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# Delta Electricity Australia Pty Limited

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Delta Electricity Australia Pty Limited (the Company) is a wholly owned subsidiary of Delta Electricity. I reported on the audits of Delta Electricity and its controlled entities' financial reports for the year ended 30 June 2009 in Volume Three of my 2009 Report to Parliament.

The following is an update on a significant matter that has emerged within the Company since I last reported.

## Update on the financial status of the Company

At 30 June 2009, the Company had a bank loan of \$67.7 million secured over the Company's property. The loan is not guaranteed by Delta Electricity. The Company breached a loan covenant attached to this loan in November 2009. The breach gave the Company's financiers the option of declaring the loans to be repayable on demand or immediately due and payable.

Delta Electricity's management advised that the Company's financiers have agreed to a three month period of forbearance. Within this period the Company, its joint venture partner, the financiers, and The Treasury will explore options to enable the Company and joint venture to trade through the current financial difficulties.

These events have resulted in increased going concern risks for the Company and may have implications for the recoverability of the loan from Delta Electricity to the Company of \$50.2 million at 30 June 2009.

The Company's directors will need to ensure the Company does not trade while insolvent.

## Events that led to the breach

Management advised that the Company's and joint venture's financial difficulties resulted primarily from:

- the price of renewable energy certificates being lower than forecast
- a lower than forecast spot price for electricity
- lower than forecast amounts of fuel (bagasse) for the co-generation plants to burn
- the commissioning of the plant taking longer than planned.

## Background

In 2002 Delta Electricity, through its controlled entity Delta Electricity Australia Pty Ltd, entered into a joint development to design, construct and operate two 30 megawatt renewable energy electricity co-generation plants at Condong and Broadwater in northern New South Wales. Construction reached practical completion in October and November 2008 for Condong and Broadwater respectively.

These plants predominately burn bagasse, the waste material left after crushing sugar cane, to produce electricity to power the adjoining sugar mills and regional communities.

Following completion of the plants, the joint venture began earning revenue from electricity and steam sales. The joint venture also earns income from the sale of renewable energy certificates obtained from the production of renewable energy.

For further information see the Delta Electricity comment in my Volume Three Report.