New South Wales Auditor-General's Report

Financial Audit

Volume Four 2012

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 2012 report.

Peter Achterstraat
Auditor-General

7 November 2012

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Significant Items

This summary shows the most significant issues identified during my audits.

Recommendations

This summary shows my more significant recommendations to agencies to address issues I identified during my audits.

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Section One

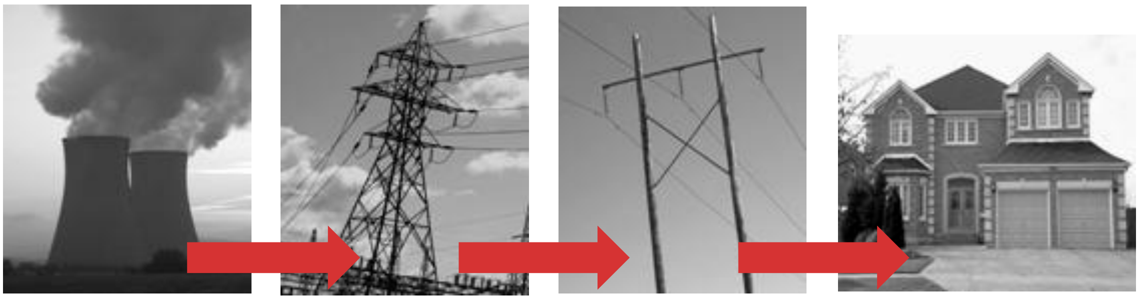
Overview

Electricity Industry Overview

Electricity Industry Overview

Electricity Corporations and Audit Opinions

Seven State owned corporations are involved in generating, transmitting and distributing electricity in New South Wales.



Generation

Macquarie Generation

Delta Electricity*

Eraring Energy*

Combined Profit after Tax
$234 million

Combined Total Assets
$5.8 billion

Combined Total Debt
$1.6 billion

Return on Assets
7.4 per cent

Transmission

TransGrid

Net Profit after Tax
$200 million

Total Assets
$6.4 billion

Total Debt
$2.3 billion

Return on Assets
7.0 per cent

Distribution

Ausgrid

Endeavour Energy

Essential Energy

Combined Profit after Tax
$770 million

Combined Total Assets
$26.1 billion

Combined Total Debt
$15.4 billion

Return on Assets
9.2 per cent

* Electricity Generation outputs of Eraring Energy and Delta Electricity (Western Region) were sold in 2011 to Origin Energy and TRUenergy respectively.

I issued unqualified audit opinions on all of the corporations' financial statements for the year ended 30 June 2012.

Last year, my audit reports commented on uncertainty around the valuation of Macquarie Generation's and Delta Electricity's power station assets because of the impact of the Australian Government's carbon price scheme. The Clean Energy Future legislation has since removed the uncertainty and both corporations' asset values now reflect the impact of carbon pricing, discussed later in this report.

Key Issues

Increasing Consumer Electricity Bills

Consumer electricity bills increased by about 80 per cent in the last five years

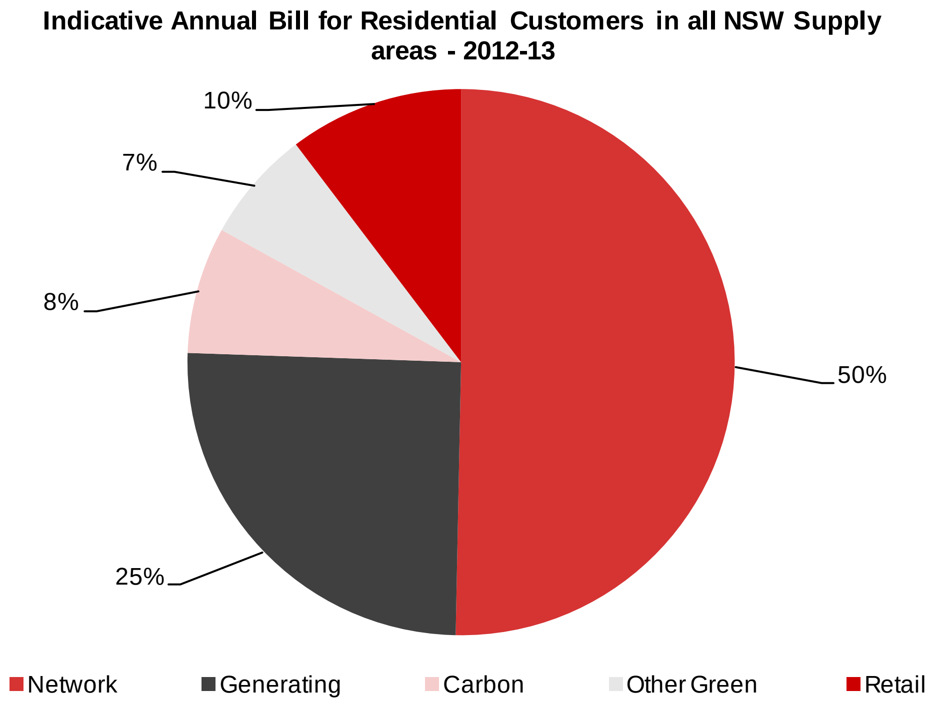
Consumer electricity bills have increased by about 80 per cent over the last five years, with further increases in 2012-13. IPART estimates annual electricity bills for average households will reach $2,230 in 2012-13. The average residential electricity bill in 2007-08 was $1,100. The components of a typical electricity bill during 2012-13 are:

	%
Direct costs	
Network (poles and wires)	50
Energy generation	25
Retail	10
Indirect costs	
Carbon tax	8
Other green schemes	7

Source: IPART extract from 'Changes in regulated electricity retail prices from 1 July 2012'.

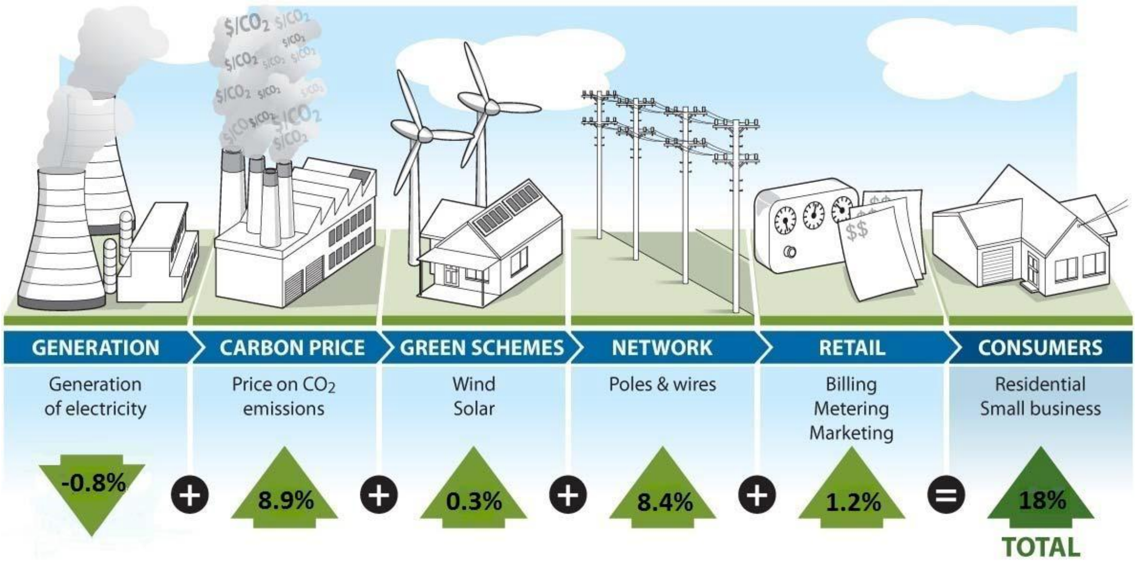
Annual electricity bills for average households to reach $2,230 in 2012-13 up from $1,100 in 2007-08

The graph below shows the components of an indicative residential annual electricity bill:



Source: IPART extract from 'Changes in regulated electricity retail prices from 1 July 2012'. The indicative annual bill reported by IPART for each standard supply area in 2012-13 was aggregated in the above graph.

From 1 July 2012, average regulated electricity prices will increase by around 18 per cent across New South Wales (17 per cent in 2010-11). The increase comprises of:



Source: IPART 'Changes in Electricity Retail Prices from 1 July 2012'.

A carbon price increase of 8.9 per cent and rising network costs of 8.4 per cent account for the major part of the 18 per cent increase in electricity prices from 1 July 2012.

The main reasons for increases in average regulated electricity prices are rising network charges and carbon pricing.

Increased Prices from Surge of Investment in Networks (Poles and Wires)

Network charges represent the cost of running electricity through poles and wires. These charges are determined by the Australian Energy Regulator (AER).

Rising network charges have resulted from the significant capital investment programs the Distribution Network Service Providers (DNSPs) and TransGrid have undertaken to:

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

The need for these substantial increases in capital works was confirmed in the AER's 2009-14 determination. Its approval of network prices is based on the revenue network service providers reasonably require to recover a set of costs. These costs are submitted by the distributors as part of their five-year regulatory process and primarily include:

- a forecast of operational and maintenance expenses
- a return on capital
- asset depreciation costs.

Capital spending of electricity transmission and distribution companies increased significantly in recent years resulting in increased network charges.

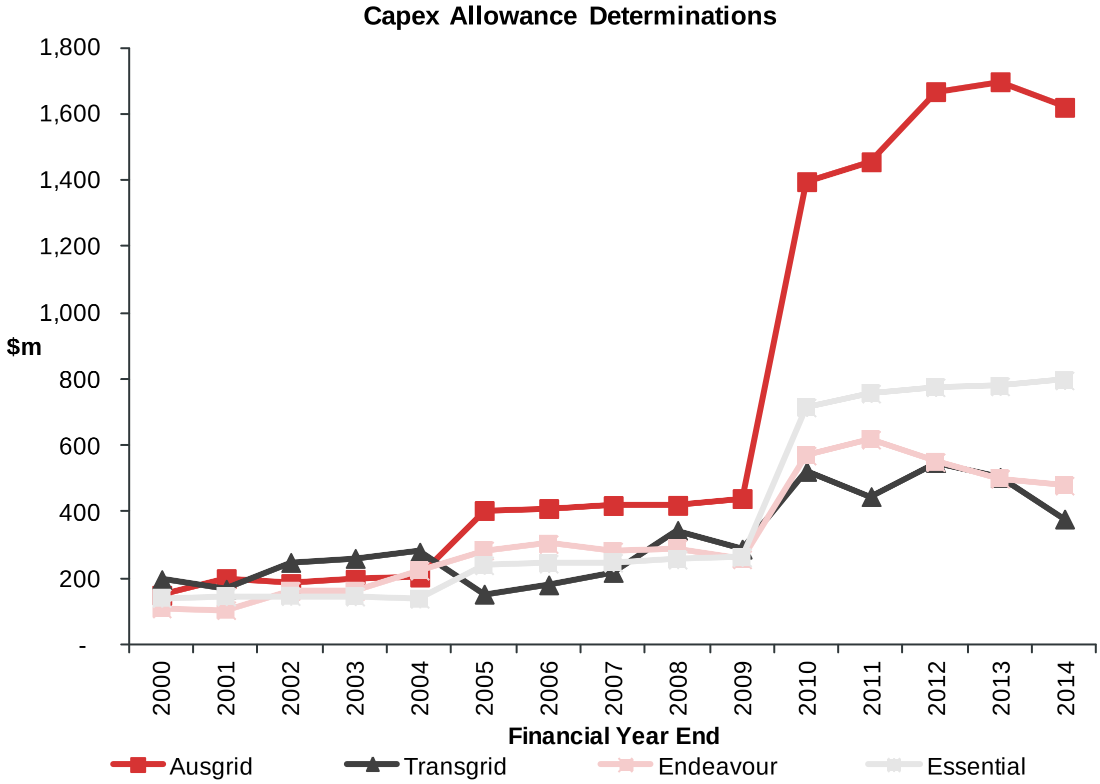
DNSPs can appeal the AER's final decision. During the last regulatory period, which started in 2009, successful appeals resulted in an additional $1.9 billion in allowed revenue over the five-year regulatory period.

Each electricity retailer can pass on its actual network prices to its customers because it cannot avoid or control these prices.

In recent years energy demand has been lower than forecast due to reduced manufacturing consumption, consumers reacting to higher electricity prices and energy efficiency measures. A proportion of approved capital expenditure is based on forecasted energy demand growth. This may, result in more capital expenditure than needed if energy demand remains lower than originally forecast and capital expenditure and revenue are not adjusted accordingly.

Over the past ten years, a total of $22.8 billion in allowed capital expenditure was approved by the AER for all three DNSPs and TransGrid.

Capital expenditure for the past three regulatory periods is shown below. Regulatory periods are 2000-01 to 2003-04; 2004-05 to 2008-09; 2009-10 to 2013-14.



Source: IPART (pre-2009 Determinations) and AER thereafter, excluding approved pass throughs.

Total capital expenditure determined by the AER for the 2009-14 regulatory period is $16.8 billion.

Significantly higher levels of capital expenditure are incurred by Ausgrid due to the number of customers it serves and it being Australia's oldest Electricity network.

Changes in reliability standards were implemented in 2005 and updated in 2007 by the NSW Government under the *Electricity Supply Act 1995*. The new standards required additional investment in new equipment and improved systems to track and monitor interruptions to supply. As a result, DNSPs sought approval in the 2009-14 determination for higher prices to meet the new license requirements, which cost approximately $1.5 billion out of the total of $16.8 billion approved by the AER.

The determinations for each DNSP and TransGrid are detailed in the table below.

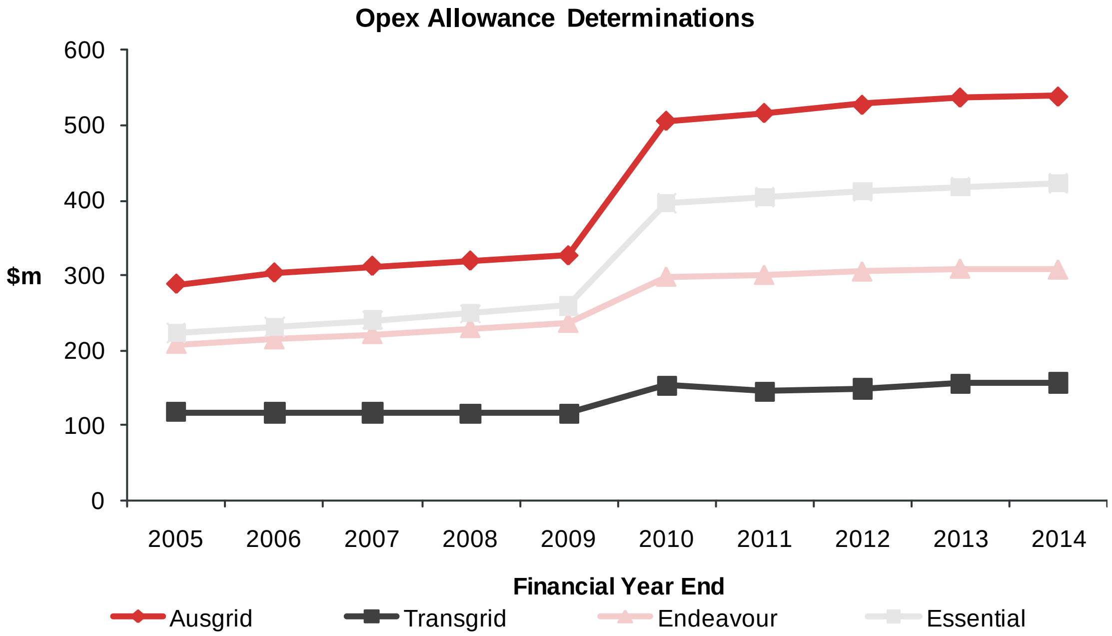
AER Capex Determinations for DNSP's and TransGrid 2009-14

Capex Determinations	Ausgrid $m	Endeavour $m	Essential $m	TransGrid $m	Total
2009-10	1,396	571	716	523	3,206
2010-11	1,456	619	758	447	3,280
2011-12	1,668	551	777	550	3,546
2012-13	1,698	501	779	505	3,483
2013-14	1,621	480	797	380	3,278
Total Capex Determination for 2009-14	**7,839**	**2,722**	**3,827**	**2,405**	**16,793**

Source: AER.

In the last two regulatory periods 2005-09 and 2009-14, $11.4 billion in allowed operating expenditure was approved by the regulator for the three DNSPs and TransGrid. Operating expenditure also increased from 2009 to cope with the rising capital expenditure.

The AER reports network prices in 2013-14 will broadly match the efficiency costs of the DNSPs. As such, there is an expectation that changes in average network prices from 1 July 2013 will be set at or below inflation levels.



Source: IPART (For Determinations prior to 2009-10) and AER for 2009-14 Determination, excluding approved pass throughs.

The next regulatory period for all three NSW network service providers is 2014-19.

Recommendation

The Boards of transmission and network service providers be required to demonstrate determination submissions to the Australian Energy Regulator incorporate an efficient and prudent capital expenditure program.

The distributors' high levels of capital expenditure are sometimes criticised as 'gold plating' the network. To address such criticisms, distributors need to demonstrate their submissions are efficient and prudent. This may include engagement of independent experts to review the submission data.

The Australian Government announced a Productivity Commission Inquiry into electricity network frameworks. The Commission was asked to assess the use of benchmarking as a means of achieving the efficient delivery of network services and electricity infrastructure. The inquiry will also review whether the current regulatory regime is delivering efficient levels of network and generation investment across the National Electricity Market. The inquiry started in February 2012 and a draft report was released on 18 October 2012 and the final report is due on 9 April 2013.

Increased Prices due to the Carbon Price

Carbon pricing resulted in average regulated electricity prices increasing by 8.9 per cent from 1 July 2012.

IPART estimates a fixed price of $23 per tonne of CO_2 emissions will add approximately 8.9 per cent to average regulated retail electricity prices across New South Wales in 2012-13.

The Australian Government passed its Clean Energy Legislation Package on 8 November 2011 resulting in the introduction of a carbon price on 1 July 2012. A price on carbon is expected to encourage businesses to:

- use or generate renewable energy
- reduce energy consumption
- implement technologies that will improve energy efficiency
- invest in renewable energy, such as solar and wind.

The carbon price will affect approximately five hundred entities operating in Australia, which emit over 25,000 tonnes of CO_2 each year and include NSW Government-owned electricity generating corporations. Government corporations are not entitled to compensation under the legislation unless the emissions are high intensity (e.g. resulting from 'brown coal').

Carbon pricing resulted in a $1.4 billion write down in the carrying value of NSW electricity power stations infrastructure.

The carbon price was fixed at $23 per tonne of CO_2 in 2012-13, increasing to $25.40 in 2014-15. From 1 July 2015, the pricing mechanism will transition to a floating price determined by the market under a 'cap and trade' scheme.

Carbon pricing significantly impacted the valuation of electricity power station assets resulting in Macquarie Generation writing down its infrastructure asset values by $1.0 billion at 30 June 2012. Delta Electricity had assessed the impact of carbon price in the previous year, which resulted in a $318 million write-down of its Central Coast power stations in 2010-11. An additional $59.6 million was written off the values of the Vales Point and Colongra power stations in 2011-12.

Energy Security Fund

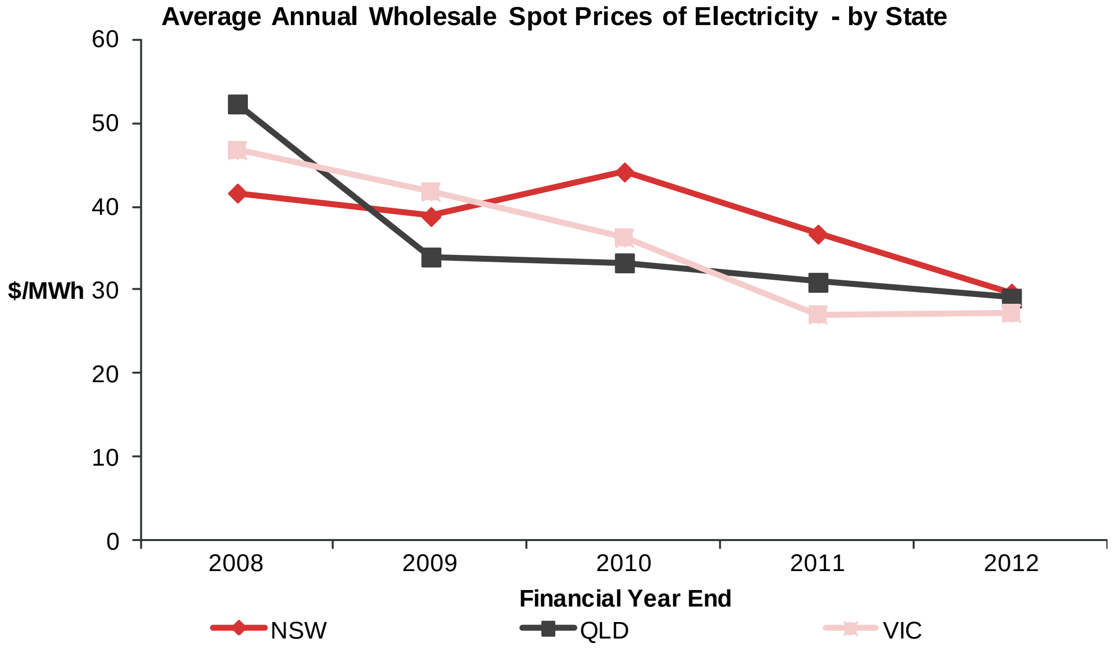
In June 2012, $1.0 billion of assistance was paid to high emitting generators within Australia, no amounts flowed to the NSW generators.

The Australian Government has implemented an Energy Security Fund to help certain high emission power stations to manage the impact of the carbon price. The help was in the form of $1.0 billion in cash payments in 2011-12 and free carbon units provided annually from 2013-14 to 2016-17. The Australian Government estimates the total worth of the fund at $5.5 billion.

Generators qualify for help to the extent their emissions intensity levels exceed 1.0 tonnes of CO_2 per megawatt hour 'as generated'. These levels are primarily achieved by brown coal generators located in other States. New South Wales State owned generators do not meet these intensity levels because they use black coal.

Decreased Electricity Generation Prices (Wholesale Prices)

Wholesale (spot) prices in the National Electricity Market decreased in 2011-12. The average electricity spot price in New South Wales was $29.67 per megawatt hour, a decrease of 19.2 per cent from the 2010-11 average of $36.74. The graph below shows the declining trend in spot prices for New South Wales, Queensland and Victoria over the past five years.



Source: AEMO Average Annual Prices per Financial Year.

Less extreme weather events resulted in fewer periods of high demand

The declining trend is primarily due to decreasing demand for electricity as consumers react to higher electricity prices. Other less significant factors include the end of the prolonged drought and increased water availability increasing generating capacity, fewer planned and unplanned outages and constraints on the flow of electricity into the State from other regions in the NEM.

The spot price of electricity has been volatile since inception of the NEM in 1997. The average spot price in New South Wales has been around $38.22 per megawatt hour over the past five years. This lies within the mid range when compared to other States.

Average annual wholesale spot prices of electricity:

Year ended 30 June	NSW $/MWh	Vic $/MWh	Qld $/MWh	SA $/MWh	Tas $/MWh
2012	29.67	27.28	29.07	30.28	32.58
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
Five year average	38.22	35.85	35.94	44.13	40.91

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

Under 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 highest and lowest electricity prices recorded in New South Wales over the last two years are shown below.

Highest/lowest Half Hour Wholesale Price and Corresponding Demand for New South Wales

Financial year ended	Price per MWh $	Demand (MW)	Date	Time
Highest				
2012	6,497.76	11,492.71	9 Nov 11	3.30 pm
2011	12,136.17	14,525.73	1 Feb 11	4.00 pm
Lowest				
2012	3.85	6,333.25	7 Mar 12	2.30 am
2011	(147.03)	10,399.64	30 May 11	1.30 pm

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

The highest energy wholesale price in 2011-12 was significantly lower than in 2010-11 because of reduced consumption of electricity and increased supply.

Cost Savings from Rationalisation of Distribution Businesses

Rationalisation of the three electricity distributors are planned to achieve $400 million in savings

To achieve savings, the operations of the State's three electricity network operators are being rationalised with an objective of achieving $400 million in savings over the next four years.

On 18 March 2012, the NSW Government announced a reform of the electricity distribution network in New South Wales under which Ausgrid, Endeavour Energy, and Essential Energy will be integrated under a single new State owned corporation (SOC).

On 21 May 2012, the NSW Government announced key elements of the reform would start from 1 July 2012. Under the transitional arrangements, each network business has its own Board with a common Chairman, Directors and Chief Executive Officer. These roles began on 1 July 2012. The Boards of the three Corporations have each concluded there is no impediment to achieving the projected savings.

The $400 million in savings is to be achieved by streamlining decision-making and optimising value across the three networks. The new model aims to reduce duplication of corporate services and overheads, standardise IT and network management and deliver economies of scale through bulk purchasing.

I understand processes and procedures are in place to measure the achievement of the $400 million in efficiency savings.

Having the same people governing each corporation may create perceived or real conflicts of interest and other challenges for the corporations to fulfil their functions under the *Energy Services Corporations Act 1995* including:

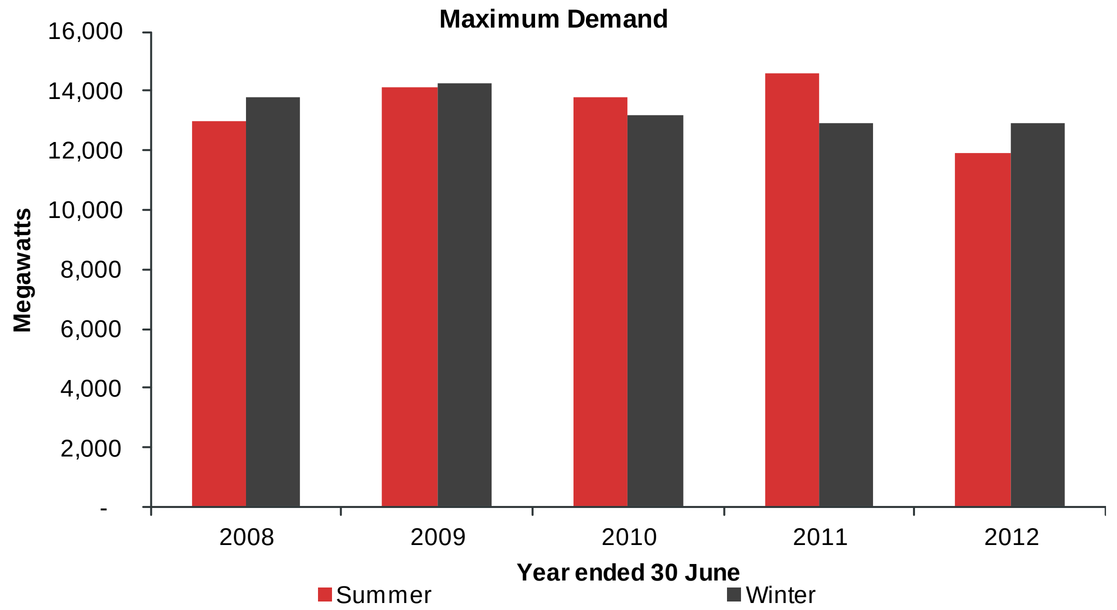
- to be a successful business and, to this end
- to operate at least as efficiently as any comparable businesses
- to maximise the net worth of the State's investment in the corporation
- to exhibit a sense of social responsibility by having regard to the interests of the community in which the corporation operates.

The Chairman, Directors and the Chief Executive Officer concluded it unlikely there will be any actual conflict of interest issues as the three corporations no longer compete with each other following the sale of retail operations. They have obtained legal advice to support this view. They also concluded that services provided to private sector companies who purchased the retail operations will not be affected due in part to the operation of existing Transition Services Agreements between each distributor and the private sector company.

The governance structure will need to be monitored for potential conflicts of interest that may arise.

Customer Response to Increasing Energy Prices

Demand for electricity decreased in 2011-12 indicating consumers responded to higher prices by using less electricity. The graph below highlights maximum demand (megawatts) in summer and winter over the last five years.

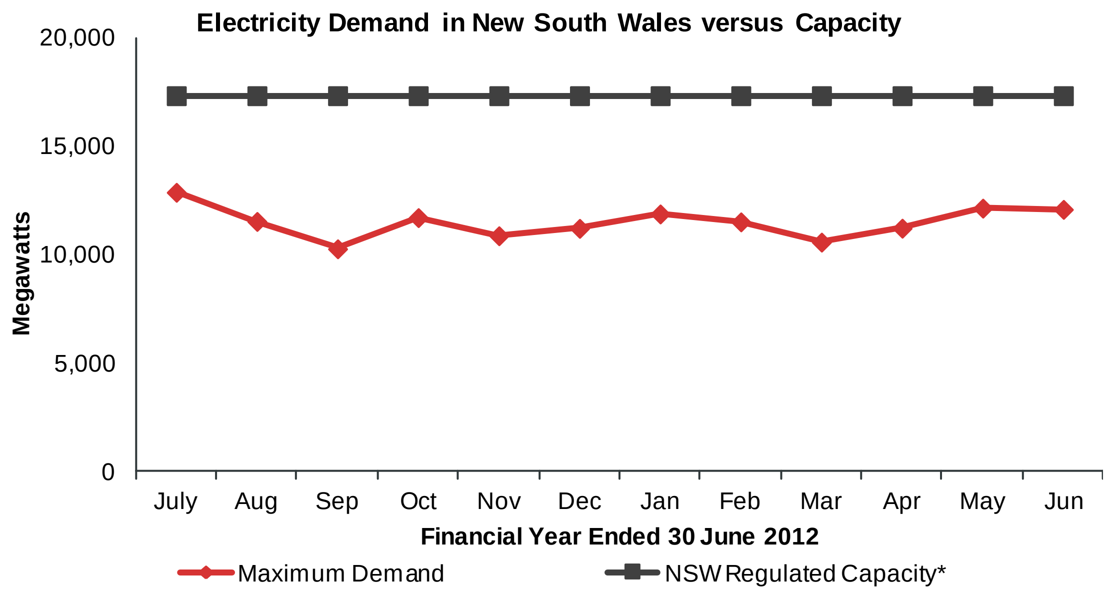


Source: AEMO NSW half hour demand data per financial year.

Maintaining electricity supply capacity comes at a cost

Although demand may decrease, the generating and network systems need to maintain capacity for periodic demand spikes, such as a hot summer day significantly increasing the use of air conditioning. The cost of maintaining this capacity is reflected in network costs.

The graph below shows electricity demand in New South Wales was well below the total NSW regulated capacity for the entire financial year. The people of New South Wales are paying for the cost of this reliability as part of their electricity bills. Electricity prices are based on the capacity of electricity supplied, not the capacity used, which results in higher network costs.



Source: Maximum Demand from AEMO aggregated price and demand data 2011-2015. NSW Regulated Capacity sourced from AEMO registration and exemption list as at 17 September 2012.

* NSW Regulated Capacity includes all fuel sources of New South Wales registered participants with the NEM. This graph assumes capacity levels remain the same throughout 2012.

Use of Renewable Energy Sources Increasing

Sustainable Energy

Use of renewable energy sources increasing

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

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

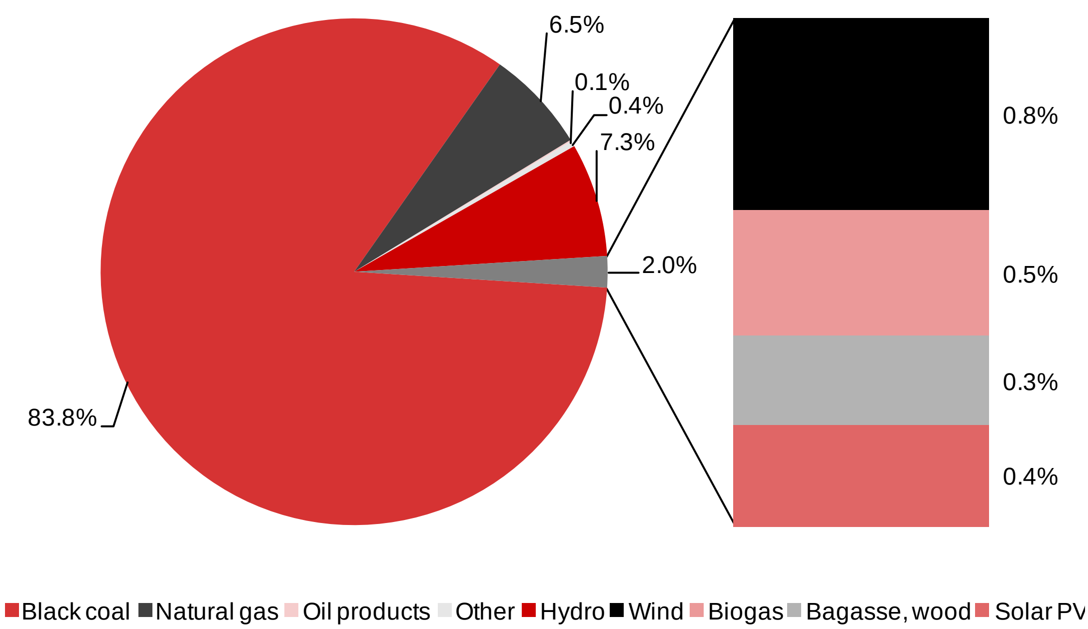
Renewable Energy

For 2010-11, NSW electricity generation from black coal reduced by 5.7 per cent (4.8 per cent reduction in 2009-10) while electricity from renewable sources increased by 33 per cent (29.5 per cent increase in 2009-10). The largest increase came from Solar PV, which has grown by 182 per cent over the twelve month period.

Bureau of Resources and Energy Economics data for the previous twelve months indicates approximately nine per cent of NSW electricity is sourced from renewable energy sources (seven per cent in 2009-10). This increase is primarily driven by more gigawatt hours being generated in 2010-11 using hydro energy. The NSW Government has set a target of 20 per cent renewable energy consumption by 2020 in line with the national Renewable Energy Target Scheme.

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

Electricity Generation in New South Wales from all Sources 2010-11



Source: Bureau of Resources and Energy Economics. Table O - NSW electricity generation, by fuel type, physical units.

Clean Energy Future – The Household Assistance Package

The Household Assistance Package is part of the Australian Government's plan for a Clean Energy Future. Funding received from the carbon pricing will be used to help households meet the price impacts, support jobs in the most affected industries and build a clean energy future.

An initial payment was made to eligible families, seniors and individuals in May and June 2012.

Purchasing of GreenPower by customers is decreasing

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 2012, GreenPower customers decreased by 13,624 (8,873 decrease in 2011) or 7.6 per cent compared to the previous year.

The table below highlights that residential GreenPower customers in New South Wales decreased by 6.3 per cent in 2012 (9.4 per cent decrease in 2011) compared with a 21.7 per cent decrease in commercial GreenPower customers (127 per cent increase in 2011).

	NSW		Australia	
	2012	2011	2012	2011
Residential green power:				
Customer numbers	154,717	165,120	697,728	720,282
Sales MWh	179,047	219,959	751,436	974,882
Commercial green power:				
Customer numbers	11,604	14,825	51,660	52,138
Sales MWh	293,175	318,666	1,052,320	1,108,808
Total green power customer numbers	**166,321**	**179,945**	**749,388**	**772,420**

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

The total cost of the Solar Bonus Scheme was $236 million in 2011-12

Solar Bonus Scheme

The NSW Government introduced the Solar Bonus Scheme (the scheme), a solar feed-in tariff 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.

The NSW Government now requires energy retailers to contribute 7.7 cents per kilowatt hour to the cost of the scheme. This contribution will reduce the costs passed on to all NSW households to fund the scheme.

At 30 June 2012, 122,269 eligible customers were connected to the 60 cent scheme and 21,453 to the 20 cent Scheme. They generated a total of 345 megawatt hours in 2011-12. The cost of the scheme increased to $236 million in 2011-12 compared to $140 million in 2010-11 due to a greater number of customers who joined.

Update on the 2011 Sale of Retail Operations and Generation Output

Transitional Service Arrangements

The Distribution Network Services Providers (DNSPs) continue to provide services to TRUenergy and Origin under the Transitional Services Arrangements entered into as part of the Sale and Purchase Agreements of the Retail Sale Transactions in 2010-11.

Due to the recent restructure of the electricity distribution network, existing transitional service arrangements with TRUenergy and Origin are now overseen by the common Chairman, Directors and Chief Executive Officer of the DNSPs. As TRUenergy and Origin operate in a highly competitive retail market, appropriate governance processes must be in place to ensure the three DNSPs are not perceived as creating a competitive disadvantage for other retailers in New South Wales.

Stranded costs

The retail sale transactions resulted in stranded cost liabilities for staff redundancies, data migration and rebranding costs. In 2010-11, the three network service providers recognised a provision of $77.1 million for stranded costs, which will be settled over the next two to four years.

	Ausgrid $m	Essential Energy $m	Endeavour Energy $m	Total $m
Stranded cost provision recognised at 30 June 2011	25.1	50.0	2.0	77.1
Additional provision during 2011-12	7.7	2.5	--	10.2
Payments/Adjustments made during 2011-12	(9.5)	(7.2)	(2.0)	(18.7)
Stranded Cost provision recognised at 30 June 2012	23.3	45.3	--	68.6

Endeavour Energy has not recognised stranded costs as it expects most affected staff will be redeployed in the ongoing network business.

Other stranded cost estimates, which have not been provided for, include five-year employment guarantees for affected award based retail staff who have not yet been formally notified.

Sale of Electricity Generation Output

As a result of two significant generators transformer failures at the Eraring power station in 2011-12, Eraring's production capacity fell. Under the agreement to sell Eraring's generation output to Origin, Origin may be entitled to liquidated damages because generation output was unavailable due to the transformer failures, unless the failures were force-majeure events. Eraring Energy believes the two incidents were such events, but Origin disputes this and has sought arbitration under the terms of the agreement. The arbitration is not expected to be finalised before June 2013.

Final Report of the Special Commission of Inquiry into the Electricity Sale Transactions

The Final Report of the Special Commission of Inquiry into the Electricity Sale Transactions was released on 31 October 2011. The inquiry concluded the governance structure adopted during the sale process was appropriate and reasonable. The same conclusion was determined for the process by which the assets were offered to the market and the decision to sell the assets for acceptable bids.

Sale Process Continues for Electricity Generation

The *Electricity Generator Assets (Authorised Transactions) Act 2012* allows for the sale of the State's electricity generators in 2012. The Act gives the Treasurer powers to transfer generation assets from the public sector to the private sector and between public sector agencies. On 6 July 2012, the government announced the appointment of a specialist financial advisor to assist on the transfer process.

There is an ongoing Legislative Assembly inquiry into the economics of energy generation which is scheduled to report soon.

Energy Market Reforms

The industry faces emerging realities such as moving to a lower carbon future that will see an increased reliance on gas-powered electricity generation, growth of renewable energy sources, demand management via smart meters, and global carbon trading.

The Australian Energy Market Commission is currently reviewing the regulatory framework for electricity and gas network companies. This review was requested as rising network costs make up a large proportion of recent substantial electricity and gas price increases.

Performance Information

Financial Performance

Total revenue for the State owned NSW electricity businesses decreased by over $2.5 billion to $9.6 billion for the year ended 30 June 2012. Profit after tax decreased to $1.2 billion for the year ($3.6 billion in 2010-11). Last year's profit included gains from the sale of electricity assets.

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

Year ended 30 June	2012	2011	2010	2009	2008
Return on equity (%) (a)	11.8	4.5*	11.9	8.9	15.4
Return on assets (%) (b)	8.5	5.7*	8.3	6.7	8.5
Interest cover times (c)	2.2	1.6*	2.4	2.4	3.3
Debt to equity ratio (%) (d)	200.0	157.1	151.6	157.1	123.8

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).

* this result has excluded the impact of the electricity sale.

Return on equity and return on assets increased due to the improved financial performance of the generators. In 2010-11, Delta and Eraring wrote down their combined asset values by $1.2 billion when the generation rights were sold.

The debt to equity ratio increased because of additional borrowings of $2.3 billion by the distributors. The borrowings were required to fund increasing capital expenditure.

Generators, Distributors and TransGrid

Profit after tax of the distributors decreased by $3.0 billion due to the prior year's profit including the sale of retail operations. Profits after tax from the generators increased from a $370 million loss to $234 million profit in 2011-12. As mentioned earlier in this report, the loss experienced by generators in the prior year was primarily due to significant write down in asset values. TransGrid's profit after tax increased by $32.4 million.

The table below shows key financial ratios:

	Generators		Distributors		TransGrid	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Return on equity (%)(a)	8.5	(10.3)	15.2	14.6*	8.3	7.0
Return on assets (%)(b)	7.4	(2.2)	9.2	8.6*	7.0	6.5
Interest cover times(c)	3.1	(0.9)	1.9	2.0	2.9	2.6
Debt to equity ratio (%)(d)	77.5	49.6	298.3	262.0	95.9	92.3
Net assets ($m)	2,123.9	3,373.5	5,145.9	4,981.3	2,360.3	2,459.3
Profit/(loss) after tax ($m)	233.8	(369.5)	770.4	3,792.7	199.8	167.4

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).

* these results exclude the impact of the gain on sale of discontinued operations.

Generators

The financial performance of the generators improved this year compared to the previous year. Last year, power station assets were impaired on execution of the GenTrader agreements and 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.

Distributors

Overall financial performance from continuing operations has improved primarily due to increased gross margins from network revenue. Total assets increased by $3.0 billion 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.

Transmission

TransGrid performed well against its targets. It made a profit before tax of $200 million in 2011-12 ($167 million) enabling it to return contributions to government totalling $189 million. These comprised a dividend of $147 million and taxation of $42.0 million.

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

Financial Information

Distribution to Government

Electricity entities' accrued and paid distributions to the government of $1.4 billion ($1.2 billion in 2010-11), comprising:

- $572 million ($528 million) in taxation
- $866 million ($636 million) in dividends (excluding special dividends).

Dividends paid in the previous year included special dividends of $3.5 billion specifically relating to the electricity sale transactions of the distributors.

Cash Dividends and Taxes Paid	2012 $m	2011 $m	2010 $m	2009 $m	2008 $m
Generators	305	310	500	572	798
TransGrid	189	156	186	162	125
Distributors	944	698*	710	426	576
Total	1,438	1,164	1,396	1,160	1,499

* Excludes special dividends by Ausgrid of $1.4 billion, Essential Energy of $1.2 billion and Endeavour Energy of $900 million, relating to the electricity sale transactions in 2011.

Borrowings

External debt increased by $2.7 billion over the last three years with annual borrowing costs increasing by $271 million over the same period.

Borrowing costs (including capitalised interest) for the year were $1.5 billion compared to $1.3 billion in the previous year. External debt at 30 June 2012 was $19.3 billion ($17.0 billion in 2010-11). The increase in borrowings is due to more significant capital works projects being undertaken.

	2012 $m	2011 $m	2010 $m
Generators			
Borrowing costs	180	201	215
External debt	1,647	1,673	2,737
Distributors			
Borrowing costs	1,180	951	865
External debt	15,351	13,050	11,640
TransGrid			
Borrowing costs	151	152	160
External debt	2,264	2,271	2,194
Total borrowing costs	**1,511**	**1,304**	**1,240**
Total external debt	**19,262**	**16,994**	**16,571**

Other Issues

Electricity Supply and Demand Outlook

In 2008, I reported demand for electricity in New South Wales would exceed generation capacity (LRC Point) by 2013-14. This was based on projected electricity demand forecasts by the then National Electricity Market Management Company (now AEMO). Due to lower than forecast increases in demand for electricity and additional installed generating capacity, the possibility of demand exceeding supply is now forecast beyond 2021-22. The following shows the change in past yearly forecasts.

	2012 LRC Point	2011 LRC Point	2010 LRC Point	2009 LRC Point	2008 LRC Point
New South Wales	>2021-22	2018-19	2016-17	2015-16	2013-14

Source: AEMO Electricity Statement of Opportunities (ESOO) 2008-2012.

The reduced energy demand growth is associated with a short-term moderation in the gross domestic product, reduced manufacturing consumption and consumer response to rising electricity prices and energy efficiency measures.

Projected electricity demand in New South Wales, with medium economic growth, is not expected to exceed supply over the next ten years

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

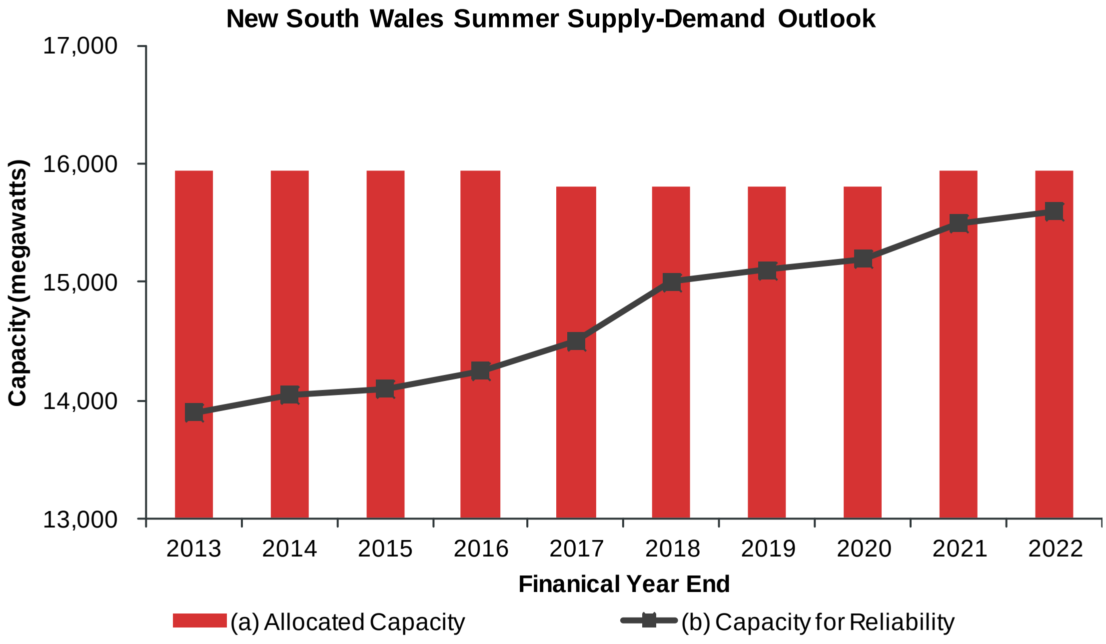
State	2012 LRC Point	2012 Reserve Deficit (MW)	2011 LRC Point	2011 Reserve Deficit (MW)
New South Wales	>2021-22	--	2018-19	190
Queensland	2020-21	79	2014-15	341
Victoria	2018-19	115	2016-17	96
South Australia	2019-20	24	2016-17	46
Tasmania	>2022	--	Beyond 2019-20	N/A

Source: AEMO Electricity Statement of Opportunities (ESOO) 2011 and 2012.

In 2012, the LRC point for New South Wales was three years later than the 2011 projection. This is in part due to a reduction in annual energy demand and an increase in existing generation capacity.

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 NSW region commencing in summer 2012-13 for the following ten years is shown in the following chart:



Source: Extract from 2012 Electricity Statement of Opportunities for the National Electricity Market.

a Allocated Capacity represents the current projection of generation capacity allocated to a region.

b Capacity for Reliability represents the capacity required to meet the Minimum Reserve Levels. These levels are applied to assess adequacy.

The graph indicates that over the next ten years New South Wales has sufficient capacity to meet the minimum reserve levels. Existing generation capacity within New South Wales during the summer period is more than sufficient to meet the minimum reserve levels particularly within the next five years.

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	2012	2011	2010
Peak demand increase/(decrease) (%)	1.2	2.0	2.3
Energy consumption increase/(decrease) (%)	1.2	1.6	1.8

Source: AEMO Electricity Statement of Opportunities for the National Electricity Market 2010, 2011 and 2012.

AEMO attributes the decrease in peak demand and energy growth rates for 2012 in New South Wales primarily to lower than expected economic growth, consumer responses to rising electricity costs and energy efficiency measures, significant increase in Photo Voltaic generation and reduced manufacturing consumption as a result of the higher Australian dollar.

Peak demands for 2012 occurred in summer on 30 January 2012 requiring 11,886 megawatts of electricity and in winter on 19 July 2011 reaching 12,884 megawatts.

Peaks in maximum demand

Year	Summer		Winter	
	MW	Date	MW	Date
2012	11,886	30 January 2012	12,884	19 July 2011
2011	14,580	1 February 2011	12,908	2 July 2010
2010	13,765	22 January 2010	13,176	29 June 2010

Industry Financial Tables

The abridged combined 2011–12 financial statements of consolidated entities for generators, distributors and TransGrid for this year and the previous year are shown below. Individual comments for each entity follow this section.

	Generators		Distributors		Transmission (TransGrid)		Total	
Year ended 30 June	**2012 $m**	**2011 $m**	**2012 $m**	**2011 $m**	**2012 $m**	**2011 $m**	**2012 $m**	**2011 $m**
Abridged financial statements								
Revenue - continuing operations	2,477.6	2,736.0	6,241.0	5,436.6	832.0	758.3	9,550.6	8930.9
Revenue- discontinuing operations	--	5.0	(0.2)	3,095.4	--	--	(0.2)	3,101.4
Total revenue	**2,477.6**	**2,741.0**	**6,240.8**	**8,532.0**	**832.0**	**758.3**	**9,550.4**	**12,032.3**
Profit/(loss) after income tax	**233.8**	**(369.5)**	**770.4**	**3,792.7**	**199.8**	**167.4**	**1,204.0**	**3,590.6**
Contributions to government								
Dividends	225.3	130.0	493.9	3,778.8	146.9	133.9	866.1	4,042.7
Income tax paid	79.4	179.8	450.4	325.4	41.6	22.5	571.4	527.7
Total assets	**5,782.9**	**7,381.1**	**26,102.7**	**23,192.6**	**6,389.6**	**6,182.0**	**38,275.2**	**36,755.7**
Total liabilities	**3,659.0**	**4,007.5**	**20,956.8**	**18,211.3**	**4,029.3**	**3,722.8**	**28,645.1**	**25,941.6**
Net assets	**2,123.9**	**3,373.5**	**5,145.9**	**4,981.3**	**2,360.3**	**2,459.3**	**9,630.1**	**10,814.1**
Retained earnings/ (losses) (at 30 June)	(664.2)	(390.7)	1,215.7	1,244.5	--	89.7	551.5	943.5

Section Two

Agencies with Individual Comment

Minister for Resources and Energy

Ausgrid

Audit Opinion

I issued unqualified audit opinions on Ausgrid and its controlled entity's 30 June 2012 financial statements.

The following comments are for the consolidated entity, unless otherwise stated.

Operational Snapshot

Ausgrid's (formerly known as EnergyAustralia) distribution network covers 22,275 square kilometres, from Waterfall in Sydney's South to Auburn in Western Sydney, and the upper Hunter Valley in the North. Ausgrid supplies electricity to more than 1,637,000 network customers.

In 2011–12, Ausgrid made a profit of $351 million after tax ($175 million in 2010–11) from its continuing operations. Total 2010–11 profit after tax was $1.6 billion including the sale of its retail business assets. At 30 June 2012 it had assets of $12.8 billion ($11.3 billion at 30 June 2011). Ausgrid declared a dividend of $240 million from its 2011-12 results. A $175 million dividend and other payments of $1.4 billion were made in the previous year.

Key Issues

Overtime

Over one million hours of overtime was worked during 2011-12

Over one million hours of overtime was paid in 2011–12. The highest overtime amount paid to an individual was $180,213 representing nearly twice the person's annual salary of $97,001.

In 2011–12, 865 employees (902 employees) were paid 50 per cent or more of their annual salary in overtime. Management attribute the high levels of overtime to the nature of Ausgrid's operations requiring some work to be completed outside of employees' scheduled operating hours. Risks from excessive overtime include work, health and safety issues and less than optimal staff resourcing. The level of overtime is high and needs close monitoring to ensure business needs are met efficiently.

Reform of Electricity Distribution Network in New South Wales

On 18 March 2012, the NSW Government announced a reform of the electricity distribution network. Refer to the Electricity Industry Overview for further information.

Sale of Retail Operations Update

Transition Services Agreement

Following the sale of EnergyAustralia's retail assets to TRUenergy on 1 March 2011, TRUenergy acquired the EnergyAustralia brand name, and retail customer and trading contracts. Ausgrid provides transitional services to support the acquisition. These are specified in the Transitional Services Agreement (TSA) and include retail support services, such as a customer contact centre, contracts, billing and debtor management. Each function is defined in a service agreement, which includes agreed key performance indicator targets. The cost of providing services to TRUenergy was fully recovered by Ausgrid for the year ended 30 June 2012.

Working Capital and Purchase Price Adjustment

Last year, I reported the parties to the retail asset sale did not finalise the 'working capital purchase price adjustment' due to a pending independent review. The review was completed in 2011–12 and determined a small price adjustment of $9.4 million was refunded to TRUenergy.

Stranded Costs

Ausgrid has developed a plan to manage the financial impact of stranded costs associated with the sale of its retail assets. Stranded costs include employment guarantees for agreement based staff affected by the sale of the retail assets and costs associated with Ausgrid's transition obligations. These costs are largely reflected in the financial year in which they are incurred.

At 30 June 2012, Ausgrid's provision for stranded costs was $23.3 million ($25.1 million in 2011-12), representing its best estimate for information technology data migration costs and staff redundancies for contract staff.

Performance Information

Operational Performance

With the sale of Ausgrid's retail assets in 2011, the focus of operational performance changed to distributing electricity and providing energy services. Ausgrid advised the following performance measures.

Year ended 30 June	Target	Actual
	2012	2012
Average time CBD customers were without electricity (minutes)	45	6
Average time urban customers were without electricity (minutes)	80	72
Lost time injury frequency rate – lost time injuries per one million hours worked	3.0	3.7
Customer network connections at 30 June (000's)	1,600	1,637

Source: Ausgrid Annual Report 2011–12 (unaudited).

Customer minutes without electricity supply was better than target in 2012 due to less severe network incidents, significant investment in the electricity network and overall milder weather conditions.

Financial Performance

Year ended 30 June	Actual				
	2012	2011	2010	2009	2008
Earnings from continuing operations before interest and tax ($m)**	1,118.2	984.1	913.0	596.0	574.4
Return on average equity (%) (a)	18.4	17.2	19.0	12.4	12.1
Return on average assets (%) (b)	9.3	9.1	9.5	7.1	7.5
Debt to equity (%)	433.0	352.0	316.0	276.9	207.1
Interest cover (times)	1.8	2.1	2.1	2.2	2.5
Total distributions and other payments to government ($m)* (c)	494.1	1,733.7	386.5	272.0	272.1
Capital expenditure ($m)	1,689.1	1,577.8	1,319.0	1,291.0	951.1

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

** The 2010 and 2011 financial years include 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.

Ausgrid’s Earnings from continued operations improved in 2011–12 primarily due to increased Network Gross Margin as a result of increased energy prices. Also, revenues from the Transitional Services Agreement reflected the full year of the agreement.

The fall in the debt to equity ratio and interest cover is primarily due to over $1.0 billion in additional borrowings and associated finance costs.

Total distributions and other payments to government were significantly lower than the prior year because $1.4 billion was paid to the NSW Government from the retail asset proceeds last year.

Other Information

Solar Bonus Scheme

The NSW Solar Bonus Scheme (the scheme) commenced on 1 January 2010 and operates for seven years until 31 December 2016. It is managed by energy distributors and retailers in New South Wales and applies to small scale, grid connected solar systems and wind turbines which meet certain eligibility criteria.

Complying generators attract a rebate of either 60 or 20 cents per kilowatt hour for electricity fed back into the distribution network. The scheme was closed to any further applications from midnight 28 April 2011. In June 2012, the government announced that any solar and or wind turbine systems connecting to a distribution network from 1 July 2012 onwards would not be eligible to receive any scheme rebate, even those scheme-complying systems for which application to connection had been made prior to 29 April 2011.

At the end of 2011–12, 47,943 eligible customers with solar panels were connected to Ausgrid’s electricity network. They have a total generation capacity of 98 megawatts and will receive the rebate until the scheme ends.

In the financial year 2011–12, the cost of the scheme was $62.9 million ($37.7 million for the 18 months period ended 30 June 2011) due to the significant uptake of customers participating in the scheme.

Network Capital Expenditure

Ausgrid's capital program is designed to replace aging assets, upgrade the network to meet growing peak demand for power and comply with licence conditions set by the NSW Government.

The 2009 Australian Energy Regulator’s (AER) determination provided Ausgrid with a capital expenditure program of $8.5 billion over the 2009–14 regulatory period. 2011–12 was the third year of the five year program with a 2012 AER approved capital allowance of $1.8 billion. Total expenditure capitalised in 2011–12 was $1.7 billion.

Over the next two years Ausgrid has forecast $3.3 billion in capital expenditure. Of this amount, $1.4 billion will be funded internally and the remaining $1.9 billion will be funded from new borrowings.

Capital Expenditure and Funding	**Actual**	**Budget**	
	2012 $m	**2013 $m**	**2014 $m**
Planned capital expenditure	1,727.7	1,681.7	1,603.9
Funding source			
- internally funded	339.5	791.4	563.7
- borrowings	1,388.3	890.3	1,040.2

Source: Ausgrid (unaudited).

Financial Information

Abridged Statement of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2012 $m	2011 $m	2012 $m	2011 $m
Revenue from continuing operations	**2,926.1**	**2,635.6**	**2,926.1**	**2,635.6**
Profit before finance costs, depreciation and tax	**1,479.6**	**1,103.0**	**1,479.9**	**1,102.9**
Finance costs	622.8	469.7	622.8	469.7
Depreciation and amortisation	361.7	333.3	361.7	333.3
Profit before tax	**495.1**	**300.0**	**495.4**	**299.9**
Income tax equivalent expense	144.5	124.2	144.5	124.2
Profit after tax from continuing operations	**350.6**	**175.8**	**350.9**	**175.7**
Profit after tax from discontinuing operations	**--**	**1,398.5**	**--**	**1,398.5**
Profit after tax	**350.6**	**1,573.8**	**350.9**	**1,573.7**
Other comprehensive income				
Increase in hedging reserve	--	30.6	--	30.6
Increase/(decrease) in revaluation	(12.5)	25.2	(12.5)	25.2
Defined benefit superannuation actuarial gain/(loss)	(206.2)	8.3	(206.2)	8.3
Income tax (expense)/credit on other comprehensive income items	(67.1)	18.3	(67.1)	18.3
Total other comprehensive income/(expense)	**(151.6)**	**45.8**	**(151.6)**	**45.8**
Total comprehensive income	**199.0**	**1,619.6**	**199.3**	**1,619.5**

Revenue from continuing operations of $2.9 billion ($2.6 billion in 2010-11) includes $2.5 billion ($2.3 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 2011. Costs associated with the distribution of energy totalled $1.8 billion ($1.9 billion).

Finance costs of $622.8 million ($470 million) were due to higher borrowings to fund the Corporation’s capital projects and include $137 million ($108 million) for government loan guarantee fees. Depreciation expense increased to $361.7 million ($333 million) as a result of increased spending on capital projects.

The defined benefit superannuation liability increased by $215 million because of the fall in the government bond rate used in the actuarial assessment of the liability.

Total distributions and other payment to government were significantly lower than the prior year. In 2010–11, a payment of $1.4 billion was made to the NSW Government from the retail asset sale proceeds received from TRUenergy on 1 March 2011.

Abridged Statement of Financial Position

At 30 June	Consolidated		Parent	
	2012 $m	2011 $m	2012 $m	2011 $m
Current assets	876.3	811.8	876.3	811.8
Non-current assets	11,901.4	10,458.6	11,901.4	10,458.6
Total assets	**12,777.7**	**11,270.4**	**12,777.7**	**11,270.4**
Current liabilities	2,001.3	1,743.0	2,001.3	1,743.0
Non-current liabilities	8,887.4	7,597.8	8,887.4	7,597.8
Total liabilities	**10,888.7**	**9,340.8**	**10,888.7**	**9,340.8**
Net assets	**1,889.0**	**1,929.6**	**1,889.0**	**1,929.6**

The increase in total assets was mainly due to capital expenditure of $1.7 billion on expansion of the distribution network, replacement of ageing assets and compliance with additional licence conditions to reduce the risk of supply interruptions.

Liabilities increased largely due to the more than $1.0 billion increase in borrowings to fund Ausgrid's capital projects.

Ausgrid Activities

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

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

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.

On 17 March 2012, Downtown Utilities Pty Ltd was deregistered.

Entity Name
Ausgrid Pty Limited

Delta Electricity

Audit Opinion

I issued an unqualified audit opinion on Delta Electricity's 30 June 2012 financial statements.

Operational Snapshot

Delta Electricity (Delta) generates and supplies electricity to the National Electricity Market from the following sources:

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

The output from Mount Piper and Wallerawang (Western Region) stations has been purchased by TRUenergy Pty Ltd under Generation Trading Agreements.

The total generating capacity of Delta is 4,387 megawatts or approximately 10.5 per cent of the National Electricity Market.

Delta incurred a loss of $4.8 million after tax in 2011-12. The total cost to operate and maintain the power stations for the year was $898 million, which included an asset impairment charge of $43.6 million. A dividend of $52.0 million was declared for 2011-12.

Key Issues

Debt and Capital Structure

Delta regards its current debt level as too high to sustain in the medium-term

Delta's debt was reduced by $450 million on 1 March 2011 as part of the GenTrader arrangements. However, Delta regards its current debt level of $855 million as too high to sustain in the medium-term based on its uncommitted generated electricity. Delta's debt represented 335 per cent of its equity at 30 June 2012. The table in the following Performance Information section shows the significant movement in this ratio over the last four years.

Delta's capital structure is normally reviewed each year by the Board and shareholders. However, this year's review has been deferred due to the uncertainty surrounding the pending sale of New South Wales generation assets. Delta has expressed its concerns with the high debt level to its shareholders.

The Western Region GenTrader segment of the business does not carry any debt apart from overdraft funding to cover short-term working capital requirements. Any surplus cash is segregated and managed to meet future Western Region expenditure commitments.

Performance Information

Delta provided the following information regarding its performance:

Year ended 30 June	Target	Actual			
	2012	2012	2011	2010	2009
Generation of electricity – gigawatt hours sent out	21,955	19,916	21,501	21,999	23,746
Plant availability – total all stations (%)	88.4	84.8	91.4	92.0	86.8
Thermal efficiency – total all stations (%)	35.8	34.7	34.9	34.6	34.6
Earnings before interest and tax ($m) (c)	102.1	118.3	(176.1)	189.7	146.4
Return on equity (%) (a) (c)	4.1	(1.9)	(38.3)	6.2	7.5
Return on assets (%) (b) (c)	4.9	6.8	(8.1)	5.9	4.5
Interest cover (times) (c)	1.4	1.5	(1.7)	1.7	3.2
Debt to equity (%) (c)	178.1	335.2	166.2	149.8	130.3
Total distributions to government ($m) (c)(d)	156.5	143.3	57.3	90.5	134.5
Capital expenditure ($m) (c)	39.8	40.2	53.9	104.1	486.3

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.

d comprises dividends, income tax paid and return of capital to shareholder.

Production of electricity was below target due to periods when electricity production was uneconomical

Production of electricity was below target in 2011-12 and lower than the previous year actual, mainly as a result of sustained periods of low spot prices which made production of electricity uneconomical. Delta attributes the fall in spot prices to flat demand due to consumers reacting to higher electricity prices, government schemes promoting energy efficiency, and renewable energy installations such as roof top solar panels.

Targeted plant availability was not achieved in 2011–12 due to prolonged scheduled and unscheduled outages in the Vales Point power station. An unscheduled outage is an unexpected interruption to a power station’s normal generating activity due to an unforseen event such as unit failure. The annual availability for Vales Point in 2011-12 was 62 per cent.

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 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 of 28 per cent.

Thermal efficiency is influenced by the design, age and condition of a power plant, and 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.

Delta’s 2011-12 return on equity was less than target mainly due to a $43.6 million impairment expense.

The return on assets was greater than target mainly due to assets being less than forecast, and earnings before interest and tax (EBIT) being more than forecast. There were fewer assets following $78.6 million in revaluation and impairment adjustments, while EBIT was above target due to costs being less than budgeted.

Other Information

GenTrader Update

Last year, I reported that an Australian Tax Office private ruling was being sought to clarify the tax deductibility of capacity charge payments made by TRUenergy. At the time of this Report the ruling is not to hand. If a positive outcome is achieved, approximately $60.0 million will be paid by TRUenergy to the Crown Entity.

In Volume One of my 2011 Report to Parliament, I mentioned that Delta must pay liquidated damages to TRUenergy if contracted electricity generation availability targets are not achieved. Delta paid liquidated damages of $81,129 during the year, but has an additional claim of $3.4 million, which is pending resolution.

Delta is also required to pay TRUenergy over-generation charges when more electricity is generated than requested. Over-generation charges paid by Delta during the year were minimal.

Entitlement to Reimbursement under the *State Owned Corporations Act 1989*

Under the *State Owned Corporations Act 1989* a State owned corporation is entitled to be reimbursed for the cost of complying with ministerial directions the corporation's Board consider to not be in its commercial interest.

Delta has claimed $578 million from Treasury, mainly for lost revenue from the GenTrader transaction

Delta has lodged reimbursement claims totalling $578 million with Treasury for costs of complying with directions relating to the NSW Energy Reform process. The claims are mainly for net revenue foregone by Delta following the sale of the Western Region generating rights.

The NSW Government advises that the claims will be referred to its advisers in current considerations of further transfers of NSW electricity generation assets (refer to the Electricity Industry Overview for details of further transfers). This amount was not disclosed as a contingent asset in the financial statements because it was not considered practicable to estimate the success of the claim.

Delta Electricity Australia Pty Ltd and Ongoing Obligations for Delta Electricity

In Volume Four of my 2010 Report to Parliament, I reported Delta's subsidiary company, Delta Electricity Australia Pty Ltd, had breached its loan covenants and was placed into receivership on 28 February 2011. I also reported Delta had ongoing exposure to the Sunshine Electricity Joint Venture through a Power Purchase Agreement (PPA), which is due to end in November 2023.

Under the PPA, Delta has to support its subsidiary's joint venture via a Minimum Electricity Contribution (MEC) when joint venture revenue is below the minimum monthly threshold. The MEC payment for 2011-12 was $14.4 million ($11.4 million in 2010-11). Delta estimates future obligations will cost it $28.2 million.

Removal of Delta's Western Region from the National Tax Equivalent Regime

Delta's Western Region business was removed from the National Tax Equivalent Regime (NTER) with effect from 1 July 2011 because generators are non-profit making businesses under the GenTrader model.

Delta's current tax balances and payments are now calculated solely on Delta's Central Coast operations.

Closure of Munmorah Power Station

Delta has closed Munmorah power station, reducing its generating capacity by 600 megawatts

Delta received shareholder approval in June 2012 to close Munmorah power station. The decision was made following a commercial review of the future operations of the power station, which found it was not economically viable.

Delta made an offer of voluntary redundancy to affected employees. A total of 75 employees accepted the offer, with most exiting employment in August and September 2012. The total cost of the voluntary redundancy (excluding leave entitlements) will be $9.4 million.

Delta recognised an asset impairment of $17.9 million and an inventory write-down of $6.2 million following the decision to close Munmorah.

The closure of Munmorah has reduced Delta's generating capacity by 600 megawatts.

Carbon Capture Project

Delta advises it successfully demonstrated carbon capture technology in a joint initiative with the CSIRO, through the $7.0 million Carbon Capture Pilot Plant at Munmorah power station. Delta reports the plant exceeded all targets for capture rate, carbon dioxide purity and sulphur removal.

The plant is being relocated from Munmorah to Vales Point power station, where Delta will continue to host low carbon innovation projects. The relocated plant will be operated by the CSIRO for up to four years.

A Carbon Capture Demonstration Project to build a demonstration scale plant will also be located at Vales Point.

Coal Supply

Delta has entered into a long-term supply contract with the NSW Government-owned Cobbora Holding Company Pty Limited to supply coal from 2015-16. Any delays to scheduled delivery dates could significantly impact Delta and other NSW generators.

Further details on the Cobbora project appear later in this report.

Financial Information

Abridged Statement of Comprehensive Income

Year ended 30 June	Parent	Consolidated	Parent
	2012* $'000	2011 $'000	2011 $'000
Total revenue from continuing operations	**874,047**	**1,109,473**	**1,109,771**
Profit/(loss) before finance costs, depreciation and tax from continuing operations	**164,815**	**(78,833)**	**(82,345)**
Finance costs	78,925	96,898	96,898
Depreciation	46,504	100,969	100,969
Profit/(loss) before tax from continuing operations	**39,386**	**(276,700)**	**(280,212)**
Income tax equivalent (benefit)/expense	44,217	(79,629)	(82,082)
Loss after tax from continuing operations	**(4,831)**	**(197,071)**	**(198,130)**
Gain/(loss) from discontinued operations after income tax	--	1,488	--
Loss after tax	**(4,831)**	**(195,583)**	**(198,130)**
Other comprehensive income			
Gain on cash flow hedges taken to equity	58,617	77,921	77,921
Cash flow hedges losses transferred to statement of comprehensive income	(78,192)	(149,937)	(149,937)
Defined benefit superannuation actuarial loss	(150,507)	(1,712)	(1,712)
Loss on revaluation of property	(34,960)	(854,700)	(854,700)
Income tax benefit on items of other comprehensive income	44,901	278,528	278,528
Total other comprehensive expense	**(160,141)**	**(649,900)**	**(649,900)**
Total comprehensive expense	**(164,972)**	**(845,483)**	**(848,030)**

* Mid West Primary Pty Ltd was transferred to the Cobbora Holding Company Pty Ltd, and Delta Electricity Australia Pty Ltd was placed into receivership in February 2011. As Delta did not control any subsidiary entities, consolidated financial statements were not prepared in 2012.

Delta's revenue was significantly impacted by a 19.2 per cent fall in the average spot price of electricity compared to the prior year

Total revenue included $289 million in electricity sales compared to $803 million in the previous year. The fall is mainly due to the sale of the Western Region generating rights from 1 March 2011. Revenue was also impacted by a 19.2 per cent fall in the average spot price of electricity compared to the prior year.

Depreciation decreased with the sale of the Western Region generating rights and decommissioning of Munmorah Power Station from October 2011. Finance costs also fell because of a $450 million reduction in Delta's borrowings in 2010-11.

The defined benefit superannuation actuarial loss of $151 million is due to the decrease in the underlying discount rate applied to Delta's defined benefit obligations, compared to the prior year.

The significant loss on revaluation of property in the prior year was due to the write down of the Western Region generating assets as part of the GenTrader arrangement.

Abridged Statement of Financial Position

At 30 June	Parent 2012* $'000	Consolidated 2011 $'000	Parent 2011 $'000
Current assets	525,156	570,400	570,400
Non-current assets	1,221,852	1,598,618	1,598,618
Total assets	**1,747,008**	**2,169,018**	**2,169,018**
Current liabilities	281,463	317,435	317,435
Non-current liabilities	1,210,397	1,340,419	1,340,419
Total liabilities	**1,491,860**	**1,657,854**	**1,657,854**
Net assets	**255,148**	**511,164**	**511,164**

* Mid West Primary Pty Ltd was transferred to the Cobbora Holding Company Pty Ltd, and Delta Electricity Australia Pty Ltd was placed into receivership in February 2011. Consolidated financial statements were not prepared in 2012 because Delta did not have any controlled entities.

The decrease in total assets of $422 million is due to changes in the valuation of electricity contracts, reductions in deferred tax assets following the removal of Delta's Western Region operations from the NTER and the impairment of property, plant and equipment. The decrease in total liabilities of $166 million is mainly due to changes in the valuation of electricity contracts and reductions in tax balances, offset by a $143 million increase in the defined benefit superannuation obligations.

Corporation Activities

See the Electricity Industry Overview 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 shareholders are the Treasurer and the Minister for Finance and Services.

Delta operates the Mount Piper, Vales Point and Wallerawang 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, whilst Delta Electricity maintains ownership of output from its other power stations.

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

Controlled Entities

Delta Electricity Australia Pty Ltd (In Receivership)

The company was placed into receivership on 28 February 2011. Although Delta continues to own the company's shares, it no longer exerts control. As a result, the company's assets and liabilities are not included in Delta's financial statements.

The company commenced operations in July 2002 with the sole purpose of acting as Delta's participant in the Sunshine Electricity Joint Venture with the New South Wales Sugar Milling Cooperative. The project was to construct generating plant fuelled by bagasse, which is a by-product of the sugar milling process.

Two 30 megawatt units were constructed as part of the joint venture and were commissioned in late 2008. The plants are maintained and operated by the New South Wales Sugar Milling Cooperative.

Although the company is in receivership, Delta is required to honour contracts executed as part of the Sunshine Electricity Joint Venture, including:

- purchasing electricity under a Power Purchase Agreement
- making advances (minimum electricity charge payments) under certain circumstances
- providing asset management services.

Endeavour Energy

Audit Opinion

I issued an unqualified audit opinion on Endeavour Energy's (Endeavour) 30 June 2012 financial statements.

Operational Snapshot

Endeavour Energy (formerly known as Integral Energy) manages a $4.2 billion electricity distribution network for 883,658 customers. The network spans 24,500 square kilometres in Sydney's Greater West, the Illawarra, Blue Mountains and the Southern Highlands. It comprises over 177 major substations, 307,000 power poles and 30,000 smaller substations bound together by 34,500 kilometres of underground and overground cables.

Endeavour made a profit of $266 million after tax in 2011–12 ($203 million in 2010–11) from continuing operations. At 30 June 2012 it has assets of $5.9 billion ($5.2 billion at 30 June 2011). It declared a dividend of $187 million from its 2011–12 results.

Key Issues

Reform of Electricity Distribution Network in New South Wales

On 18 March 2012, the NSW Government announced a reform of the electricity distribution network. Refer to the Electricity Industry Overview for further information.

Sale of Retail Operations Update

Transition Services Agreement

Retail net assets, customer contracts and the Integral Energy brand name were sold on 1 March 2011 to Origin Energy. Since then Endeavour has been operating a Transition Services Agreement with Origin Energy.

Stranded Costs

A liability was not recognised for stranded costs arising from the sale of retail operations. Endeavour expects most affected staff will be redeployed in the ongoing network business.

Endeavour has also assessed and adjusted the value of retail related assets as part of its annual impairment review process.

Entitlement to Reimbursement under the *State Owned Corporations Act 1989*

Endeavour previously made a claim under Section 20(N) of the *State Owned Corporations Act 1989* to Treasury for $6.2 million, which was settled in 2011–12.

Under the Act, a corporation is entitled to be reimbursed for a ministerial directive to cease activities where the corporation considers the directive to not be in the commercial interests of the corporation.

Tendering and Probity Policies and Procedures

Construction contracts peaked in 2011–12, due to a significant increase in Endeavour's capital works program,

Endeavour purchases equipment and externally sources construction activities for some projects. This creates contract and procurement management risks, such as service delivery failure, unapproved scope variations and legal disputes. Awarding large construction contracts require controls to be in place to help mitigate probity and related party issues.

I reviewed Endeavour's contract tendering and management processes and found it has appropriate policies and procedures in place to address contract management, tendering and probity.

Performance Information

Operational Performance

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

Year ended 30 June	Target	Actual		
	2012	2012	2011	2010
Customer satisfaction index (%)	75	76	79	80
Network reliability – average minutes customers were without supply	79	82	72	79
Lost time injuries - number	12	22	26	18
Reportable environmental incidents - number	1	5	2	1
Total network customer connections	**879,992**	**883,658**	**877,339**	**866,767**

Endeavour advised it designed a network only customer satisfaction index (CSI) effective from 1 July 2011 following the sale of its retail operations, impacting comparability of CSI results. The customer satisfaction index measure is the percentage of customers who rated Endeavour as ‘good’ or ‘very good’ in relation to certain aspects of its performance. Endeavour advised reasons for the decline in 2011-12 included notification and length of planned and unplanned outages, property access issues and solar bonus scheme arrangements.

Network reliability has improved by 16 per cent over the past five years, reflecting investment in maintenance and compliance with the NSW Government’s licence conditions. Last year’s result was due to a combination of defective equipment and adverse weather (including three major windstorms), which caused extensive damage and increased interference on lines. For network reliability Endeavour has targeted improvements to achieve a sustainable 70 minutes by 2014–15.

Endeavour’s lost time incidents decreased from 26 to 22 in 2011–12, but are significantly higher than the target of 12 for the year. Endeavour is continuing to implement the Lifeguard Program, designed to minimise safety risks from alcohol, drugs and fatigue in the workplace.

Of the five reported environmental incidents, three resulted from the activities of contractors. Endeavour subsequently strengthened its contract management processes and developed a training program for site supervisors.

Financial Performance

Year ended 30 June	2012	2011	2010
Earnings from continuing operations before interest and tax ($m)*	585.9	546.9	439.3
Return on equity (%) (a)	19.8	20.5	17.3
Return on assets (%) (b)	10.6	10.8	9.5
Debt to equity	2.1	2.1	2.1
Interest cover (times)	2.9	2.9	2.3
Total distributions to government ($m) ** (c)	269.3	1,094.0	182.0
Capital expenditure ($m)	634.3	496.4	417.4

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

c Dividend plus income tax paid.

Earnings from continuing operations before interest and tax increased over the past two years. Endeavour advised this is due to a combination of productivity and efficiency savings coupled with customer price increases in line with regulatory allowances. Earnings were adversely impacted by lower energy consumption in 2011–12 due to milder weather conditions, economic pressures on businesses and manufacturers and customers changing usage patterns in response to rising prices. Energy consumption was 16,506 gigawatt hours compared to 17,501 gigawatt hours in 2010-11.

Total distributions to government were lower in 2011–12 due to a special dividend payment of proceeds from the retail sale of $864 million in 2010–11.

Other Information

Network Bushfire Risk

The Royal Commission into the 2009 Victorian bushfires found some bushfires were caused by asset management failures of the electricity distribution networks. In response, Endeavour undertook a self assessment of the risks of network bushfires. It identified gaps in existing practices and developed a Bushfire Risk Mitigation action plan to strengthen its existing bushfire prevention controls.

Solar Bonus Scheme

The NSW Government commenced the Solar Bonus Scheme (the scheme) on 1 January 2010. Its objectives include increasing public exposure to renewable energy and supporting those wanting to generate renewable energy to help combat climate change. 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 is planned to continue until 31 December 2016. In June 2012, the government announced that the scheme would be closed to any new connections.

At 30 June 2012, Endeavour had 44,492 Solar Bonus Scheme customer connections in its network area with a generation capacity of 99.7 megawatts.

Endeavour advises the annual cost of the scheme was $69.9 million at 30 June 2012, compared with $45.1 million at 30 June 2011 due to the increase in the number of customers who joined the scheme.

Network Capital Expenditure

Endeavour advised it performs periodic planning reviews to identify network expansions and upgrade needs to ensure informed decisions are made about the deployment and allocation of resources.

In 2011–12, Endeavour spent $634 million of its total capital budget of $674 million. Although this was $40.1 million below target, it was $138 million higher than the prior year. The capital program continues to target asset renewals as well as growth-related projects, with 96 per cent of target program milestones delivered for 2011–12.

Endeavour’s budgeted capital expenditure of $1.2 billion until the end of its current Australian Energy Regulator determination, 30 June 2014, is shown below.

Capital Expenditure and Funding	Actual	Budget	
	2012	2013	2014
Planned capital expenditure	634	670	573
Funding source			
- internally funded	258	240	143
- borrowings	376	430	430

Overtime

Over 311,800 hours of overtime was worked in 2011–12, which equated to a payment of $23.3 million, including penalty rates.

In 2011–12, 986 employees were each paid more than $10,000 in overtime, with 34 receiving more than 50 per cent of their base salary in overtime. Management attribute the high levels of overtime to the nature of Endeavour's operations requiring some work to be completed outside of employees' scheduled operating hours. Risks from excessive overtime include work, health and safety issues and less than optimal staff resourcing.

Endeavour advised that overtime statistics are monitored fortnightly to ensure business needs are met efficiently.

Financial Information

Abridged Statement of Comprehensive Income

Year ended 30 June	2012 $'000	2011 $'000
Total revenue from continuing operations	**1,476,943**	**1,327,382**
Profit before borrowing costs, depreciation, amortisation and tax	**755,657**	**651,575**
Borrowing costs	204,630	192,586
Depreciation and amortisation	169,770	164,660
Profit before tax	**381,257**	**294,329**
Income tax equivalent expense	115,753	91,602
Profit after tax	**265,504**	**202,727**
Profit from discontinued operation after income tax	**--**	**801,270**
Other comprehensive income		
Gain on revaluation of fixed assets	299,729	61,135
Defined benefit plan actuarial gains/losses	(97,111)	(5,443)
Gain/(loss) from changes in fair value of cash flow hedges	(4,514)	81,159
Income tax expense on other comprehensive income	(59,431)	(41,057)
Total other comprehensive income	**138,673**	**95,794**
Total comprehensive income	**404,177**	**1,099,791**

Total revenue from continuing operations includes $1.2 billion ($1.1 billion in 2010-11) in network use of system charges. The increase is due to tariff increases in line with regulatory allowances.

The superannuation defined benefit actuarial loss increased by $91.7 million because of the fall in the government bond rate used in the actuarial assessment of the liability.

Profit after tax from continuing operations was $266 million, with a dividend payable of $187 million sourced from ordinary profit.

Abridged Statement of Financial Position

At 30 June	2012 $'000	2011 $'000
Current assets	306,906	341,662
Non-current assets	5,629,531	4,817,409
Total assets	**5,936,437**	**5,159,071**
Current liabilities	1,106,036	1,047,882
Non-current liabilities	3,379,629	2,878,007
Total liabilities	**4,485,665**	**3,925,889**
Net assets	**1,450,772**	**1,233,182**

Total assets increased by $777 million mainly due to property, plant and equipment movements. Within these assets were additions of $704 million and revaluation increments of $302 million offset by increased depreciation of $154 million.

Borrowings at 30 June 2012 were $3.0 billion ($2.6 billion at 30 June 2011). The increase was mainly due to the increase in the capital expenditure program.

Superannuation defined benefits liabilities increased by $92.4 million to $158 million.

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 shareholders are the Treasurer and the Minister for Finance and Services.

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

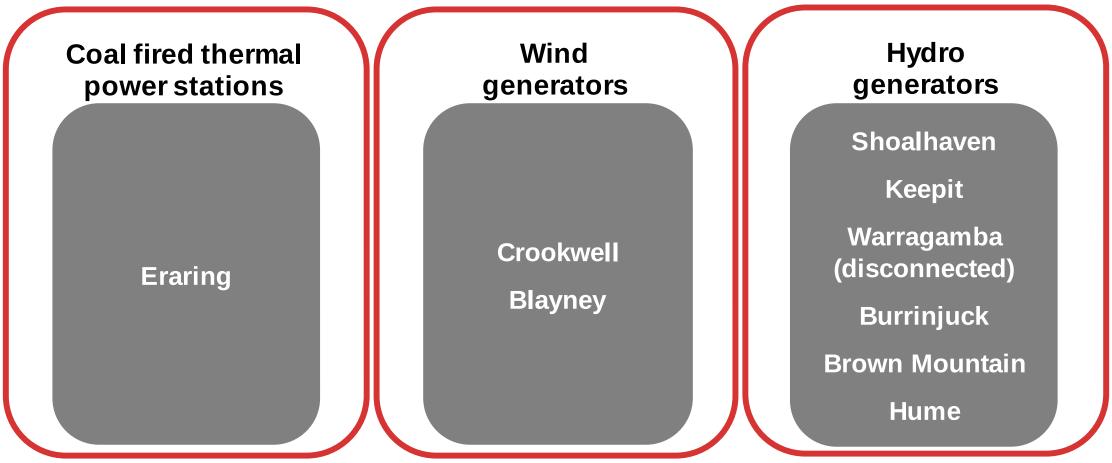
Eraring Energy

Audit Opinion

I issued an unqualified audit opinion on Eraring Energy's 30 June 2012 financial statements.

Operational Snapshot

Eraring Energy generates and supplies electricity to the National Electricity Market from the following sources:



The output from Eraring and Shoalhaven stations has been purchased by Origin Energy under Generation Trading Agreements (GTAs).

The generation capacity of Eraring is approximately 3,200 megawatts or approximately 7.7 per cent of the National Electricity Market.

During 2011–12, Eraring Energy produced 12,369 gigawatt hours of electricity and received $616 million in revenue from all sources. It declared a dividend of $49.3 million for 2011-12 equivalent to the interest income earned under the GenTrader transaction.

Key Issues

Interruptions to Operations

Generator transformer failures may result in liquidated damages payments to Origin Energy

Eraring Power Station experienced significant generator transformer failures in October 2011 and March 2012 adversely impacting generation availability. Under the GTA with Origin Energy, Origin Energy may be entitled to liquidated damages arising from the unavailability of output, unless the failures were due to force-majeure events. Eraring Energy considers the two incidents to be such events, but Origin Energy disputes this and has sought arbitration under the terms of the GTA.

Eraring Energy has not recognised a liability for availability damages pending the outcome of arbitration. In accordance with the GTA, Origin Energy has deducted 50 per cent of the disputed availability payments from the monthly fixed revenue payable to Eraring Energy. In the event Eraring Energy is unsuccessful in the arbitration process, business interruption insurance is expected to cover a significant portion of the liquidated damages.

Performance Information

Plant availability is trending downward due to plant failures and upgrades

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. The power station produced 11,895 gigawatt hours of electricity in 2011–12 (13,971 2010–11).

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

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

Year ended 30 June	Actual			
	2012	2011	2010	2009
Generation of electricity - gigawatt hours as generated				
Thermal coal	11,895	13,971	14,116	15,426
Hydro	450.3	350.0	123.0	101.0
Wind	23.0	23.0	27.0	30.0
Total	**12,368.3**	**14,344.0**	**14,266.0**	**15,557.0**
Eraring PS Plant availability (%)	67.4	74.6	78.7	86.1
Thermal efficiency as generated (%)	37.7	37.9	37.8	37.8

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 time required for maintenance and capital improvements. In 2011 and 2012, plant availability was impacted by the planned capacity upgrade project and in 2012 it was also impacted by two major generation outages discussed above.

Thermal efficiency is a performance measure commonly used by power stations. It is influenced by the source of cooling water, the design, age and condition of the power plant, and the quality of coal used. The thermal efficiency percentages above indicate the percentage of energy in the coal used by Eraring Power Station to produce electricity and measure 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 of 28 per cent.

Other Information

GenTrader Update

Last year, I reported that a private ruling had been sought from the Australian Tax Office to clarify the tax deductibility of capacity charge payments made by Origin Energy. At the time of this report the ruling is still not to hand. If a positive outcome is achieved, an additional $198 million will be paid by the GenTrader to the Crown Entity.

In Volume One of my 2011 Report to Parliament, I mentioned that Eraring Energy must pay liquidated damages to Origin Energy if contracted electricity generation availability targets are not achieved. In 2011–12, Eraring Energy paid liquidated damages of $1.6 million net of Treasury and insurance reimbursements and super-peak bonuses.

Eraring Energy is also required to pay Origin Energy over-generation charges when more electricity is generated than requested. No over-generation charges were paid by Eraring Energy during the year.

Expenditure on power station upgrades to increase capacity and life was $575 million at year end

Major Project Expenditure

Work continues on the Eraring Power Station capacity upgrade. The project will increase the nominal capacity of each of the four generating units from 660 megawatts to 720 megawatts and extend the power station's life. The project has spent $575 million of the $648 million budget to 30 June 2012.

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.

Financial Information

Abridged Statement of Comprehensive Income

Year ended 30 June	Parent	Consolidated	Parent
	2012* $'000	2011 $'000	2011 $'000
Total revenue	**615,779**	**609,478**	**606,695**
Profit/(loss) before finance costs, depreciation and tax	**129,682**	**(179,843)**	**(182,402)**
Finance costs	26	39,034	39,034
Depreciation	10,253	65,823	65,823
Profit/(loss) before tax	**119,403**	**(284,700)**	**(287,259)**
Income tax equivalent expense	-	14,908	14,945
Profit/(loss) after tax	**119,403**	**(299,608)**	**(302,204)**
Other comprehensive income			
(Loss)/gain on movement in Asset Revaluation Reserve	(1,016)	48,304	48,304
Defined superannuation actuarial loss	(94,627)	(5,785)	(5,785)
(Loss)/Gain on cash flow hedges	2,942	(10,530)	(10,530)
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 expense	**(92,701)**	**(364,120)**	**(364,120)**
Total comprehensive income/(expense)	**26,702**	**(663,728)**	**(666,324)**

* Rocky Point Holdings was transferred to Cobbora Holding Company Pty Ltd in February 2011. As Eraring did not control any subsidiary entities, consolidated financial statements were not prepared in 2012.

Total revenue increased by $6.3 million mainly due to a $4.1 million increase in interest revenue and $5.1 million of green revenue associated with green energy productivity targets.

Total revenue included $15.3 million in electricity sales compared to $389 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.The decrease in electricity sales revenue was offset by in GenTrader associated revenue.

Profit after tax increased by $419 million due to last year's profit being impacted by a $370 million asset write down arising from the sale of generation rights and the income tax expense fell by $14.9 million because Eraring Energy exited the National Tax Regime.

Abridged Statement of Financial Position

At 30 June	Parent	Consolidated	Parent
	2012* $'000	2011 $'000	2011 $'000
Current assets	340,026	312,732	312,732
Non-current assets	742,916	865,342	865,342
Total assets	**1,082,942**	**1,178,074**	**1,178,074**
Current liabilities	225,101	160,694	160,694
Non-current liabilities	20,363	18,852	18,852
Total liabilities	**245,464**	**179,546**	**179,546**
Net assets	**837,478**	**998,528**	**998,528**

* Rocky Point Holdings was transferred to Cobbora Holding Company Pty Ltd in February 2011. As Eraring did not control any subsidiary entities, consolidated financial statements were not prepared in 2012.

Total assets decreased mainly due to accounting for the GenTrader transaction.

Total liabilities increased by $65.9 million primarily due to a $90.6 million increase in superannuation defined benefit liabilities offset by an $8.7 million decrease in electricity and foreign exchange derivatives and a $21.4 million decrease in trade creditors.

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*. The shareholders are the Treasurer and Minister for Finance and Services.

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

Essential Energy

Audit Opinion

I issued unqualified audit opinions on Essential energy and its controlled entity's financial statements.

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

Operational Snapshot

Essential Energy (formerly known as Country Energy) has over 200,000 kilometres of powerlines covering regional and rural New South Wales, and parts of Victoria and Queensland. It supplies electricity to more than 800,000 customers. It also has a division delivering water services to around 20,000 people around Broken Hill.

Essential Energy made a profit of $153 million after tax in 2011–12 ($44.0 million in 2010–11) from its continuing operations and $2.0 million ($95.1 million in 2010–11) from its discontinued operations. At 30 June 2012 it had assets of $7.4 billion ($6.8 billion at 30 June 2011). It declared a dividend of $67.3 million from its 2011–12 results ($41.2 million in 2010–11).

Key Issues

Reform of Electricity Distribution Network in New South Wales

On 18 March 2012, the New South Wales Government announced a reform of the electricity distribution network. Refer to the Electricity Overview for further information.

Sale of Retail Operations Update

Transition Services Agreement

Essential Energy sold its retail operations, including its retail assets, customer contracts and brand name to Origin Energy Ltd (Origin) in March 2011. At the same time, a Transitional Service Agreement (TSA) covering short-term services (such as sales, marketing and forecasting) and longer-term functions (such as billing and the call centre) was entered into. Under the TSA, services will be progressively handed over to Origin over 43 months ending in September 2014.

Each service has a scheduled termination date specified in the TSA for when Essential Energy will stop providing the service. The termination date can be varied, providing Origin gives Essential Energy nine months notice in advance.

Retail operations will have fully transferred to Origin by September 2014

Working Capital and Purchase Price Adjustment

Last year, I reported the parties to the retail sale did not finalise the 'working capital purchase price adjustment' due to a pending independent review. The review was completed in 2011-12 and Essential Energy was required to pay Origin $21.2 million compared to an expected amount of $22.8 million.

Stranded Costs

Essential Energy recognised a provision for stranded costs of $45.3 million at 30 June 2012 ($50.0 million at 30 June 2011). The provision comprised $42.2 million for employee related stranded costs and $3.1 million for separation costs. The employee provision relates to the costs associated with having to continue paying retail staff after the TSA period ends, at which time they are expected to be surplus to the business' needs. Separation costs primarily relate to migrating retail data to Origin and decommissioning costs.

Performance Information

Operational Performance

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

	Target*	Actual			
	2012	2012	2011	2010	2009
System average interruption duration index – customer minutes without supply	321	237	238	196	267
Corporate reputation survey	(a)	84	86	88	86
Lost time injury frequency rate – lost time injuries per one million hours worked	1.3	2.3	2.7	4.1	2.3

* Targets provided by Essential Energy.

a In 2010, the survey changed from Corporate Satisfaction Survey, which measured whether the services exceeded customer expectations, to Corporate Reputation Survey, which measures the percentage of customers who agree Essential Energy is a responsible provider of energy services. There was no target for 2012

The level of customer minutes without supply was due to extensive flooding in Western New South Wales in November 2011 and the coastal areas in January and February 2012. The average 'customer minutes without supply' index for long rural power lines was 478 minutes (493 minutes in 2010–11), significantly higher than all other customers.

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 'no unsafe acts' in its work place.

Other Information

Environmental Performance

Solar Bonus Scheme

Over 50,000 customers connected to the Solar Bonus Scheme

The NSW 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 is planned to continue until 31 December 2016. In June 2012, the government announced that the scheme would be closed to any new connections.

At 30 June 2012, 44,649 eligible premises were connected to the 60 cent scheme and 6,638 eligible customers to the 20 cent scheme. In total, 180,411 megawatt hours were generated by eligible customers in 2011–12.

Essential Energy advises the cost of the scheme was $92.2 million in 2011–12, compared with $57.6 million for the 18 month period to 30 June 2011. The increase was due to the increase in the number of customers who joined the scheme.

Capital expenditure of $4.7 billion is planned over the period 2013-17

Network Capital Expenditure

Essential Energy's capital spending program is required to meet the growing needs of households and businesses in regional and rural New South Wales. The 2011–12 year was the third year of a five year network plan aimed at replacing ageing assets and complying 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.

Capital Expenditure and Funding	Actual	Budget	
	2012 $m	2013 $m	2014 $m
Planned capital expenditure	805	920	855
Funding source			
- internally funded	280	690	424
- borrowings	525	230	431

Overtime

Total overtime paid to employees during 2011–12 was $55.2 million ($54.1 million in 2010-11) representing 10.3 per cent (10.6 per cent in 2010–11) of salaries and wages for the year. Over 200 staff were paid more than 50 per cent of their base salary as overtime.

Essential Energy advised that overtime is cyclical and normally driven by fault and emergency responses across regional New South Wales. The amount of overtime correlates to weather conditions and the remoteness of the locations where maintenance is needed. Management advised they actively manage overtime by reviewing monthly data to maintain awareness of overtime levels.

Financial Performance

Year ended 30 June	Actual			
	2012	2011	2010	2009
Earnings before interest and tax ($m)	571.2	464.1	498.2	349.2
Return on average equity (%) (a)	8.5	7.5	12.5	13.4
Return on average assets (%) (b)	8.1	7.0	8.5	7.3
Debt to equity ratio (%) (c)	230.7	200.2	187.2	350.0
Interest cover (times) (d)	1.4	1.4	1.7	1.8
Total distributions to government ($m) (e)	181.0	1,354.1	137.7	100.9
Capital expenditure ($m) (excluding capital contribution)	804.9	751.5	739.6	600.6

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

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

c external debt divided by equity (net assets).

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

e Dividend plus income tax

The return on average equity and average assets improved in 2011–12 due to improved earnings. The debt to equity ratio was higher in 2011-12 because Essential Energy borrowed $525 million to fund its infrastructure projects. Whilst borrowing costs increased due to the additional borrowings, the interest cover ratio remained steady due to improved earnings.

In 2010–11, Essential Energy paid a special dividend of $1.2 billion from the proceeds of the sale of its retail business.

Abridged Statement of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Revenue from continuing operations	**1,838,013**	**1,473,555**	**1,838,013**	**1,481,031**
Profit before interest, depreciation and tax	**884,040**	**655,768**	**884,040**	**669,393**
Finance costs	351,775	288,173	351,775	288,173
Depreciation and amortisation	323,834	307,455	323,834	305,846
Profit before tax	**208,431**	**60,140**	**208,431**	**75,374**
Income tax equivalent expense	55,524	16,128	55,524	15,250
Profit after tax from continuing operations	**152,907**	**44,012**	**152,907**	**60,124**
Profit after tax from discontinuing operations	**1,433**	**1,170,842**	**1,433**	**1,170,842**
Profit after tax	**154,340**	**1,214,854**	**154,340**	**1,230,966**
Other comprehensive income				
Increase/(decrease) in fair value of cash flow hedges	(1,050)	57,431	(1,050)	57,431
Defined benefit superannuation actuarial gain/(loss)	(141,233)	456	(141,233)	456
Income tax (expense)/benefit on other comprehensive income items	42,685	(17,366)	42,685	(17,366)
Total other comprehensive income/(expense)	**(99,598)**	**40,521**	**(99,598)**	**40,521**
Total comprehensive income	**54,742**	**1,255,375**	**54,742**	**1,271,487**

Revenue from continuous operations increased by 24.7 per cent mainly due to the Australian Energy Regulator's approval of a 21 per cent price increase for Essential Energy's network charges. As a result, the profit before interest expense, depreciation and tax also improved as the increase in revenue outpaced cost increases. Finance costs increased by 22.1 per cent because of an additional $525 million of borrowings in 2011–12.

Earnings increased by 21 per cent mostly due to electricity price increases

The profit after tax from discontinuing operations for 2010–11 included the gain from the disposal of retail business of $1.1 billion. The movement in the fair value of cash flow hedges decreased as most energy derivatives were disposed of as part of the retail sale in March 2011.

In 2011–12, Essential Energy recorded a superannuation actuarial loss of $141 million, primarily because the ten-year Commonwealth bond yield, which is used to discount long-term defined benefit liabilities, dropped from 5.3 per cent on 30 June 2011 to 3.1 per cent on 30 June 2012.

Abridged Statement of Financial Position

At 30 June	Consolidated		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Current assets	497,065	393,427	497,065	393,427
Non-current assets	6,891,227	6,369,655	6,891,227	6,369,655
Total assets	**7,388,292**	**6,763,082**	**7,388,292**	**6,763,082**
Current liabilities	974,210	838,697	974,210	838,697
Non-current liabilities	4,608,170	4,105,918	4,608,170	4,105,918
Total liabilities	**5,582,380**	**4,944,615**	**5,582,380**	**4,944,615**
Net assets	**1,805,912**	**1,818,467**	**1,805,912**	**1,818,467**

Current assets increased mainly due to a $90.3 million increase in cash. Non-current assets increased by $522 million, primarily reflecting infrastructure built during the year.

Total liabilities increased primarily due to additional borrowings, underfunded superannuation and increases in employee provisions.

Essential Energy Activities

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 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

I issued an unqualified audit opinion on Macquarie Generation's 30 June 2012 financial statements.

Operational Snapshot

Macquarie Generation owns and operates Liddell and Bayswater Power Stations with a combined generating capacity of 4,640 megawatts or approximately 10.3 per cent of the National Electricity Market.

Macquarie Generation made a profit of $120 million after tax for the year ended 30 June 2012 ($126 million for the year ended 30 June 2011). It declared a dividend of $124 million from its 2011–12 results.

Key Issue

Impact of Carbon Price

The Corporation's infrastructure assets were impaired by $1.0 billion due to the impact of the carbon tax

On 8 November 2011, the Australian Government passed its Clean Energy Future Legislation. The carbon pricing mechanism included a three-year fixed carbon price from 1 July 2012 and thereafter a fully flexible price under an emissions trading scheme, with the price determined by the market from 1 July 2015. The introduction of carbon pricing resulted in an impairment of the Corporation's infrastructure assets by $1.0 billion.

Performance Information

Operational Performance

Year ended 30 June	2012	2011	2010	2009
Generation of electricity – gigawatt hours sent out				
Bayswater	15,770	13,661	15,176	15,864
Liddell	8,764	7,763	9,394	11,135
Total	**24,534**	**21,424**	**24,570**	**26,999**
Plant availability				
Bayswater (%)	88.1	92.7	91.8	92.3
Liddell (%)	72.9	69.5	72.3	79.4
Thermal efficiency				
Bayswater (%)	34.9	34.6	35.0	35.2
Liddell (%)	33.9	31.9	32.8	32.5
Equivalent forced outages (%)	13.3	10.5	12.4	6.3
Earnings before interest and tax ($m)	246.6	241.4	334.4	333.1
Return on average equity (%) (a)	8.3	6.7	14.4	15.7
Return on average assets (%) (b)	7.1	6.0	7.8	8.1
Interest cover (times)	3.3	3.7	6.0	8.8
Debt/equity (%)	76.7	44.2	43.7	43.6
Total distributions to government ($m)(c)	187.0	249.0	273.4	185.5
Capital expenditure ($m)	23.8	41.4	40.2	80.0

a Profit after income tax expense divided by average equity.
b Profit before interest expense and tax divided by average assets.
c Dividend plus income tax paid.

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. Bayswater's availability was lower in 2011–12 than the previous year because lower coal quality reduced milling performance. The reduction in Bayswater's availability did not adversely impact electricity generation due to spare capacity allowed for in operating the station. Liddell's plant availability in 2010-11 was impacted by a generator failure on Unit 3.

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. NSW Government-owned coal fired power stations outperform reported worldwide averages for thermal efficiency of 28 per cent. A new state-of-the-art power station can expect to achieve a thermal efficiency in excess of 45 per cent.

Macquarie Generation's market share of the National Electricity Market was 13.1 per cent in 2011–12 (11.2 per cent in 2010-11).

Debt to equity ratio decreased by 32.5 per cent mainly due to the repayment of $32.0 million borrowings to New South Wales Treasury Corporation and a reduction of $698 million in the asset revaluation reserve resulted from the devaluation of infrastructure assets, which also increased return on average equity by 1.6 per cent.

Capital expenditure reduced by $17.6 million because of the completion of various large projects in 2010–11.

Other Information

Business Growth Post Generation Trading Agreement (Gentrader)

The completion of the Gentrader transaction and the sale of the NSW State owned retailers led to a significant increase in vertical integration in the National Electricity Market. These significant changes in the industry create challenges for the business model of Macquarie Generation and its risk profile.

Macquarie Generation is undertaking a range of initiatives to manage these emerging risks.

Financial Information

Abridged Statement of Comprehensive Income

Year ended 30 June	2012 $'000	2011 $'000
Total revenue	**987,797**	**1,019,422**
Profit before borrowing costs, depreciation and tax	**385,584**	**411,995**
Borrowing costs	75,320	64,838
Depreciation	139,013	169,004
Profit before tax	**171,251**	**178,153**
Income tax equivalent expense	51,446	52,453
Profit after tax	**119,805**	**125,700**
Other comprehensive income		
Decrease in fair value of cash flow hedges	(52,925)	(10,935)
Revaluation decrement on property, plant and equipment net of tax	(698,354)	--
Defined benefit superannuation actuarial loss	(76,893)	(1,486)
Total other comprehensive expense	**(828,172)**	**(12,421)**
Total comprehensive income/(expense)	**(708,367)**	**113,279**

Sales revenue decreased by $32.0 million from the previous year as a result of low demand, low pool and contract market prices.

Partially offsetting the reduction in sales revenue was $14.0 million received from an insurance settlement for the Liddell power station.

Financing costs were $10.0 million higher than last year due to losses on interest rate futures' positions associated with treasury management. These losses were created by the fall in bond rates to historically low levels.

Expenses were $40.0 million lower mainly due to $30.0 million lower depreciation expense when compared with 2010-11 as a result of lower asset values due to impairment.

Abridged Statement of Financial Position

At 30 June	2012 $'000	2011 $'000
Current assets	699,526	717,333
Non-current assets	2,253,002	3,316,386
Total assets	**2,952,528**	**4,033,719**
Current liabilities	371,932	422,723
Non-current liabilities	1,549,403	1,747,436
Total liabilities	**1,921,335**	**2,170,159**
Net assets	**1,031,193**	**1,863,560**

Total assets decreased by $1.0 billion mainly due to the devaluation of infrastructure assets from the impact of carbon tax.

Total liabilities were $249 million lower than last year because of the reduction in deferred tax liabilities by $365 million which resulted from the tax effect of asset devaluation. This was partly offset by the defined superannuation fund liabilities which increased from $80.0 million to $186 million due to decline in the Australian Government bond rate.

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 shareholders are the Treasurer and the Minister for Finance and Services.

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

TransGrid

Audit Opinion

I issued an unqualified audit opinion on TransGrid's 30 June 2012 financial statements.

Operational Snapshot

TransGrid owns and manages one of the largest high-voltage transmission networks in Australia, connecting 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, facilitating interstate energy trading.

TransGrid made a profit of $200 million after tax in 2011–12 ($167 million in 2010–11) and declared a dividend of $147 million ($134 million).

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 2009 to 31 December 2011:

Year ended 31 December	Target	Actual		
	2009-14	2011	2010	2009
Transmission line availability (%)	99.26	98.97	98.76	98.00
Transformer availability (%)	98.61	98.45	98.38	98.26
Reactive plant availability (%)	99.12	96.33	95. 44	97.66
Frequency of lost supply events greater than 0.05 system minutes*	4	3	3	3
Frequency of lost supply events greater than 0.25 system minutes	1	--	1	1
Average outage duration (minutes)	824	864	861	817

Source: Australian Energy Regulator and TransGrid.

* A system minute is equal to the amount of energy that would not be supplied if the whole TransGrid system was to shut down for one minute at a time of maximum demand. The 0.05 and 0.25 system minute thresholds are the levels that the AER have defined to measure TransGrid's performance, being their view of what is a small and what is a large sized reliability incident.

TransGrid's performance was generally close to target. Transmission line availability was below target due to upgrades and refurbishment work on transmission lines not scheduled during the 2011 calendar year.

Transformer availability was marginally below target due to longer than expected outages for transformer replacements.

Reactive plant covers instances where there may be fluctuations in the operating conditions or uncertainties in load levels. The plant availability was lower than target as some plants reached the end of their useful lives and required replacement.

Energy Maximum Demands

Energy use in New South Wales increased by an average of 1,310 gigawatt hours (GWh) per annum over the last ten years. For the last three years however, demand remained flat or decreased as shown below:

Year ended 30 June	Peak Demands (Megawatts)		
	2012	2011	2010
Winter peak demand	12,153	12,908	13,176
Summer peak demand	11,885	14,580	13,765

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

The Australian Energy Market Operator estimates the average annual growth rate for the next ten years of 1.18 per cent for summer and 1.19 per cent for winter.

For the 2009–14 regulatory period, AER approved capital expenditure of $2.6 billion for TransGrid to meet increasing electricity demand. Approximately 46 per cent of the capital program was delivered up to 30 June 2012. Major projects underway include the Western Sydney Supply and Beaconsfield West 330/132 kV substation equipment replacement which will involve significant expenditure over the next two years.

Financial Performance

Year ended 30 June	Target*	Actual		
	2012	2012	2011	2010
Earnings before interest and tax ($m)	428.0	441.2	394.6	362.4
Dividends to government ($m)	155.0	146.9	133.9	135.1
Capital expenditure	550.0	384.4	378.6	428.7
Return on average equity (%) (a)	7.7	8.3	7.0	7.5
Return on average assets (%) (b)	6.7	7.0	6.5	6.0
Interest cover (times) (c)	--	2.9	2.6	2.6
Debt/ equity (%) (d)	--	95.9	92.3	93.8

* Source: TransGrid 30 June 2012 Statement of Corporate Intent (SCI).

a net profit after tax divided by average equity.

b earnings before interest and tax divided by average assets.

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

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

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

Contributions to government for 2011–12 were $189 million, comprising a dividend of $147 million ($134 million in 2010–11) and tax paid of $41.6 million ($22.5 million in 2010-11).

TransGrid spent $384 million in 2012 to replace aging assets as part of its capital works program.

The financial ratios were relatively stable over the past three years.

Financial Information

Abridged Statement of Comprehensive Income

Year ended 30 June	2012 $'000	2011 $'000
Total revenue	**831,986**	**758,311**
Profit before borrowing costs, depreciation, amortisation and tax	**672,517**	**613,282**
Borrowing costs	150,595	152,173
Depreciation and amortisation	231,318	217,656
Profit before tax	**290,604**	**243,453**
Income tax equivalent expense	90,786	76,019
Profit after tax	**199,818**	**167,434**
Other comprehensive income		
Net increase/(decrease) in revaluations, including impairment	(7,257)	112,972
Cash Flow Hedge Reserve: gains/(losses)	161	(3,598)
Superannuation Actuarial gains/(losses)	(209,765)	11,299
Income tax benefit/(expense) relating to components of other comprehensive income	65,058	(36,183)
Total other comprehensive income/(expense)	**(151,803)**	**84,490**
Total comprehensive income	**48,015**	**251,924**

Total revenue includes $807 million ($739 million in 2010-11) from the transmission of electricity. The 9.2 per cent increase was due to a higher revenue cap set by the regulator and performance incentives. The revenue cap is indexed each year for inflation.

Abridged Statement of Financial Position

At 30 June	2012 $'000	2011 $'000
Current assets	156,995	146,783
Non-current assets	6,232,643	6,035,247
Total assets	**6,389,638**	**6,182,030**
Current liabilities	579,653	563,827
Non-current liabilities	3,449,692	3,158,931
Total liabilities	**4,029,345**	**3,722,758**
Net assets	**2,360,293**	**2,459,272**

Total assets increased by $208 million due to continued additional capital expenditure on network assets.

Total liabilities increased due to an increase in deferred tax liabilities of $35.2 million and $193 million increase in provisions for superannuation liabilities as a result of a decrease in discount rate used in the actuary's valuation.

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 Corporations Act 1989* in December 1998. The shareholders are the Treasurer and the Minister for Finance and Services.

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

Cobbora Holding Company Pty Limited

Audit Opinion

I issued unqualified audit opinions on the Cobbora Holding Company Pty Limited (Cobbora) and its controlled entities' 30 June 2012 financial statements.

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

Operational Snapshot

Cobbora was established to facilitate the development of an open cut coal mine, located at Cobbora in western New South Wales.

Cobbora Coal Project

Cobbora must be ready to supply coal by July 2015 to avoid penalties under current contracts

The Cobbora project application covers 274 square kilometres and will produce up to 12.0 million tonnes of coal per annum. The project's aim is to secure coal supplies for NSW coal-fired electricity generators at a discount to international prices. It is scheduled to start production in 2015.

Cobbora is locked into supplying around 9.5 million tonnes of coal each year to three customers who operate the major coal-fired power stations in New South Wales. These customers include State owned corporations and private sector entities. Cobbora must start coal supplies from July 2015. Under the current contracts, if Cobbora is not ready to supply this coal it will face significant financial penalties.

Cobbora advises that the project is tracking well against the project plan.

Key Issues

Cobbora Coal Project Strategy and Business Plan

Last year, I recommended consideration be given to releasing the Energy Reform Strategy relating to the development and ownership of the Cobbora Coal Project.

The government is currently examining the proposed sale or lease of Cobbora

The Honourable Brian John Tamberlin QC issued his 'Final Report of the Special Commission of Inquiry into the Electricity Transactions' (the Tamberlin Inquiry) in October 2011. The report recommended the sale of Cobbora coal mine and associated coal supply agreements. In November 2011, the government announced they would sell or lease the Cobbora mine. In September 2012, the NSW Treasurer advised a scoping study examining the proposed sale or lease of the Cobbora coal mine development was well underway.

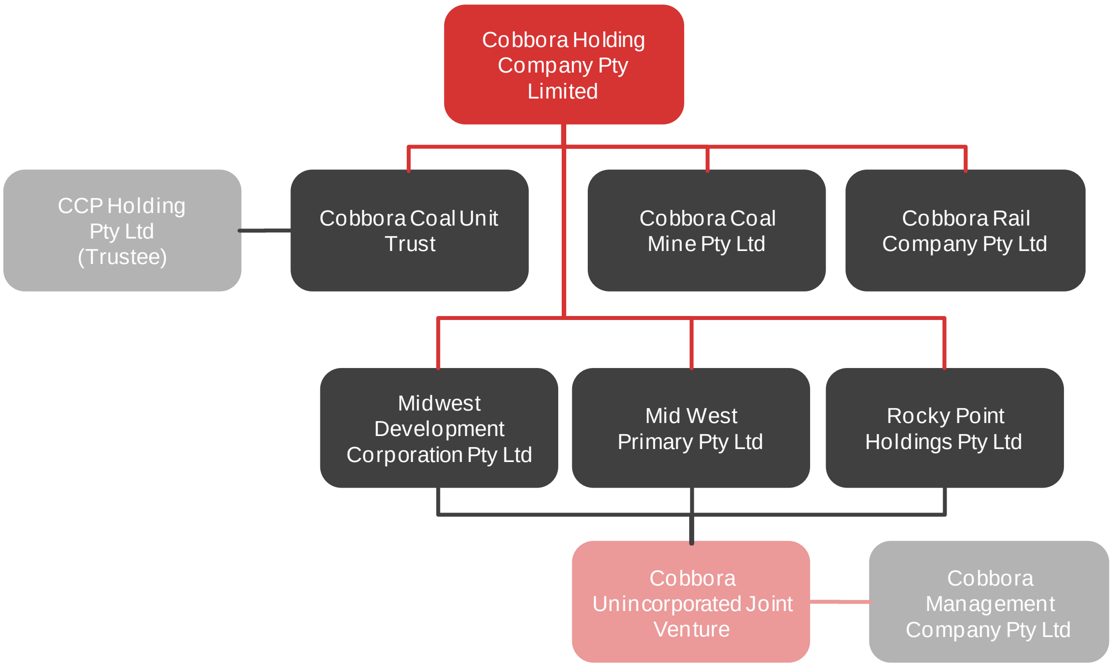
There is merit in releasing information about the government's plans. Providing information to the public is a key accountability mechanism, and experience has shown there is a high public appetite for information about energy reform. Making information public without prejudicing any future transactions presents challenges. A communication strategy will help to address the challenges.

Once a decision on the sale or lease of Cobbora is reached, the public will likely want to know the criteria used in the decision making as well as details on timing, risks and benefits. Advice of information that has not been released, together with reasons for its withholding, would also help stakeholders understand the need for confidentiality.

The public will be keen for information on the decision on the Cobbora mine development

Corporate Structure Rationalisation

Cobbora is rationalising its corporate structure, reducing the number of separate legal entities from nine to three. This will simplify the legal structure and reduce compliance costs. The structure of the group at 30 June 2012 was:



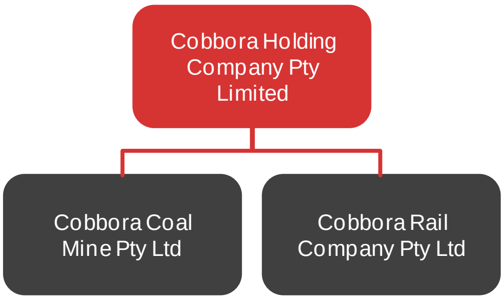
The large number of entities is because the Cobbora mine development was originally facilitated by a joint venture between State-owned electricity generators. As part of implementing the previous government's Energy Reform Strategy, Cobbora acquired the generators' interests in the mine development in 2011. Entities acquired were:

- Midwest Development Corporation Pty Limited
- Mid West Primary Pty Limited
- Rocky Point Holdings Pty Limited
- Cobbora Management Company and the unincorporated joint venture it managed.

These were liquidated during 2011–12 and deregistered in August 2012. The entities' residual assets and liabilities were transferred to the Cobbora Holding Company.

The Cobbora Coal Unit Trust was created to hold mine assets such as land. Plans exist to transfer all assets held to the Cobbora Holding Company, after which the Trust and its trustee company will be wound up.

The rationalisation is expected to be completed during 2012–13 once all legal requirements have been addressed. The rationalised structure of the group will be:



Cobbora Coal Mine Pty Limited will invest in mining operations. Cobbora Rail Company Pty Limited will invest in a rail spur to connect the mine to existing rail networks.

Carbon Pricing Mechanism

Open cut mines release gases into the atmosphere, referred to as fugitive emissions, which are subject to the Commonwealth's carbon pricing mechanism. However, Cobbora's 2011–12 financial performance and net assets are not impacted as the mine is not yet operational.

Financial Information

Abridged Statement of Comprehensive Income

Year ended 30 June	Consolidated	
	2012 $'000	2011 $'000
Total revenue	**1,053**	**172**
Total expenses excluding finance costs, depreciation and tax	**6,188**	**7,292**
Loss before finance costs, depreciation and tax	**(5,135)**	**(7,120)**
Finance costs	2,556	1
Depreciation	273	74
Loss before tax	**(7,964)**	**(7,195)**
Income tax benefit	2,389	659
Loss after tax	**(5,575)**	**(6,536)**
Other comprehensive income	**--**	--
Total other comprehensive income	**--**	--
Total comprehensive expense	**(5,575)**	**(6,536)**

Revenues and expenses reflect that Cobbora is in the start up phase of operations.

Abridged Statement of Financial Position

At 30 June	Consolidated	
	2012 $'000	2011 $'000
Current assets	13,244	5,868
Non-current assets	147,678	112,494
Total assets	**160,922**	**118,362**
Current liabilities	49,683	1,598
Non-current liabilities	50	--
Total liabilities	**49,733**	**1,598**
Net assets	**111,189**	**116,764**

Non-current assets include land of $93.6 million ($86.9 million in 2010-11), capitalised exploration expenditure of $29.9 million ($15.0 million) and water licences of $13.3 million ($4.0 million).

Liabilities include borrowings from New South Wales Treasury Corporation of $40.5 million (nil). Cobbora has approval from the Treasurer to obtain sufficient funding under the *Public Authorities (Financial Arrangements) Act 1987* for the purposes of acquiring and developing the coal resource. The Treasurer has also guaranteed the State will provide sufficient funding where it is otherwise unavailable to support Cobbora's business costs.

Cobbora (and the State of New South Wales) has not recognised any liability related to existing coal supply contracts. The Tamberlin Inquiry noted the project has potential for future coal supply contracts and concluded attributing full project costs to revenue for the existing contracts gives a negative picture that does not consider the residual capacity of the project to produce more coal.

Entity Activities

Cobbora Holding Company Pty Limited was incorporated to facilitate the development of the Cobbora Coal Project. It is wholly owned by the Treasurer of New South Wales.

For further information on Cobbora refer to www.cobbora.com.au. There are no legislative requirements for Cobbora to make public financial statements or to produce an annual report.

Controlled Entities

The following entities were controlled by Cobbora Holding Company during 2011–12:

- Cobbora Coal Mine Pty Limited
- Cobbora Rail Company Pty Limited
- Cobborra Coal Unit Trust
- CCP Holdings Pty Limited
- Cobbora Management Company Pty Limited
- Midwest Development Corporation Pty Limited
- Mid West Primary Pty Limited
- Rocky Point Holdings Pty Limited.

Electricity Tariff Equalisation Ministerial Corporation

The Electricity Tariff Equalisation Fund ceased operations on 30 June 2011 and was abolished on 14 June 2012

Audit Opinion

I issued an unqualified audit opinion on the Electricity Tariff Equalisation Ministerial Corporation's (the Corporation) financial statements for the period ended 14 June 2012.

Key Issues

Closure of the Electricity Tariff Equalisation Fund

The Electricity Tariff Equalisation Fund (the Fund) ceased operations on 30 June 2011. The balance of the Fund after final administrative transactions was $308 million. This amount was transferred to the Consolidated Fund on 14 June 2012.

The $308 million balance in the Fund was transferred to the Consolidated Fund during 2011–12

Financial Information

Abridged Statement of Comprehensive Income

	Period ended 14 June 2012 $'000	Year ended 30 June 2011 $'000
Tariffs from retailers/generators	2,902	287,385
Other	13,061	11,556
Total revenues	**15,963**	**298,941**
Tariff payments to retailers/generators	1,304	109,917
Other	299	274
Total expenses	**1,603**	**110,191**
Total comprehensive income	**14,360**	**188,750**

Tariffs received and paid after the Fund ceased are adjustments to amounts in prior periods. These adjustments are in line with the Fund's Payment Rules. Other revenues comprise investment earnings.

Abridged Statement of Financial Position

	At 14 June 2012 $'000	At 30 June 2011 $'000
Total assets	--	293,682
Total liabilities	--	57
Net assets	**--**	**293,625**

All assets and liabilities transferred to the Consolidated Fund on 14 June 2012.

Corporation Activities

The Corporation was a statutory body constituted under the *Electricity Supply Act 1995*. The Corporation was abolished effective 14 June 2012.

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. Following the sale of its electricity retail businesses in 2011 the Government no longer operates electricity retailers.

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	9 May 2012

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OF NEW SOUTH WALES

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To make the people of New South Wales proud of the work we do.

Our mission

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

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People – we trust and respect others and have a balanced approach to work.

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