electricity, a 9.5 per cent increase due to a higher revenue cap set by the regulator and performance incentives. The revenue cap is indexed each year for inflation. Borrowing costs increased as a result of a higher level of debt financing to fund additional capital works over the five year regulatory period from 1 July 2009 to 30 June 2014.

Abridged Statement of Financial Position

At 30 June	2011 $'000	2010 $'000
Current assets	146,783	167,120
Non-current assets	6,035,247	5,772,011
Total Assets	**6,182,030**	**5,939,131**
Current liabilities	563,827	642,727
Non-current liabilities	3,158,931	2,955,834
Total Liabilities	**3,722,758**	**3,598,561**
Net Assets	**2,459,272**	**2,340,570**

Non-current assets increased by $263 million because of a revaluation of network assets and increased capital expenditure.

Total liabilities increased due to additional borrowings of $76.0 million to fund capital projects and an increase in deferred tax liabilities of $66.0 million.

Corporation Activities

See the 'Electricity Industry Overview' appearing earlier in this report for general industry comment.

TransGrid principally establishes, maintains and operates facilities to transmit electricity and other forms of energy.

TransGrid is a statutory State owned corporation constituted by the *Energy Services Corporations Act 1995*. It was corporatised under the *State Owned Corporatisation Act 1989* in December 1998.

For more information on TransGrid, refer to www.transgrid.com.au.

Electricity Tariff Equalisation Ministerial Corporation

Audit Opinion

The audit of the corporation's financial statements for the year ended 30 June 2011 resulted in an unmodified audit opinion, within the Independent Auditor's Report.

Key Issues

Closure of the Fund

The Electricity Tariff Equalisation Fund ceased operations on 30 June 2011. At this date, the balance of the fund was $293 million. This amount, less final administrative expenditure and after all adjustments made under the fund's Payment Rules, will transfer to the Consolidated Fund during 2011-12. The fund's Payment Rules provide for adjustments to prior period transactions until January 2012.

The Electricity Tariff Equalisation Fund ceased operations on 30 June 2011

Financial information

Abridged Statement of Comprehensive Income

Year ended 30 June	2011 $'000	2010 $'000
Tariffs from retailers/generators	287,385	491,432
Other	11,556	2,788
Total Revenues	**298,941**	**494,220**
Tariffs payments to retailers/generators	109,917	438,090
Other	274	125
Total Expenses	**110,191**	**438,215**
Total Comprehensive Income	**188,750**	**56,005**

Abridged Statement of Financial Position

At 30 June	2011 $'000	2010 $'000
Total assets	293,682	107,788
Total liabilities	57	2,913
Net Assets	**293,625**	**104,875**

Total assets comprise cash and cash equivalents of $283 million and receivables from retailers of $11.0 million.

Corporation Activities

The corporation is a statutory body constituted under the *Electricity Supply Act 1995*.

The corporation administered the Electricity Tariff Equalisation Fund up until 30 June 2011, when the fund stopped operating. The fund's purpose was to smooth the cost of electricity to state owned retailers supplying customers subject to regulated pricing.

Appendix 1

Agencies not commented on in this Volume, by Minister

The following audits resulted in unqualified independent auditor's reports and did not identify any significant issues or risks.

Entity name	Website	Period/year ended
Treasurer		
Pacific Solar Pty Limited	www.pacificsolar.com.au	30 June 2011
Pacific Power (Subsidiary No 1) Pty Ltd	*	30 June 2011
Residual Business Management Corporation	www.pacificpower.nsw.gov.au	30 June 2011

* This entity does not have a website.

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To perform high quality independent audits of government in New South Wales.

Our values

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