AUDITOR-GENERAL'S REPORT
FINANCIAL AUDITS
Volume Four 2010

focusing on Electricity

The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

Pursuant to section 52A of the *Public Finance and Audit Act 1983,* I present Volume Four of my 2010 Report.

November 2010

Contents

Significant Items

Increase in Debt

External borrowings by all electricity agencies increased from $14.7 billion to $16.6 billion largely to fund capital works programs	21

Delta Electricity

Delta Electricity's subsidiary company, Delta Electricity Australia Pty Ltd, breached its loan covenants during the year and is endeavouring to sell its assets to repay these loans. Delta Electricity is not liable for its subsidiary's debts, but has recognised losses of $54.5 million relating to its involvement in the Sunshine Electricity Joint Venture.	29

Section One

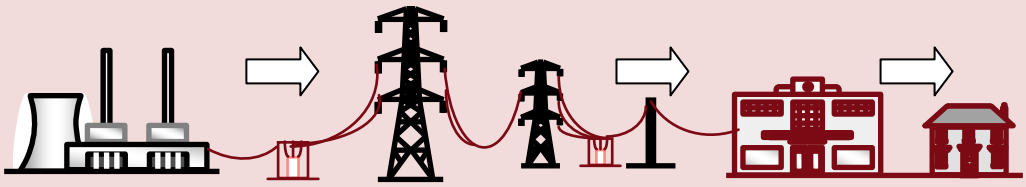
Electricity Industry Overview

Electricity Industry Overview

ELECTRICITY CORPORATIONS AND AUDIT OPINIONS

There are seven State owned corporations involved in the production and distribution of electricity:

Generators	Transmission	Distribution and Retail
Macquarie Generation	TransGrid	EnergyAustralia
Delta Electricity		Integral Energy Australia
Eraring Energy		Country Energy



The audits of these corporations' financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports. The Independent Auditor's Reports for the three generators drew attention to significant uncertainties in assessing the value of power station assets due to the unknown impacts of a carbon reduction scheme and contracting electricity trading rights to the private sector.

KEY ISSUES

Sale of New South Wales Government's electricity retail and trading rights

The final process to sell the New South Wales Government's retail electricity and generator electricity trading rights (Gentrader) transactions commenced in June/July 2010. The Government announced it had received expressions of interest from qualified and capable domestic and international bidders. A data room process for bidders is currently in progress with final bids due by mid November 2010. The Government's advisors continue to finalise the necessary contractual information and legal documentation.

The completion date of the transaction previously envisaged by Government was mid 2010, in its September 2009 Energy Reform Strategy (the Strategy) document. The outcome of the transactions are now expected to be known by the end of this year with formal completion expected in early 2011.

The Government's Strategy is intended to significantly increase private sector investment in new generation capacity for New South Wales and increase competition in the NSW electricity market. Achieving this objective may require some trade-offs between maximising the financial return to the Government and minimising potential ongoing Government liabilities.

The Strategy comprises the following key elements:

- continued Government ownership and operation of existing power stations and all electricity networks (poles and wires) in New South Wales
- contracting the electricity trading rights of power stations to the private sector, commonly referred to as the 'Gentrader' model
- selling the retail arms of EnergyAustralia, Integral Energy Australia and Country Energy
- selling key power station development sites around the State.

There are a number of challenges associated with implementing the Strategy, including:

- the impact and uncertainty of any future carbon reduction scheme that may discount the value Government will achieve today
- the complexity of the Gentrader model
- residual risk that may remain with Government to implement any transitional agreements.

Time line on sale process

Privatising the New South Wales electricity industry has been an ongoing process for twelve years.

Year	Process	Method of sale	Sale proceeds expected
1997	New South Wales Government proposed to devolve itself of all generation, distribution and retail assets including: power stations (generation); poles and wires (distribution networks); and customers (households, commercial and industrial customers).	trade sale	estimated between $22.0 to $25.0 billion
2007	Government announced its intention to withdraw from the retail electricity market and lease the operation of power stations to the private sector. The Government's package for restructuring the electricity industry was withdrawn in August 2008.	trade sale/long term lease	Owen Inquiry estimated $10.0 billion
2009	In September 2009, the Government announced its latest policy position on the restructure of the New South Wales electricity industry when it released the 'New South Wales Energy Reform Strategy: Approach to transaction implementation' (the Strategy) and outlined the framework for the restructure.	trade sale with option for later public offer	Public estimate unavailable
	Under each proposal the Government planned to retain ownership of the high voltage transmission network (TransGrid).		

Cobbora Coal Mine Development

I recommend the Government take steps to ensure the timely development of the Cobbora mine if it is to realise its plan to secure an efficiently priced coal supply for the electricity generators.

The State owned generators acquired 25,753 hectares of land in the Cobbora and Laheys Creek area of the Warrumbungle Shire to develop a new low cost coal mine to supply the New South Wales electricity generators.

Expressions of interest were invited from parties interested in building and operating the coalmine. I understand the preferred tenderer recently withdrew from this process, which may delay development of the mine.

Coal Prices

Coal costs vary across the national electricity market depending on the type of coal, quality, location and the nature of the arrangements under which it is supplied. Overall, coal is generally the cheapest fuel source ranging in price from below A$0.50 per gigajoule (GJ) in Victoria to between A$1.00 and A$2.00/GJ in New South Wales, Queensland, and South Australia.

Exports of thermal coal are sold both under long-term contracts (approximately 70 per cent) and on a spot basis (approximately 30 per cent). Spot prices for export ex-Newcastle in June 2010 were US$98.43 per tonne, or approximately A$3.94/GJ. Growth in international markets continues to drive prices higher resulting in increased pressure on coal prices for domestic power generation. This is most evident in Queensland and New South Wales as long-term contracts for coal expire and need renegotiation.

Minerals Resource Rent Tax

On 2 July 2010, the Australian Government announced a significant resource taxation reform to apply from 1 July 2012. The resource tax reforms include a new Minerals Resource Rent Tax (MRRT) applying to the mining of iron ore and coal in Australia.

The MRRT may impact coal prices and affect operational and investment decisions.

Electricity Prices

Wholesale prices

Electricity wholesale prices in the National Electricity Market (NEM) increased during 2010. The average spot price for 2010 in New South Wales was $44.19 per megawatt hour, a rise of 13.7 per cent from the 2009 average of $38.85.

The wholesale (spot) price of electricity has been subject to volatility since the inception of the NEM in 1997. Despite this volatility, however, the average spot price remained around $40-$45 per megawatt hour.

Average annual wholesale spot prices of electricity:

Year ended 30 June	NSW $/MWh	Vic $/MWh	Qld $/MWh	SA $/MWh	Tas $/MWh
2010	***44.19***	***36.28***	***33.30***	***33.31***	***29.37***
2009	38.85	41.82	34.00	50.98	58.48
2008	41.66	46.79	52.34	73.50	54.68
2007	58.72	54.80	52.14	51.61	49.56
2006	37.24	32.47	28.12	37.76	56.76

Source: AEMO price statistics average annual prices per financial year.

Factors that have contributed to the increase in New South Wales' average annual wholesale spot prices of electricity include periods of high demand due to extreme weather events, the effect of prolonged drought on generating capacity, the number of planned and unplanned outages and constraints on the flow of electricity into the State from other regions in the NEM.

Under the existing market rules for the NEM, average spot prices can range between a minimum of negative $1,000 and a maximum of $12,500 per megawatt hour (the NEM market price cap increased from $10,000/MWh to $12,500/MWh on 1 July 2010). The price volatility introduces uncertainty to cash flows and return on investment. In response, market participants manage the impact of price volatility through the use of electricity fixed price contracts (derivative financial instruments).

The highest and lowest electricity prices recorded in New South Wales in the year to 30 June 2010 were:

Financial year ended	Highest/(Lowest) half hour price		
	NSW $/MWh	Date	Time
2010	***9,283.95***	***20 Nov 2009***	***1:00 pm***
2009	10,000.00	31 Oct 2008	1:30 pm
2010	***(264.31)***	***11 Feb 2010***	***3:30 pm***
2009	(170.76)	18 Jan 2009	5:30 am

Source: Australian Energy Market Operator (AEMO)

Financial year ended	Highest/(Lowest) average daily price	
	NSW $/MWh	Date
2010	***$1,884.64***	***7 Dec 2009***
2009	$2,207.11	31 Oct 2008
2010	***$16.80***	***16 Aug 2009***
2009	$17.06	18 Jan 2009

Source: Australian Energy Market Operator (AEMO)

Electricity Price Outlook

Recent price determinations made by the Australian Energy Regulator (AER) for electricity distribution network charges and the Independent Pricing and Regulatory Tribunal (IPART) of New South Wales (IPART) for regulated retail tariffs will result in increases in the price of electricity in New South Wales over the next few years.

The following analysis by IPART indicates that average annual prices charged by retailers over the next three years are expected to increase. The impact of any future carbon reduction scheme has been excluded from the tables.

Indicative average increase in regulated retail tariffs (nominal per cent)

NSW Standard Retailers	2010-11	2011-12	2112-13	Cumulative total increase
EnergyAustralia	10	11	11	**36**
Integral Energy	7	10	2	**20**
Country Energy	13	13	11	**42**

Source: IPART Fact Sheet 'Regulated electricity retail tariffs for 1 July 2010 to 30 June 2013 – Final Report'

Contribution of cost components to average cumulative price increases from 2010-11 to 2012-13 (nominal per cent)

	EnergyAustralia	Integral Energy	Country Energy
Increase in network charges (*as determined by the AER)*	31	16	35
Increase in wholesale energy costs	1	1	3
Increase in retail costs and margin	3	2	3
Rounding	1	1	1
Total increases	**36**	**20**	**42**

Source: IPART Fact Sheet 'Regulated electricity retail tariffs for 1 July 2010 to 30 June 2013 – Final Report'

A major factor that will drive increases in retail electricity prices for all New South Wales customers, including regulated customers, will be increases in network charges.

The submissions made to the AER by the three distribution networks indicated 'that higher network prices are necessary to enable higher levels of investment in the State's electricity distribution networks to improve network security and reliability of supply in line with new licence conditions imposed by the New South Wales Government'.

AER data indicates that most of the capital expenditure by the distributor networks is to meet expected growth in energy demand (42 per cent) and replacement and renewal of ageing assets (31 per cent). Expenditure for reliability and quality of service is also a factor (nine per cent).

The AER determination specifically cites the following investment requirements:

- Country Energy - augment its network, particularly in high growth corridors such as the New South Wales north coast and to comply with enhanced licence conditions
- EnergyAustralia - augment its network to meet growing demand in the Sydney CBD, replace ageing and obsolete assets and to comply with enhanced licence conditions
- Integral Energy - build new substations to meet local growth, particularly around the Liverpool, Parramatta and Blacktown areas of Western Sydney. Undertake a major program to replace ageing transmission and zone substation equipment. Comply with enhanced licence conditions.

The Long Run Marginal Cost (LRMC) to generate electricity is used as an indicator of the return that a new entrants require to commit to investing in the NEM. The LRMC comprises:

- capital cost (including connection and other infrastructure)
- other costs including legal and project management costs
- fixed operating and maintenance costs
- variable costs over the life of the station
- tax costs.

A report prepared for the Australian Energy Market Operator (AEMO) by ACIL Tasman in April 2009 'Fuel Resource, New Entry and Generation Costs in the NEM' included the LRMC for new entrants into the NEM in New South Wales. The LRMC (excluding carbon costs) for technologies capable of meeting base load demand were:

- combined cycle gas turbines between $50.84 and $65.26 per megawatt hour
- open cycle gas turbines between $80.17 and $107.85 per megawatt hour
- nuclear $101.41 per megawatt hour.

The LRMC for existing generators using primarily black coal is significantly less.

Retail prices are rising to fund capital works while contributions to the Government in the form of tax and dividends increased from $1.2 billion to $1.4 billion.

Sustainable Energy

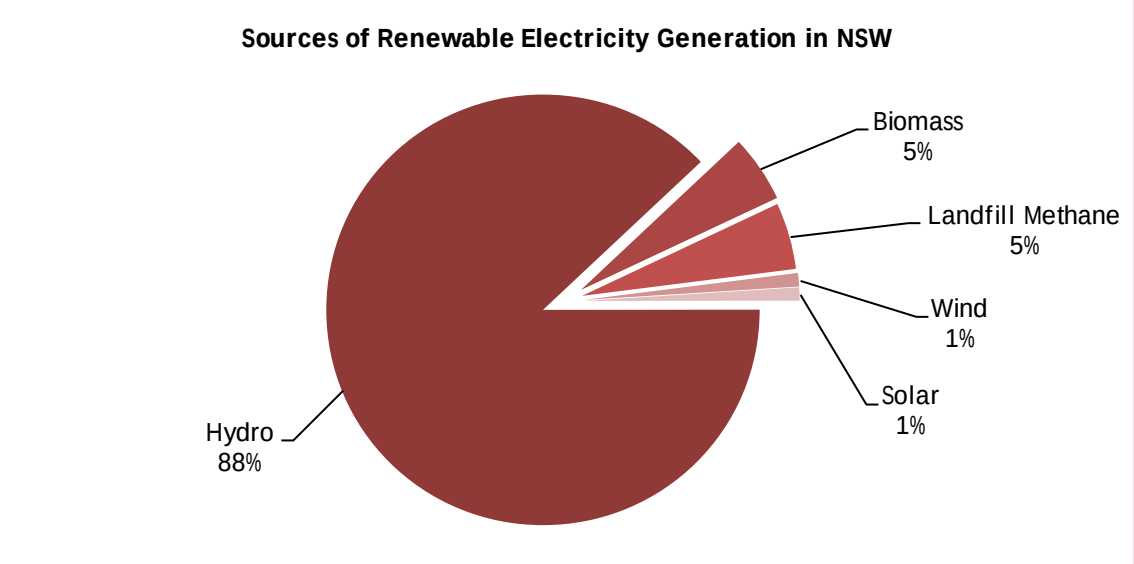
Renewable energy targets and carbon reduction schemes seek to use market forces to encourage investment in renewable and low carbon energy sources. Both State and Australian Governments have progressively introduced renewable energy targets and carbon reduction schemes.

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

Renewable Energy

The relatively higher cost of providing renewable generation has been a barrier to any large scale investment in renewable energy. Renewable energy is sourced from alternative sources such as water, biomass, landfill methane, wind, organic matter and the sun.

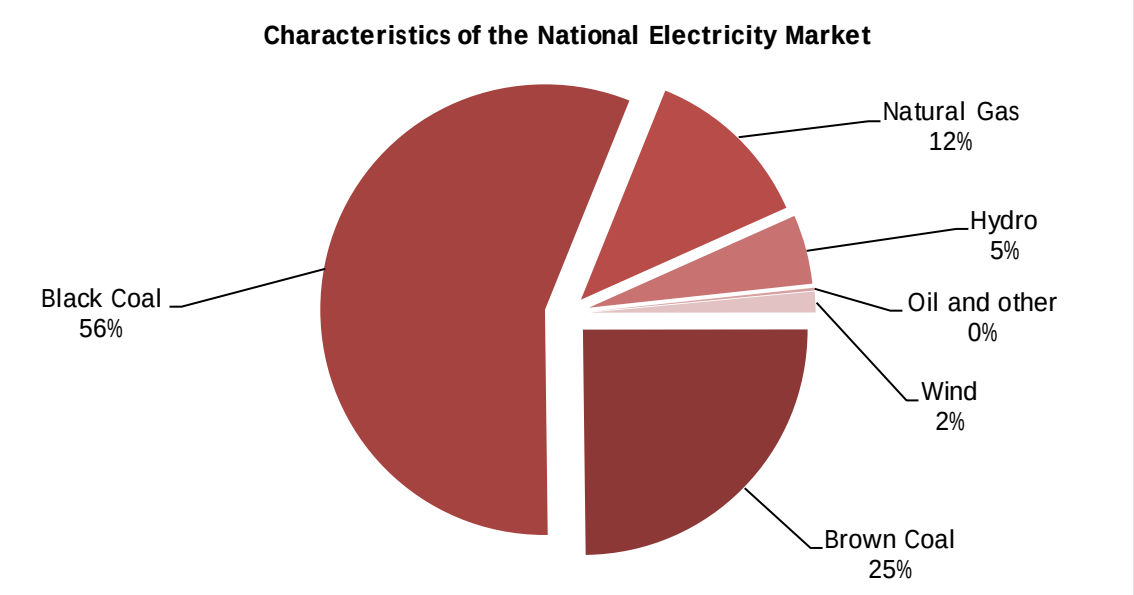
An analysis of data available from the Department of Industry and Investment NSW indicates that approximately six per cent of New South Wales electricity is sourced from renewable energy sources. The New South Wales Government has set a target of 20 per cent renewable energy consumption by 2020 in line with the national Renewable Energy Target scheme.



Source: Department of Industry and Investment NSW – September 2010

Coal continues to be the major source of electricity generation in Australia as shown below.

From July 2009 to July 2010 electricity generation from black and brown coal has reduced by One per cent and wind has increased to two per cent from nil in 2009.



Source: AEMP, An Introduction to Australia's National Electricity Market July 2010

Due to reliance on coal-fired generation, which currently supplies approximately 82 per cent of electricity generation in the NEM, the electricity sector contributes 35 per cent of Australia's greenhouse gas emissions.

While coal is the dominant fuel for electricity generation, Queensland and New South Wales rely primarily on black coal and Victoria relies on brown coal. Electricity generation in South Australia is largely generated from gas and coal, while Tasmania relies on hydroelectricity.

Climate Change Policy

In April 2010, the Australian Government announced a delay in the introduction of a Carbon Pollution Reduction Scheme (CPRS) until after the end of the current commitment period of the Kyoto protocol (end of 2012). In the interim, the Australian Government announced that it will boost existing investments in clean and renewable energy and support greater energy efficiency measures to reduce greenhouse gas emissions in the short term.

The delay in introducing a CPRS and the associated uncertainty are expected to have significant implications for NEM investment. I believe that clear articulation and co-ordinated direction from governments on carbon reduction initiatives and the future of coal would benefit NEM investment. The current, albeit short-term, uncertainty continues to create a challenging investment for generation companies.

In relation to investment in alternative technologies, the AEMO *2010 Electricity Statement of Opportunities* noted that: 'some non-traditional technologies are also emerging as potential suppliers of electricity to the NEM, including solar photovoltaic and geothermal generation. Carbon capture and storage may also become viable. Together, these technologies have the potential to develop further through government funding programs that aim to improve the long-term technological development and commercialisation of low-emissions technology. Various initiatives will also gradually change the nature of demand in the medium-long term. This is due to the potential for new technology, such as smart meters, smart grids and electric vehicles, combined with an increased focus on energy efficiency to alter consumption patterns and reduce growth rates'.

Customer initiatives - GreenPower

GreenPower is a national accreditation program that sets stringent environmental and reporting standards for renewable energy products offered by electricity suppliers to households and businesses across Australia. When customers choose to buy a GreenPower product through their electricity retailer the extra price they pay is invested in renewable energy.

Data sourced from the National GreenPower Accreditation Program shows a decrease in the number of customers opting to purchase green energy, compared to considerable growth in previous years. In New South Wales for the year ending 30 June 2010, GreenPower customers decreased by 56,437 or 23 per cent compared to the previous year.

The decrease in green energy purchases was not spread equally between residential and commercial customers. The table below highlights that residential customers in New South Wales decreased from 239,578 to 182,296 or 23.9 per cent at 30 June 2010, while commercial customer numbers increased from 5,677 to 6,522 or 14.9 per cent for the same period. It should be noted that GreenPower purchases in New South Wales have been impacted by the departure of a major provider of green products (Jackgreen) from participation in the NEM.

	NSW 2010	NSW 2009	Australia 2010	Australia 2009
Residential Green Power:				
Customer numbers	***182,296***	239,578	***802,628***	940,560
Sales MWh	***242,099***	302,301	***1,115,735***	1,208,745
Commercial Green Power:				
Customer numbers	***6,522***	5,677	***39,300***	32,276
Sales MWh	***278,616***	267,596	***1,107,652***	935,982
Total Green Power customer numbers	***188,818***	245,255	***841,928***	972,836
Total Green Power sales (MWh)	***520,715***	569,897	***2,223,387***	2,144,727

Source: data extracted from the National GreenPower Accreditation Program Status Reports for the quarters ended 30 September 2008 to 30 June 2010.

The decline in green energy purchased by residential customers may in part be indicative of the success of the solar feed-in tariff scheme introduced at the start of 2010.

Solar Feed-in Tariff Scheme

The New South Wales Government introduced a Solar Feed-in Tariff Scheme (the Scheme) that commenced on 1 January 2010. The Scheme applies to small scale, grid connected, solar systems and wind turbines. A tariff of 60 cents per kilowatt hour is paid to small customers connected to the grid for electricity produced that is fed back into the electricity grid.

In the period ended 30 June 2010, the Scheme achieved 25,717 customer connections, producing 8.6 megawatts of green electricity at a cost of $5.1 million to the New South Wales electricity distribution networks.

On 1 July 2010, the Australian Energy Market Commission (AEMC) amended the National Electricity Rules to allow distribution networks to recover the payments they make under eligible jurisdictional schemes such as feed-in schemes and climate change funds. The option to pass through the cost of the Scheme will increase the price of electricity to all customers.

Participants in the Scheme receive 60 cents per kilowatt hour. This is a significant difference to the average price paid for electricity in the New South Wales on the NEM spot market in 2010 of 4.4 cents per kilowatt hour.

The legislation requires the Minister for Energy to review the Scheme in 2012 or when capacity reaches 50 megawatts, whichever come first. The Scheme has now reached the 50 megawatt level and a review has commenced. The review is assessing whether the policy objectives of the Scheme remain valid and whether the terms of the Act remain appropriate to securing those objectives.

Electricity Supply and Demand Outlook

Projected electricity demand in New South Wales, with medium economic growth, is currently expected to exceed supply by 27 megawatts by 2016-17.

The 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

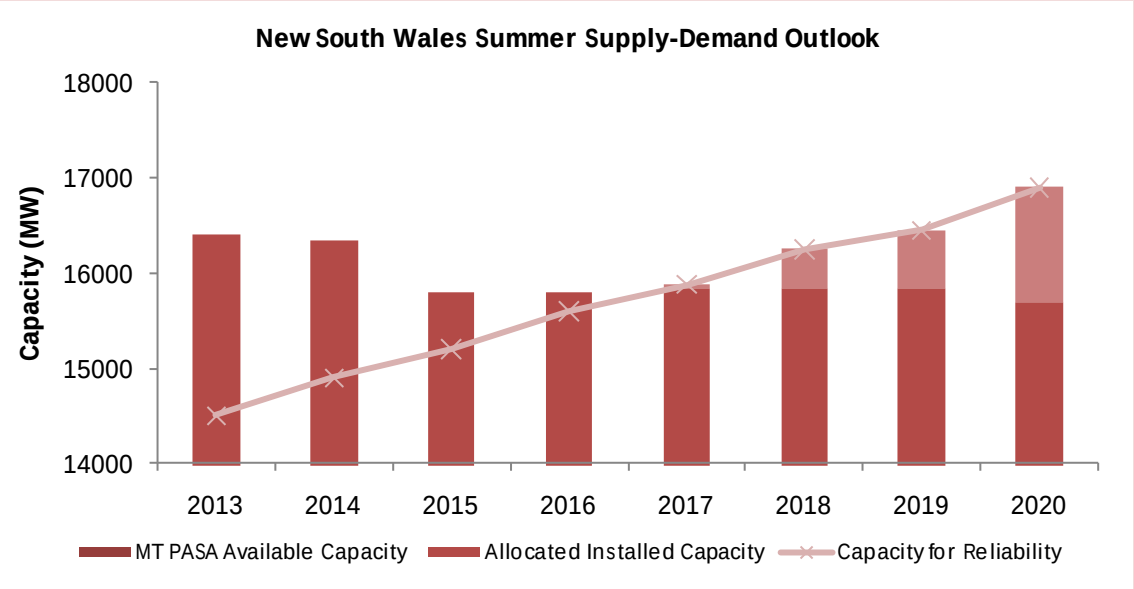
State	2010 LRC Point	2010 Reserve Deficit (MW)	2009 LRC Point	2009 Reserve Deficit (MW)
New South Wales	***2016-17***	***27***	2015-16	182
Queensland	***2013-14***	***726***	2014-15	34
Victoria	***2015-16***	***249***	2013-14	17
South Australia	***2015-16***	***50***	2012-13	68
Tasmania	***Beyond 2019-20***		Beyond 2018-19	

Source: AEMO Electricity Statement of Opportunities 2009 and 2010

In 2010, the LRC point for New South Wales was one year later than the 2009 projection. This is in part due to a 572 megawatts increase in existing generation capacity and the addition of new local generation.

Highest Demand in Summer

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



Source: Extracted from AEMO Electricity Statement of Opportunities for the National Electricity Market 2010.

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

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

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

The New South Wales LRC occurs in 2017 when the additional capacity required is 27 megawatts. If this additional capacity is not created by this time, supply will fall below minimum reserve levels (as indicated by the solid line), which may necessitate load shedding and periods of blackouts for some customers.

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

Peak and Average Demand and Energy Growth Rates

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

Average Growth rate per year	2010	2009	2008	2007
Peak demand increase/(decrease) (%)	***0.5***	(1.3)	2.3	2.5
Energy Consumption increase/(decrease) (%)	***0.3***	(4.3)	0.8	1.6

Source: AEMO Electricity Statement of Opportunities for the National Electricity Market 2009 and 2010, NEMMCO Statement of Opportunities 2007 energy and demand projections for 2008 and 2009.

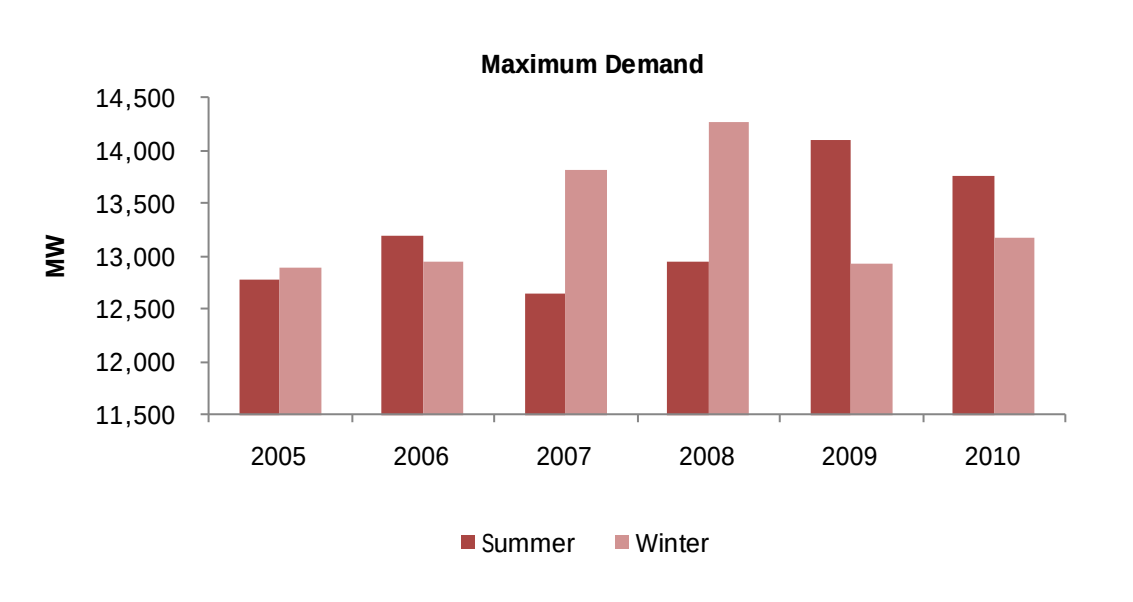
AEMO attributes the increase in peak demand and energy growth rates for 2010 in New South Wales to:

- less severe economic slowdown than previously expected, modelling assumption changes and semi-scheduled and non-scheduled generation capacity revisions
- the postponement of the Australian Government's proposed CPRS, which led to revised energy price projections
- changes to post-modelling adjustments to better account for policy decisions likely to affect energy efficiency, such as the phasing out of greenhouse-intensive water heaters, the introduction of the New South Wales Energy Savings Scheme, and the phasing out of incandescent light bulbs
- allowances for new spot loads, including the desalination plant at Kurnell

Energy Demand

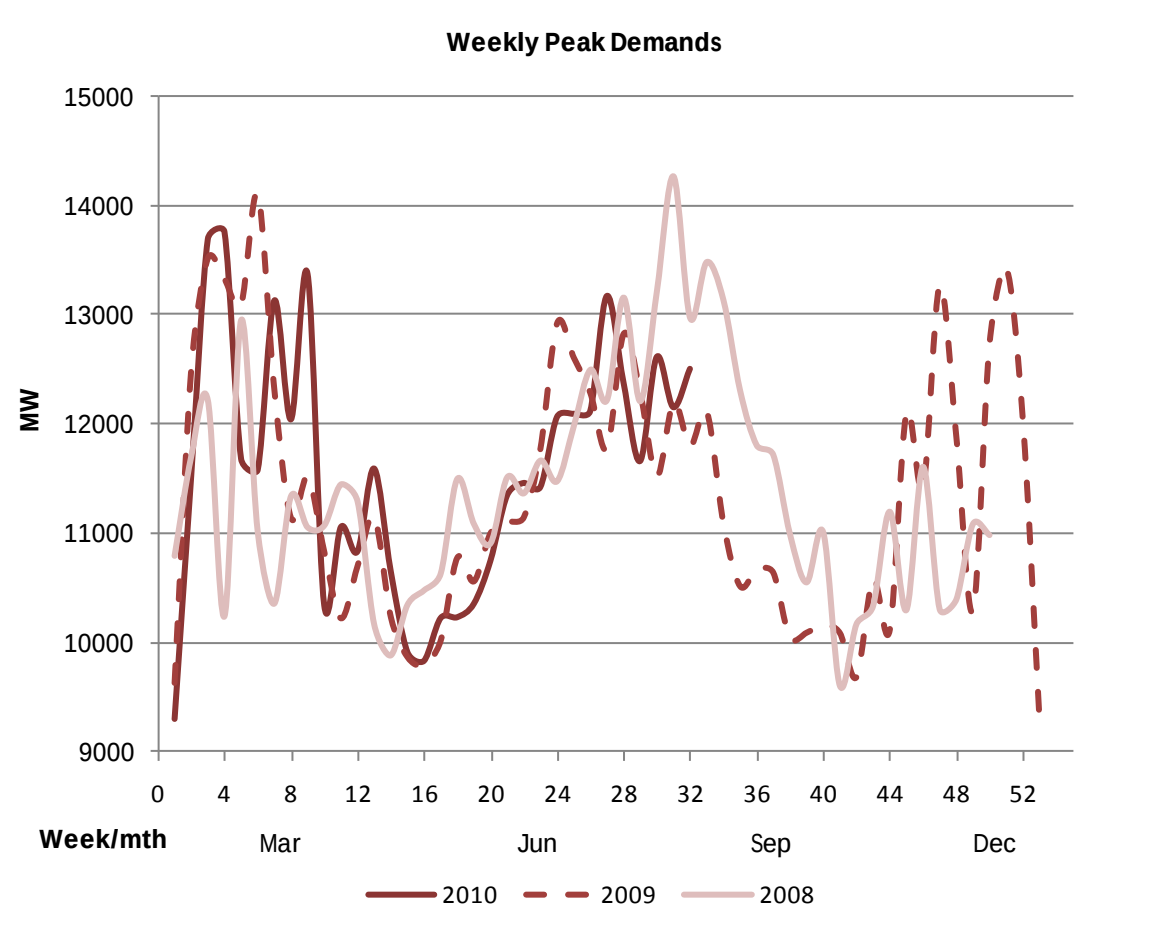
As reported in the AEMO *2010 Electricity Statement of Opportunities*, the pattern of projected energy growth is consistent with strong recent and projected Australian economic growth. Growth in the Australian economy is primarily expected to be driven in the medium term by strong export volumes and prices for resources, growth in the construction sector, and private consumption. The forecasts also show that this will result in high energy growth in regions with strong mining sectors, such as Queensland.

The following graph highlights the maximum demand in megawatts in summer and winter months over the last six calendar years.



Source: TransGrid and AEMO NSW half hour demand data per calendar year. Note that 2010 summer may be higher in December as YTD to August 2010.

The peak demands for 2010 occurred in summer (22 January 2010) and winter (29 June 2010).



Peaks in maximum demand

Year	Summer		Winter	
	MW	Date	MW	Date
2009-10	***13,435***	***17 Dec 2009***	***13,176***	***29 Jun 2010***
	13,765	***22 Jan 2010***		
2008-09	14,106	6 Feb 2009	12,922	10 Jun 2009
2007-08	12,954	12 Jan 2008	14,274	28 Jul 2008

MW is equal to one megawatt or million watts.

Demand-side participation

Smart meters and smart grids

In 2007, the Council of Australian Governments committed to roll out smart meters to introduce time-of-day pricing and to enable users to better manage demand for peak power.

The Australian Government established the Smart Grid Smart City initiative, which is aimed at supporting the installation of Australia's first commercial-scale smart grid and announced that an EnergyAustralia-led consortium had been selected to implement a commercial scale smart network trial. The initiative will see up to 50,000 homes and business connected to a smart grid at five sites, Newcastle, Scone, Sydney CBD, Ku-ring-gai and Newington.

The AEMO *2010 Electricity Statement of Opportunities* notes that: 'the prospect of smart grids creates opportunities for consumers to change their energy consumption at short notice in response to a variety of signals that include price. This change in consumption increases the complexity of load forecasting'.

The Ministerial Council on Energy and AEMO are also undertaking other initiatives to support demand side participation.

Transmission network planning implications

The development of new 'greenfield' generation infrastructure in the NEM will need to consider access to the transmission network. In New South Wales the Government has carriage of transmission network planning decisions effected through TransGrid.

In relation to transmission planning I concur with the view expressed in the AEMO *2010 Electricity Statement of Opportunities* noting that: 'a changing generation technology mix, and the changing distribution of generation projects geographically and in the 'merit order' of new generation, will potentially require transmission network adaptation. Where the development of new generation requires transmission network augmentation, factors relevant to the investment decision include the cost of connection (related to the proximity of the project to existing transmission infrastructure) and the extent of transmission network congestion affecting the connection point'.

Connecting remote generation

AEMO has identified a key challenge for the transmission network: 'to adapt network infrastructure that developed around coalfired generation (frequently concentrated near coal mines) to new generation configurations, including increased renewable generation. Some excellent renewable generation resources are located remotely from transmission networks, presenting a significant challenge for existing connection frameworks that place the onus on the proponent for a connection and its costs'.

Existing Capacity in New South Wales

The table below provides a list of major existing New South Wales power stations with an installed capacity equivalent to or larger than 30 megawatts:

Power station	Location	Owner	Technology	Capacity (MW)
Major Existing New South Wales Government Power Stations				
Broadwater	North Coast	Delta Electricity(1)	BaGasse	30
Condong	North Coast	Delta Electricity(1)	BaGasse	30
Colongra	Central Coast	Delta Electricity	OCGT	668
Mount Piper	Central West	Delta Electricity	Steam/Coal	1,400
Munmorah	Central Coast	Delta Electricity	Steam/Coal	600
Vales Point	Central Coast	Delta Electricity	Steam/Coal	1,320
Wallerawang	Central West	Delta Electricity	Steam/Coal	1,000
Eraring	Lower Hunter	Eraring Energy	Steam/Coal	2,640
Shoalhaven	Nowra	Eraring Energy	Hydro	240
Warragamba	Sydney	Eraring Energy	Hydro	50
Bayswater	Hunter	Macquarie Generation	Steam/Coal	2,720
Liddell	Hunter	Macquarie Generation	Steam/Coal	2,080
				12,778
Non New South Wales Government Owned				
Appin Mine	Illawarra	EDL Group	CSM	56
Tower Mine	Illawarra	EDL Group	CSM(c)	41
Smithfield	Smithfield	Marubeni	Gas Cogen	160
Cullerin	Upper Lachlan	Origin Energy	Wind	30
Uranquinty	Wagga Wagga	Origin Energy	OCGT(b)	648
Redbank	Hunter	Redbank Project	Coal Tailings	145
Capital Wind Farm	Tarago	Renewable Power Ventures	Wind	141
Blowering	Snowy	Snowy Hydro*	Hydro	80
Guthega	Snowy	Snowy Hydro*	Hydro	60
Tumut	Snowy	Snowy Hydro*	Hydro	2,116
Tallawarra	Wollongong	TRUenergy	CCGT(a)	435
				3,912
Total - Major existing New South Wales power stations				**16,690**

(1) Joint venture between Delta Electricity Australia Pty Ltd and Sunshine Renewable Energy Pty Ltd

Source: Department of Industry and Investment NSW (6 September 2010)
(a) CCGT = Combined Cycle Gas Turbine
(b) OCGT = Open Cycle Gas Turbine
(c) CSM = Coal Seam Methane
* Partly owned by the New South Wales Government.

Committed and Proposed Additional Capacity

Allocated and installed capacity increases as significant, new, committed and scheduled generation capacity enters the NEM. The table below provides a list of major New South Wales power stations that are either under construction or proposed and have an installed capacity of more than 30 megawatts.

The Department of Industry and Investment, New South Wales reported that as at 27 September 2010 new power plants with a capacity of more than 16,000 megawatts (including over 3,800 megawatts from renewable sources) are at various stages of development from concept to construction.

Power station	Location	Owner	Technology	Capacity (MW)
Projects with development approval				
New South Wales Government Owned				
Bamarang Stage 1*	Nowra	Delta Electricity	OCGT	400
Bamarang Stage 2	Nowra	Delta Electricity	Conversion to CCGT	--
Marulan	Marulan	Delta Electricity	OCGT/CCGT	450
Mt Piper Power Station extension	Lithgow	Delta Electricity	CCGT or Ultra supercritical CCGT	2,000
Munmorah Power Station upgrade(**)	Lake Munmorah	Delta Electricity	Coal and/or Gas	100
Eraring Upgrade	Lower Hunter	Eraring Energy	Coal	360
Tomago	Newcastle	Macquarie Generation	OCGT/CCGT	790
Bayswater B	Muswellbrook	Macquarie Generation	OCGT/CCGT	2,000
Marulan	Marulan	EnergyAustralia / International Power	OCGT	350
				6,450
Non New South Wales Government Owned (19 projects by 16 proponents)				3,699
Total - Projects with development approval				**10,149**
Projects in the planning system				
Non New South Wales Government Owned (20 projects by 13 proponents)				4,931
Total - Projects in the planning system				**4,931**

* Amendment being sought for 450MW, subject to transmission connection amendment.

** Munmorah upgrade and additional 100MW capacity approved by Minister for Planning in October 2010.

Source: Department of Industry and Investment NSW (27 September 2010); a full list of current New South Wales generators registered in the NEM can be found on the AEMO website.

PERFORMANCE INFORMATION

Financial Performance

Revenue for State-owned New South Wales electricity businesses increased by $1.1 billion to $12.4 billion for 2010. Expenses, including tax, also increased, resulting in profit after tax of $1.2 billion for the current year ($847 million in 2009). Returns on equity and assets have risen from the previous year.

Year ended 30 June	2010	2009	2008
Return on average equity (%) (a)	***11.4***	8.9	15.6
Return on average assets (%) (b)	***8.2***	6.5	9.0
Interest cover times (c)	***2.4***	2.4	3.3
Debt to equity ratio (%) (d)	***151.7***	157.1	124.1

Calculated as:
(a) profit after income tax expense divided by average equity.
(b) profit before tax and interest expense divided by average assets.
(c) operating profit plus interest and tax expense divided by interest expense.
(d) external debt divided by equity (net assets).

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

The change in ratios from 2009 to 2010 reflects increased earnings and increases in asset values.

Generators and Distributors

Pre-tax profits of the distributors increased substantially from $661 million in 2009 to $965 million in the current year. Pre-tax profits from generators increased from $307 million to $465 million for the same period.

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

	Generators			Distributors/Retailers		
	2010	2009	2008	2010	2009	2008
Return on average equity (%) [(a)]	***8.1***	5.9	29.4	***16.5***	12.5	11.6
Return on average assets (%) [(b)]	***7.2***	4.7	11.2	***9.1***	7.3	7.4
Interest cover times [(c)]	***3.1***	3.2	8.3	***2.1***	2.1	2.3
Debt to equity ratio (%) [(d)]	***71.8***	66.3	47.1	***244.0***	289.0	219.7
Net assets $m	***3,812***	3,867	4,037	***4,770***	3,518	3,923
Pre-tax net profit $m	***465***	326	970	***965***	657	700

Calculated as:
(a) operating profit after income tax expense divided by average equity expressed as a percentage.
(b) operating profit before tax and interest expense divided by average assets expressed as a percentage.
(c) operating profit plus interest and tax expense divided by interest expense.
(d) external debt divided by equity (net assets).

Generators

Financial performance improved this year compared to the previous year. The major factor contributing to the improved financial performance was the increased margins earned from the sale of electricity. Generators benefited from an overall increase in the average spot price for electricity.

Overall debt levels for generators increased to finance construction activity. Major projects undertaken include:

- Eraring Energy increasing the nominal capacity of each of the Eraring Power Station's four units from 660 megawatts to 720 megawatts
- Delta Electricity's completion of the 667 megawatt Colongra gas turbine
- Macquarie Generation's completion of a 330 kV to 500 kV transformer upgrade.

Distributors/Retailers

Overall financial performance met or exceeded all financial performance targets, due largely to increased margins from the sale of electricity resulting primarily from increases to the regulated network tariff.

Total assets increased mainly due to increased capital expenditure programs for distribution networks. The increased capital expenditure programs have required increases to the regulated network tariff and increase in debt level to help fund them.

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

Transmission

TransGrid performed well against its targets. It made a profit before tax of $226 million in 2010 ($217 million in 2009) enabling it to return contributions to Government totalling $186 million. These comprised a dividend of $135 million and taxation of $50.5 million.

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

Capital expenditure decreased significantly from 2009 as a number of major capital projects were completed in 2009, including the Western 500kV Development Project, Wollar-Wellington 330kV Transmission Line projects and the 133 megawatt Capital Wind Farm.

FINANCIAL INFORMATION

Distribution to Government

Electricity entities' accrued and paid distributions to the Government of $1.4 billion ($1.2 billion in 2009), comprising $528 million ($465 million) in taxation and $867 million ($696 million) in dividends.

After the restructure of the electricity industry, dividends and tax equivalents will continue to be received from the Government owned entities.

Dividend Policy

Dividend policies are agreed by the Government with the individual agencies in the Statement of Corporate Intent agreed at the beginning of the financial year:

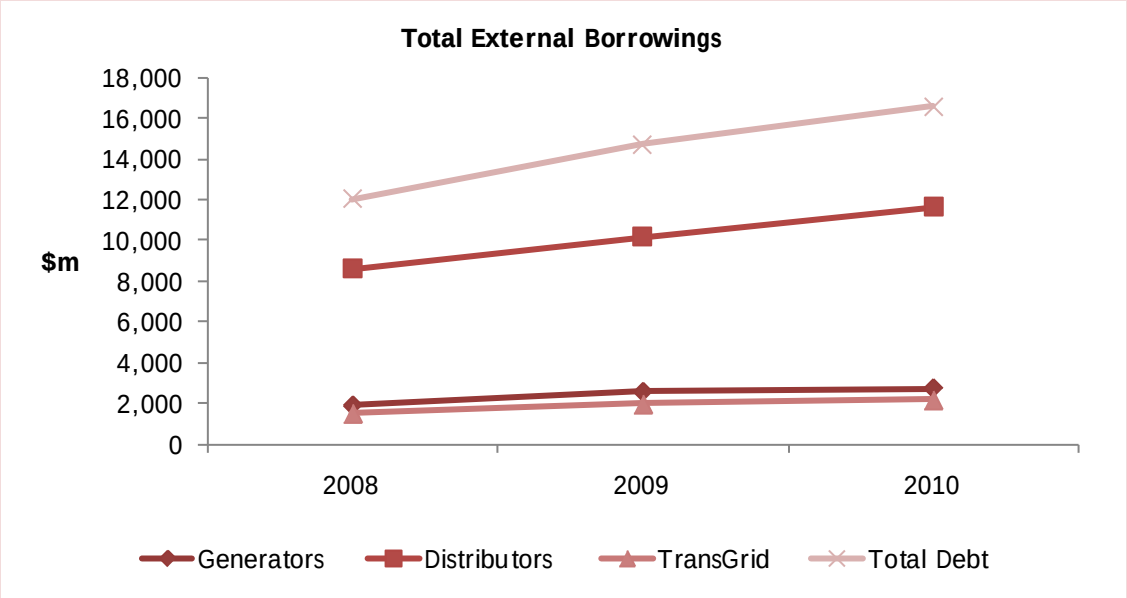
- generators pay 100 per cent of retained earnings after adjusting for fluctuations in superannuation actuarial adjustments and unrealised gains/losses on derivative valuation movements
- distributors, retailers and TransGrid pay between 44 and 80 per cent of retained earnings after adjusting for fluctuations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

Industry Borrowings

Borrowings increased by $4.5 billion or 37.5 per cent over the last three years with annual borrowing costs increased by $442 million or 55.5 per cent over the last three years.

Borrowing costs (including capitalised interest) for the year were $1.2 billion compared to $880 million in the previous year. The industry's borrowings at 30 June 2010 were $16.6 billion ($14.7 billion). The table and graph below highlight the trend in borrowings, which have increased in line with the significant capital works projects being undertaken.

	2010 $m	2009 $m	2008 $m
Generators			
Borrowing costs	***215***	139	132
External debt	***2,737***	2,562	1,901
Distributors			
Borrowing costs	***865***	616	562
External debt	***11,640***	10,170	8,617
TransGrid			
Borrowing costs	***160***	125	105
External debt	***2,194***	1,989	1,532
TOTAL BORROWING COSTS	***1,240***	880	799
TOTAL EXTERNAL DEBT	***16,571***	14,721	12,050



OTHER INFORMATION

Electricity Tariff Equalisation Fund (the Fund)

The Fund enables retail electricity prices to be regulated without exposing retailers or the Government to unacceptable financial risk.

The Fund manages the retailers' exposure to the variability of wholesale electricity prices only for the load that supplies regulated customers. At 30 June 2010, the Fund was $105 million in surplus, ($48.9 million in 2009). This resulted from lower electricity wholesale prices during the year leading to less reliance on the Fund from retailers.

The Fund's transactions were:

Payments	Generators		Distributors/Retailers	
	2010 $m	2009 $m	2010 $m	2009 $m
Into the Fund	***82***	136	***409***	271
From the Fund	***82***	197	***356***	152

I understand that, as part of the restructure of the electricity industry, the Fund will be phased out by 1 July 2011. Cover provided by the Fund will be progressively phased out by 20 per cent in July 2010, October 2010, January 2011, April 2011 and 1 July 2011.

Regulatory Pricing

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

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

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

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

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

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

BACKGROUND

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

The entities have common objectives of:

- operating a successful business
- protecting the environment
- operating efficient, safe and reliable facilities for generating and distributing electricity and other forms of energy
- participating in the wholesale and retail markets for electricity and other forms of energy (except for TransGrid).

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

INDUSTRY FINANCIAL TABLES

Following are abridged combined financial statements of parent entities for generators, distributors and TransGrid for 2009–10 and the previous year. Comments on each entity follow this section.

	Generators		Distributors/ Retailers		Transmission (TransGrid)		Total	
	2010 $m	**2009 $m**	**2010 $m**	**2009 $m**	**2010 $m**	**2009 $m**	**2010 $m**	**2009 $m**
Abridged Financial Statements (year ended 30 June)								
Total revenue	***2,810.9***	2,850.6	***8,900.4***	7,827.3	***695.0***	652.8	***12,406.3***	11,330.7
Profit after income tax	***311.8***	232.9	***685.3***	463.9	***162.1***	150.3	***1,159.2***	847.1
Contributions to Government -								
dividends	***291.1***	269.6	***440.4***	305.7	***135.1***	120.2	***866.6***	695.6
income tax paid	***207.9***	303.0	***269.2***	119.5	***50.5***	42.4	***527.6***	465.0
Total assets	***9,360.5***	9,248.0	***21,975.8***	18,211.6	***5,939.1***	5,170.9	***37,275.4***	32,630.5
Total liabilities	***5,548.5***	5,381.2	***17,205.9***	14,693.2	***3,598.6***	3,183.4	***26,353.0***	23,257.8
Net assets	***3,812.0***	3,866.8	***4,769.9***	3,518.4	***2,340.5***	1,987.5	***10,922.4***	9,372.7
Retained earnings (at 30 June)	***138.9***	159.5	***1,209.8***	1,001.9	***45.9***	49.2	***1,394.6***	1,210.6
Financial Performance Indicators* (year ended 30 June)								
Return on average equity (%)[(a)]	***8.1***	5.9	***16.5***	12.5	***7.5***	7.5	***11.4***	8.9
Return on average assets (%)[(b)]	***7.2***	4.7	***9.1***	7.3	***6.6***	6.9	***8.2***	6.5
Interest cover (times)[(c)]	***3.1***	3.2	***2.1***	2.1	***2.3***	2.6	***2.3***	2.3
Debt/equity (%)[(d)]	***71.8***	66.3	***244.0***	289.0	***93.8***	100.1	***151.7***	157.1

Calculated as:
(a) operating profit after income tax expense divided by average equity expressed as a percentage.
(b) operating profit before tax and interest expense divided by average assets expressed as a percentage.
(c) operating profit plus interest and tax expense divided by interest expense.
(d) external debt divided by equity (net assets) expressed as a percentage.

Section Two

Commentary on Government Agencies

Minister for Energy

Electricity Generators:

Delta Electricity

Eraring Energy

Macquarie Generation

Electricity Distributors:

Country Energy

EnergyAustralia

Integral Energy Australia

TransGrid

Refer to Appendix 1 for:

Cobbora Unincorporated Joint Venture

Cobbora Management Company Pty Limited

Cobbora Coal Unit Trust

CCP Holdings Pty Limited

Delta Electricity

AUDIT OPINION

The audits of Delta Electricity and its controlled entities' financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

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

Delta Electricity (Parent and Consolidated Entity)

The Independent Auditor's Report for Delta Electricity drew attention to significant uncertainty regarding the effects of electricity industry reforms and the carbon reduction scheme on forecast cash flows which may impact asset values.

Delta Electricity calculates the carrying value of its power stations using estimated discounted cash flows. These estimates are subject to volatility, particularly from the potential impacts of any future carbon reduction scheme and the New South Wales Government's proposed reforms of the New South Wales electricity industry. The ultimate extent of this impact cannot presently be determined and this creates significant uncertainty as to whether the estimated discounted cash flows will be realised.

Delta Electricity Australia Pty Ltd

The Independent Auditor's Report for Delta Electricity Australia Pty Ltd drew attention to the preparation of the company's financial statements on a non-going concern (liquidation) basis, and significant uncertainty regarding the valuation of assets included in the disposal group.

KEY ISSUES

Losses Incurred from Participation in the Sunshine Electricity Joint Venture

I recommend that Delta Electricity review and identify the factors that have contributed to the losses incurred by this joint venture so steps can be taken to prevent similar losses occurring in the future. The review should focus on how the robustness of the assumptions used in the original business case was assessed before the decision was made to participate in this project.

Delta Electricity's subsidiary company, Delta Electricity Australia Pty Ltd, is in financial difficulty. The company borrowed $68.0 million from banks secured over the company's assets, and from Delta Electricity. In November 2009, the company breached its loan covenants with its banks and it is currently endeavouring to sell its assets to repay these loans. The company is also discussing with the banks possible arrangements that could allow a financial restructure of the project.

Delta Electricity has forgiven the company's debt to it, resulting in a $50.7 million loss, but it is not liable for the company's indebtedness to the banks.

Currently, a significant risk exists that the company may trade while it is insolvent. The company's directors are continually monitoring the company's financial position on a weekly basis and are obtaining expert advice. The directors are satisfied that the company can meet any new debts from its operations over the next few months.

After the company breached the loan covenants, its bankers agreed to temporary forbearance periods to allow the company and its joint venture partner to sell the secured property.

The temporary forbearance arrangements ended on 31 August 2010 and the company is currently negotiating a further forbearance period. As a result, significant uncertainty exists at the date the financial statements were signed regarding the ability of the company to pay its debts as they fall due. This resulted in the financial statements being prepared on a liquidation basis.

The company recognised impairment and fair value losses of $46.5 million during the year, reducing the carrying value of the assets held for sale to $50.0 million. This represents Delta Electricity's best estimate of the assets fair value less costs to sell. As noted above, the sale process is ongoing, and current bids suggest the actual proceeds may vary widely around this figure.

In addition to the loan forgiveness of $50.7 million referred to above, Delta Electricity also wrote off a further $3.8 million receivable from the Sunshine Electricity Joint Venture.

Background

In 2002, Delta Electricity Australia Pty Ltd, entered into a joint venture 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 adjacent sugar mills and the regional network.

The joint venture has not generated sufficient cash flows to enable Delta Electricity Australia Pty Ltd to meet its share of financing obligations when they fell due. The company attributes the failure of the joint venture project to:

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

Restructure of Electricity Industry

The Government is selling Delta Electricity's electricity trading rights and four development sites to the private sector. See the 'Electricity Industry Overview' section appearing earlier in this report for details on the sale and the Government's final policy position on its 'Energy Reform Strategy' announced in September 2009.

PERFORMANCE INFORMATION

Delta Electricity provided the following information regarding its performance:

Year ended 30 June	Target	Actual			
	2010	2010	2009	2008	2007
Generation of electricity – gigawatt hours sent out	***24,460***	***21,999***	23,746	24,054	21,952
Plant availability – total all stations (%)	***89.5***	***92.0***	86.8	77.3	75.5
Thermal efficiency – total all stations (%)	***34.8***	***34.6***	34.6	35.0	35.2
Earnings before interest and tax ($m)	***189.3***	***189.7***	146.4	212.1	244.9
Return on equity (%) (a)	***8.2***	***6.2***	7.5	12.7	64.9
Return on assets (%) (b)	***6.4***	***5.9***	4.5	7.7	7.6
Interest cover (times)	***2.0***	***1.7***	3.2	4.9	5.6
Debt to equity (%)	***158.0***	***149.8***	130.3	86.5	306.2
Total distributions to government ($m)	***96.5***	***59.2***	84.6	180.0	174.7
Capital expenditure ($m)	***117.2***	***97.1***	379.5	251.8	150.4

(a) profit after tax divided by equity.
(b) earnings before interest and tax divided by total assets.

Production of electricity was below target in 2009-10 mainly as a result of the ongoing drought conditions in the water catchments surrounding the Mt Piper and Wallerawang power stations. Adverse water levels resulted in one of the Wallerawang units being placed on reserve for part of the year. Production also decreased due to sustained periods of low spot prices which made production of electricity uneconomical.

Plant availability improved in 2009-10 due to a reduced program of outages compared to 2008-09. Targeted plant availability was exceeded as a result of the maintenance expenditure program focusing on reliability issues.

The production of electricity by Delta Electricity releases carbon dioxide and other greenhouse gases directly into the atmosphere. The most recent information (2008-09) released by the Department of Climate Change and Energy Efficiency lists Delta Electricity as Australia's second largest emitter of greenhouse gases with direct emissions of 22.2 million tonnes.

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

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

The return on equity decreased due to lower profit after taxes and finance costs this year.

The return on assets increased due to a $43.3 million increase in earnings before interest and taxes. This represents higher revenues from energy sales, driven largely by an increase in the average spot price for electricity and a reduction in generation costs, largely due to the decrease in fuel consumption costs as a result of lower energy production.

Interest cover decreased due to higher financing costs. This was largely due to the increased cost of debt after the global financial crisis. This was reflected in a higher government guarantee fee which increased by $18.2 million to $29.5 million ($11.3 million in 2008-09).

Debt to equity continued to increase due to further borrowings to complete construction of the Colongra gas turbine and the decrease in equity largely due to a $150 million reduction in the value of power station assets.

Distributions to government comprised a dividend of $36.6 million ($59.2 million in 2008-09) and taxation of $22.6 million ($25.4 million). The reduction in distributions to government was due to the lower profit before tax this year. Profits before tax decreased due to higher financing costs and impairment losses on discontinued operations. As Delta Electricity's retained earnings were reduced to zero in the prior year, its ability to pay dividends is also limited to annual earnings. The government also receives the government guarantee fee referred to above.

Capital expenditure was below target largely due to lower than expected costs associated with the construction of the Colongra gas turbines.

OTHER INFORMATION

Valuation and Remaining Life of Power Station Assets

The carrying value of power stations represents 24.1 per cent of the power stations' gross replacement cost, which indicates on average the power stations have slightly less than one quarter of their service potential remaining.

Delta Electricity's power stations have a gross replacement cost of $10.3 billion. After deducting accumulated depreciation and impairment of $7.8 billion, the carrying value of Delta Electricity's power stations was $2.5 billion.

The remaining lives for most of Delta Electricity's power stations range from 20 to 30 years. Munmorah, which has a generation capacity of 600 megawatts, has an estimated remaining life of three to four years; however approval has recently been granted for a $500 million upgrade under the Government's revised energy reform strategy.

Major Projects

Colongra Gas Turbine Power Station

The 667 megawatt, $500 million Colongra gas turbine was completed during the year and officially opened on 21 December 2009. Colongra operates as a peaking plant supplying electricity at short notice during times of high demand. Following commissioning Colongra sent out 43,657 megawatt hours of electricity this year and had an availability factor of 98.1 per cent.

Potential Development Sites

Delta Electricity has identified four sites for new generation capacity. Proposals have been developed for construction of new gas turbines at Marulan (near Goulburn) and Bamarang (near Nowra), the rehabilitation of Munmorah as a gas or coal fired plant, and construction of new generation facilities at Mount Piper using either coal or gas.

The Government's revised energy reform strategy, introduced to help secure the future supply of electricity in New South Wales, has identified these sites as suitable for the sale to the private sector.

Coal Supply

Coal prices have increased significantly in recent years. This has increased the risk for Delta Electricity in securing supplies of coal at competitive prices. To mitigate this risk, Delta Electricity, through its subsidiary Mid West Primary Pty Ltd, has entered into a joint venture with the other State owned generators to develop a coal resource in Central West New South Wales. Further details appear in the Energy Industry Overview earlier in this report.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
TOTAL REVENUE	***1,050,047***	1,004,587	**1,043,549**	997,375
PROFIT BEFORE FINANCE COSTS, DEPRECIATION AND TAX	***311,835***	242,680	**305,884**	250,955
Finance costs	***111,279***	45,654	**103,722**	42,156
Depreciation	***122,143***	96,308	**118,470**	93,556
PROFIT BEFORE TAX	***78,413***	100,718	**83,692**	115,243
Income tax equivalent expense	***22,596***	25,369	**39,921**	29,684
PROFIT AFTER TAX	***55,817***	75,349	**43,771**	85,559
OTHER COMPREHENSIVE INCOME				
Gain on cash flow hedges taken to equity	***51,640***	255,451	**53,646**	262,454
Cash flow hedges transferred to Statement of Comprehensive Income	***(34,476)***	(38,480)	**(38,264)**	(39,028)
Defined benefit superannuation actuarial loss	***(27,442)***	(93,351)	**(27,442)**	(93,351)
Loss on revaluation of property	***(150,000)***	--	**(150,000)**	--
Income tax on items of other comprehensive income	***48,084***	(37,086)	**48,618**	(39,023)
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	***(112,194)***	86,534	**(113,442)**	*91,052*
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	***(56,377)***	161,883	**(69,671)**	176,611
Dividend provided	***36,608***	59,221	**36,608**	59,221

Total revenue included $1.0 billion in electricity sales compared to $976 million in the previous year. While the quantity of electricity sold decreased, the average price for electricity increased by 14 per cent from $38.85 to $44.19 per megawatt hour.

Profit before tax decreased due to a $65.6 million increase in finance costs. This was largely due to higher borrowing costs and an increase in the government guarantee fee. In addition, depreciation expense increased by $25.8 million largely due to the completion of the Colongra gas turbines. The Consolidated Entity also recognised impairment and fair value write-downs on assets held for sale of $46.5 million.

Abridged Statement of Financial Position

At 30 June	Consolidated		Parent	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Current assets	***455,777***	292,490	***403,581***	337,332
Non-current assets	***2,750,257***	2,987,732	***2,733,668***	2,883,100
TOTAL ASSETS	***3,206,034***	3,280,222	***3,137,249***	3,220,432
Current liabilities	***354,475***	417,094	***283,144***	407,512
Non-current liabilities	***1,944,913***	1,863,497	***1,944,911***	1,797,447
TOTAL LIABILITIES	***2,299,388***	2,280,591	***2,228,055***	2,204,959
NET ASSETS	***906,646***	999,631	***909,194***	1,015,473

Current assets increased mainly due to a $74.3 million increase in cash and cash equivalents and the transfer from non-current assets of $50.0 million due to the intended sale of assets associated with the Sunshine Electricity Joint Venture mentioned earlier.

Non-current assets decreased mainly due to a reduction in the value of power station assets by $150 million due to impairment.

The movement between current and non-current liabilities was largely due to refinancing of borrowings. Overall borrowings increased by $56.0 million.

ENTITY ACTIVITIES

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

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

Delta Electricity operates the Mount Piper, Vales Point, Wallerawang and Munmorah coal-fired power stations, and three mini hydro generators. The Colongra gas turbine power station was opened in December 2009. Delta Electricity provides around 12.0 per cent of electricity to the National Electricity Market.

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

CONTROLLED ENTITIES

Delta Electricity Australia Pty Ltd

Year ended 30 June	2010 $'000	2009 $'000
Revenue	***65,789***	10,904
Profit/(Loss) after tax	***13,262***	(10,304)
Total assets	***73,841***	109,151
Total liabilities	***75,422***	125,242
Net liabilities (at 30 June)	***1,581***	16,091

The company has resolved to sell its interest in the Sunshine Electricity Joint Venture. As at the date of this report, this sale process is ongoing. The reasons for this decision are discussed in more detail under the key issues section above.

Revenue includes $52.6 million as a result of the parent entity, Delta Electricity, forgiving amounts owed by the company. Revenue from sales of electricity and green certificates was $12.8 million ($10.7 million). Expenses included write-downs of $46.5 million ($8.2 million) relating to impairment and fair-value write-downs on assets held for sale.

Total assets decreased due to impairment write-downs and depreciation on the co-generation plant. Total liabilities decreased largely due to the parent entity forgiving the interest free advance owed by the company.

Mid West Primary Pty Ltd

Period ended 30 June	2010 $'000	2009 $'000
Revenue	***20***	1
Loss after tax	***623***	617
Total assets	***37,478***	22,797
Total liabilities	***356***	23,414
Net assets/(liabilities) (at 30 June)	***37,122***	(617)

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

Total assets mainly comprise investments by the company in associated and jointly controlled entities ($32.7 million) and intangible assets relating to mining exploration and evaluation activities ($3.9 million). After receiving further advances from the parent entity, the interest free advance payable at 30 June 2009 ($21.3 million) was converted into contributed equity of $38.4 million on 30 June 2010. The effect of this was to reduce the company's total liabilities and increase the company's net assets.

Eraring Energy

AUDIT OPINION

The audits of Eraring Energy's and its controlled entity's financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

The auditor's report included an emphasis of matter paragraph drawing attention to Eraring Energy's power station equipment and buildings valuation. The carrying value of Eraring Energy's power station equipment and buildings is determined using estimated discounted cash flows. These estimations are subject to volatility, particularly from the potential impacts of any future carbon reduction scheme (the scheme) and the New South Wales Government's proposed reforms of the New South Wales electricity industry (the proposed reforms). The ultimate impact of the scheme and proposed reforms cannot presently be determined and this creates a significant uncertainty as to whether the estimated discounted cash flows will be realised.

KEY ISSUES

Restructure of Electricity Industry

The Government is selling Eraring Energy's electricity trading rights to the private sector. See the 'Electricity Industry Overview' section appearing earlier in this report for more information on the sale.

PERFORMANCE INFORMATION

Operational Performance

Eraring Energy operates a diverse portfolio of generating assets comprising thermal coal, hydro and wind. Most of its generation comes from Eraring Power Station, which uses thermal coal. Eraring Power Station produced 14,116 gigawatt hours of electricity in 2009-10.

Generation was lower than the record levels experienced in 2007 and 2008. High generation occurred at Eraring Power Station in those financial years because of the drought conditions. Eraring Power Station uses relatively little water in its electricity production processes, whereas some of its competitors use fresh water for cooling and had to curtail production during the drought. This provided Eraring Power Station with opportunities for increased generation. Generation levels in 2010 were impacted by planned outages at the Eraring Power Station as part of a capacity upgrade project.

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

Year ended 30 June	Target	Actual			
	2010	2010	2009	2008	2007
Generation of electricity (gigawatt hours as generated)					
Thermal coal	***14,640***	***14,116***	15,426	17,283	17,530
Hydro	***181***	***123***	101	92	114
Wind	***26***	***27***	30	24	24
Total	***14,847***	***14,266***	15,557	17,399	17,668
Plant availability (%)	***82.6***	***78.7***	86.1	92.5	93.0
Thermal efficiency as generated (%)	***37.9***	***37.8***	37.8	37.9	37.9

Source: Eraring Energy (unaudited).

Plant availability measures the total time Eraring Power Station's generating units were producing electricity or able to produce electricity over a given period. Plant availability is directly impacted by the amount of time required for maintenance and capital improvements. Eraring's plant availability was impacted by the planned capacity upgrade project in 2010. As a result of the project, Eraring Power Station was running at 75 per cent plant availability for most of the financial year.

Thermal efficiency is a performance measure commonly used by power stations. The thermal efficiency percentages above indicate the percentage of energy contained in the coal used by Eraring Power Station to produce the electricity. That is, a measure of the overall fuel conversion efficiency for the electricity generation process.

Thermal efficiency is influenced by the design, source of cooling water, age and condition of a power plant, as well as by the quality of coal used. New South Wales government owned coal fired power stations outperform reported worldwide averages for thermal efficiency. Eraring Power Station's thermal efficiency compares favourably to other New South Wales government owned coal fired power stations and the upgrade project will further improve thermal efficiency.

The production of electricity by Eraring Energy releases carbon dioxide and other greenhouse gases directly into the atmosphere. The most recent information (2008-09) released by the Department of Climate Change and Energy Efficiency lists Eraring Energy as Australia's seventh largest emitter of greenhouse gases with direct emissions of 13.3 million tonnes. Eraring Energy expects to reduce emissions by 200,000 tonnes as a result of the current upgrade of Eraring Power Station.

Consolidated Financial Performance

	Target	Actual			
	2010	2010	2009	2008	2007
Earnings before interest, tax, and depreciation from normal operations ($m)(a)	***271.2***	***220.1***	220.0	270.2	272.4
Return on equity (%) (b)	***16.9***	***6.7***	6.3	8.2	34.6
Return on assets (%) (c)	***10.1***	***6.5***	5.9	7.3	6.9
Interest cover (times) (d)	***3.7***	***3.5***	4.4	9.1	13.8
Total distributions to government ($m) (e)	***224.9***	***111.6***	94.5	164.2	198.1
Debt/equity (%) (f)	***45.5***	***61.3***	52.5	27.9	77.7
Capital expenditure ($m)	***205.3***	***213.8***	189.1	55.0	38.0

(a) 'Normal operations' excludes fair value movements in electricity derivatives, defined benefit superannuation actuarial gains and losses, and insurance provision movements.
(b) Net profit after tax from normal operations divided by total equity.
(c) Earnings before interest and tax from normal operations divided by total assets.
(d) Earnings before interest and tax from normal operations divided by interest costs (excluding capitalised interest)
(e) Includes accrual dividend, tax equivalent, and loan guarantee payments.
(f) Total interest bearing liabilities divided by total equity.

Eraring Energy did not meet agreed financial targets. Electricity prices achieved and generation levels were lower than expected. The lower than expected results and deteriorating debt servicing capacity contributed to the deferral of an $85.0 million capital repayment previously agreed with Eraring Energy's shareholding Ministers.

Capital expenditure in 2009 and 2010 reflects spending on major projects, some of which are discussed below. Further significant capital expenditure is expected in coming years.

Eraring Energy's 2007 return on equity ratio was impacted by a significant fluctuation in equity levels that particular year. The Corporation's equity levels were adversely impacted by the entity's position on electricity derivatives at year end.

OTHER INFORMATION

Major Project Expenditure

Work continues on the Eraring Power Station capacity upgrade. The project will increase the nominal capacity of each of the Eraring Power Station's four units from 660 megawatts to 720 megawatts. This will increase the Station's capacity to generate electricity and extend its life. As at 30 June 2010, $369 million has been spent of the project's $659 million capital expenditure budget.

During the upgrade process, plant availability is reduced because units are out of service. The upgrade is scheduled for completion by December 2012 and the generation target for 2013-14 is 18,050 gigawatt hours (as generated). After the upgrade, Eraring Power Station will have the largest capacity of all New South Wales public sector power stations.

Eraring Energy finished construction of and commissioned an 820 megalitre cooling water reservoir in February 2010. Eraring Power Station uses salt water from Lake Macquarie for cooling. This means that Eraring Power Station consumes very low amounts of fresh water compared to many stations. However, because the water is returned to the lake after use, the exit temperature of the used water is a constraint on production. The cooling water reservoir reduces water exit temperatures, permitting higher levels of generation in hotter months. The final cost of the reservoir exceeded its original budget because of unexpected rock deposits at the reservoir site.

Eraring Energy also completed and commissioned new systems for storing fly ash. The new systems permit more compact storage, which enables longer use of existing storage capacity. Fly ash is a product of the coal combustion process, which can be recycled. Eraring Energy is pursuing a target of 80 per cent recycling of ash by 2015.

Coal Supply

Coal represents the highest operating expenditure category and presents challenges for the organisation to manage future costs. Contracts are in place for a proportion of future years' coal requirements.

As part of its strategy to minimise risks associated with increasing coal costs, Eraring Energy is a participant in the Cobbora Unincorporated Joint Venture with the other State owned power generators, Macquarie Generation and Delta Electricity.

Eraring Energy incurred capital expenditure of $9.4 million ($9.9 million in 2008-09) on land purchases for the Cobbora mine through its subsidiary company Rocky Point Holdings Pty Limited.

Further detail on the Cobbora Coal Project appears in the 'Electricity Industry Overview' earlier in this report.

FINANCIAL INFORMATION

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

Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
TOTAL REVENUE	***603,613***	640,436	***603,604***	640,436
PROFIT BEFORE BORROWING COSTS, DEPRECIATION AND TAX	***223,986***	222,402	***224,625***	225,377
Borrowing costs	***38,847***	25,845	***38,847***	25,845
Depreciation	***85,011***	107,457	***85,011***	107,457
PROFIT BEFORE TAX	***100,128***	89,100	***100,767***	92,075
Income tax equivalent expense	***29,789***	26,728	***29,951***	27,584
PROFIT AFTER TAX	***70,339***	62,372	***70,816***	64,491
OTHER COMPREHENSIVE INCOME				
Movement in asset revaluation reserve	***26,032***	(405,407)	***26,032***	(405,407)
Defined superannuation benefit actuarial loss	***(12,279)***	(39,326)	***(12,279)***	(39,326)
Gain on cash flow hedges	***33,327***	69,305	***33,327***	69,305
TOTAL OTHER COMPREHENSIVE INCOME(EXPENSE)	***47,080***	(375,428)	***47,080***	(375,428)
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	***117,419***	(313,056)	***117,896***	(310,937)
Dividend provided	***64,678***	60,398	***64,678***	60,398

Lower revenue in 2010 is consistent with lower generation levels. Borrowing costs increased as a result of increased borrowing levels. A further $12.6 million in borrowing costs were capitalised during the year as part of the upgrade of Eraring Power Station.

Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Current assets	***143,169***	117,330	***142,835***	115,420
Non-current assets	***1,963,977***	1,794,152	***1,966,692***	1,796,663
TOTAL ASSETS	***2,107,146***	1,911,482	***2,109,527***	1,912,083
Current liabilities	***358,994***	310,505	***358,779***	308,987
Non-current liabilities	***729,382***	634,948	***729,382***	634,948
TOTAL LIABILITIES	***1,088,376***	945,453	***1,088,161***	943,935
NET ASSETS	***1,018,770***	966,029	***1,021,366***	968,148

The increase in Eraring Energy's non-current assets is attributable mainly to movements in the carrying value of electricity generation assets. The carrying value at 30 June 2010 includes significant expenditure to upgrade Eraring Power Station. Increased borrowings are behind the growth in liabilities in 2010.

CORPORATION ACTIVITIES

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

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

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

CONTROLLED ENTITY

Rocky Point Holdings Pty Limited

Period ended 30 June	2010 $'000	2009 $'000
Revenue	***9***	--
Expenses	***648***	2,976
Income tax benefit	***162***	857
Loss after tax	***477***	2,119
Total assets	***22,562***	14,090
Total liabilities	***215***	16,209
Net assets/(liabilities) (at 30 June)	***22,347***	(2,119)

Rocky Point Holdings Pty Limited is a wholly owned subsidiary of Eraring Energy that manages Eraring Energy's investment in the Cobbora Coal Project. Rocky Point Holdings Pty Limited is the minor stakeholder in the project, holding 23.32 per cent of the issued units of the Cobbora Coal Unit Trust.

Rocky Point Holdings Pty Limited has reported losses since it was established. This is expected during the initial stages of its operation and the company has the financial support of Eraring Energy.

Borrowings from Eraring Energy were converted to equity during the year, explaining the significant movement in net assets from 2009 to 2010.

Macquarie Generation

AUDIT OPINION

The audits of Macquarie Generation and its controlled entity's financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

The Independent Auditor's Report for Macquarie Generation drew attention to significant uncertainties regarding the effect of the New South Wales Government's proposed electricity industry reforms and any future carbon reduction scheme on the value of power station assets.

KEY ISSUES

Contracting the Electricity Trading Rights of Power Stations to the Private Sector

The Government is selling Macquarie Generation's electricity trading rights and two of its development sites to the private sector. See the 'Electricity Industry Overview' section appearing earlier in this report for progress on the sale process.

PERFORMANCE INFORMATION

Operational Performance

Year ended 30 June	2010	2009	2008	2007
Generation of electricity (gigawatt hours sent out)				
Bayswater	***15,176***	15,864	15,430	14,310
Liddell	***9,394***	11,135	10,851	10,825
Total	***24,570***	26,999	26,281	25,135
Plant availability				
Bayswater (%)	***91.8***	92.3	91.5	89.8
Liddell (%)	***72.3***	79.4	78.9	85.5
Thermal efficiency				
Bayswater (%)	***35.0***	35.2	35.4	34.9
Liddell (%)	***32.8***	32.5	33.2	33.2
Equivalent forced outages (%)	***12.4***	6.3	5.4	4.9

Macquarie Generation has a policy of not disclosing operational performance targets. Accordingly, these have not been included in the above table.

Plant availability measures the total time generating units were either in service or available for service over a given period. Liddell's plant availability decreased due to a number of unforseen technical malfunctions during 2009-10.

Thermal efficiency is a performance measure of the percentage of energy contained in the coal used in electricity production. New South Wales government owned coal fired power stations outperform reported worldwide averages for thermal efficiency as reported by the 'World Coal Institute'.

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

Financial Performance

Year ended 30 June	Target*	Actual	
	2010	2010	2009
Earnings before interest and tax ($'m)	***308.0***	***324.6***	333.1
Return on equity (%)	***13.8***	***14.4***	15.7
Return on assets (%)	***7.5***	***7.8***	8.1
Interest cover (times)	***6.5***	***6.0***	8.8
Debt to equity (%)	***40.8***	***43.7***	43.6
Total distributions to government ($'m)	***258.3***	***273.4***	185.5
Capital expenditure ($'m)	***60.5***	***40.2***	80.0

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

Distributions to government increased by $87.9 million (47 per cent) over the previous year. Earnings exceeded target because of lower than budgeted fuel costs.

OTHER INFORMATION

Coal Supply

The three New South Wales State owned generators including Macquarie Generation are in a joint venture to develop a new domestic coal resource in the Cobbora and Laheys Creek area of Warrumbungle Shire. The joint venture, Cobbora Coal, is expected to improve coal supply from 2014. See the 'Electricity Industry Overview' section appearing earlier in this report for an update on the joint venture transaction.

Major Projects

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

Bayswater Transformer Upgrade

Macquarie Generation completed the $43.0 million 500 kV transformer upgrade on a 'connection agreement' between TransGrid and Macquarie Generation. The upgrade from 330 kV to 500 kV enables connection to the New South Wales power grid at a reduced transmission loss.

Tomago Gas-Fired Power Station

Macquarie Generation has a development approval for the construction of a gas-fired power station at Tomago, north of Newcastle. This project is designed to provide open cycle gas generation capacity of 500 megawatts or alternatively, 790 megawatts of combined cycle capacity. The project, once commitment funding is provided, could be completed within 24 months. The project is estimated to cost approximately $500 million.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
TOTAL REVENUE	***1,167,036***	1,215,885	***1,167,017***	1,215,884
PROFIT BEFORE BORROWING COSTS, DEPRECIATION AND TAX	***510,650***	329,306	***511,469***	330,159
Borrowing costs	***64,079***	50,493	***64,078***	50,493
Depreciation	***166,678***	161,305	***166,678***	161,305
PROFIT BEFORE TAX	***279,893***	117,508	***280,713***	118,361
Income tax equivalent expense	***83,411***	35,267	***83,608***	35,500
PROFIT AFTER TAX	***196,482***	82,241	***197,105***	82,861
OTHER COMPREHENSIVE INCOME:				
Change in fair value of cash flow hedges	***3,471***	199,813	***3,471***	199,813
Loss on revaluation of land and buildings	***--***	(175)	***--***	(175)
Defined benefit superannuation actuarial loss	***(12,395)***	(46,603)	***(12,395)***	(46,603)
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	***(8,924)***	153,035	***(8,924)***	153,035
TOTAL COMPREHENSIVE INCOME	***187,558***	235,276	***188,181***	235,896
Dividend provided	***189,800***	150,000	***189,800***	150,000

Profit after tax increased by $114 million from the previous year because of lower overhead expenses and gains from derivative electricity contracts.

Borrowing costs increased by $14.0 million mainly due to a $7.0 million increase in the loan guarantee fee paid to the New South Wales Government resulting from an increase in credit spreads in the AAA band because of the Global Financial Crisis.

Abridged Statement of Financial Position

At 30 June	Consolidated		Parent	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Current assets	***646,310***	524,253	***645,501***	522,924
Non-current assets	***3,466,073***	3,591,026	***3,468,173***	3,592,526
TOTAL ASSETS	***4,112,383***	4,115,279	***4,113,674***	4,115,450
Current liabilities	***441,007***	458,199	***441,055***	457,750
Non-current liabilities	***1,791,095***	1,774,557	***1,791,095***	1,774,557
TOTAL LIABILITIES	***2,232,102***	2,232,756	***2,232,150***	2,232,307
NET ASSETS	***1,880,281***	1,882,523	***1,881,524***	1,883,143

Current assets increased by $123 million, largely due to an improvement in the cash flow position during 2009-10.

Current liabilities decreased and non-current liabilities increased due to a debt lengthening programme implemented by the New South Wales Treasury Corporation whereby borrowings were reclassified from short term to long term.

CORPORATION ACTIVITIES

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

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

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

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

CONTROLLED ENTITY

Midwest Development Corporation Pty Limited

Year ended 30 June	2010 $'000	2009 $'000
Revenue	***19***	1
Expenses	***838***	854
Income tax benefit	***197***	233
Loss after tax	***622***	620
Total assets	***37,906***	21,671
Total liabilities	***356***	22,291
Net assets/ (liabilities)	***37,550***	(620)

Total assets included $33.0 million invested in the Cobbora Coal Unit Trust (the Trust). The Trust is responsible for managing land properties acquired as part of the Cobbora Coal Project.

On 30 June 2010 loan balances due to the parent entity were converted to equity and an additional 38,792,534 shares were issued to Macquarie Generation.

Corporate Activities

Midwest Development Corporation Pty Limited was incorporated on 13 August 2008 under the *Corporations Act 2001* as a special purpose venture to participate in the Cobbora Project.

Cobbora Joint Venture

Macquarie Generation and Midwest Development Corporation Pty Limited have approval from the New South Wales Treasurer under the *Public Authorities (Financial Arrangements) Act 1987* to participate in the Cobbora Joint Venture. The Cobbora Project is an Unincorporated Joint Venture between the special purpose subsidiaries of the New South Wales State owned electricity generators to source, develop and operate a coal resource in New South Wales.

Country Energy

AUDIT OPINION

The audits of Country Energy and its controlled entities' financial reports for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

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

KEY ISSUES

Restructure of Electricity Industry

The Government is proposing to sell Country Energy's retail operations. See the 'Electricity Industry Overview' section appearing earlier in this report for details on the sale and the Government's final policy position on its 'Energy Reform Strategy' announced in September 2009.

PERFORMANCE INFORMATION

Operational Performance

Country Energy is committed to delivering a safe and reliable supply of energy to its customers. Some indicators Country Energy uses to assess its performance are:

	Target*	Actual			
	2010	2010	2009	2008	2007
System average interruption duration index - customer minutes without supply	***324***	***196***	267	225	242
Corporate satisfaction survey – service meeting and exceeding customer expectation	***85***	***88***	86	92	88
Lost time injury frequency rate (LTIFR) – lost time injuries per one million hours worked	***1.4***	***3.5***	1.7	2.8	5.8

* Targets provided by Country Energy.

The decrease in customer minutes without supply reflects Country Energy's business-wide overhaul of the management of planned supply interruptions during the year. In the previous year, high levels of storm activity impacted performance in this area. The target for 2010 was derived from the targets mandated by New South Wales Government licence conditions imposed on distribution network service providers. Country Energy's performance against this target also reflects the effectiveness of network investment and improvement programs in recent years.

The Corporate Satisfaction Survey index has been relatively stable over the past four years and remains above target.

Country Energy's lost time injury frequency rate increased significantly in 2009-10. This followed four years of steadily improving performance. Country Energy's goal is to achieve 'zero harm' in the work place and in 2010-11 it will undertake a comprehensive behavioural safety program to improve performance in this area.

OTHER INFORMATION

Financial Performance

	Target	Actual	
	2010	2010	2009
Earnings before interest and tax* ($m)	***295.5***	***498.2***	349.2
Return on equity* (%) (a)	***9.2***	***12.5***	13.4
Return on assets* (%) (b)	***5.8***	***8.5***	7.3
Interest cover** (times)	***1.2***	***1.7***	1.8
Debt to equity** (%)	***446.5***	***187.2***	350.0
Total distributions to government** ($m)	***108.9***	***137.7***	100.9
Capital expenditure* ($m)	***790.7***	***739.6***	600.6

* Targets provided by Country Energy.
** Calculated from target as agreed with shareholding Ministers.
(a) Profit after tax divided by average equity.
(b) Earnings before interest and tax divided by average total assets.
Note: Earnings and ratios exclude the impact of fair value gains and losses on financial instruments and superannuation actuarial gains and losses.

The target numbers and commentary provided above reflect a Network/TSA (Transitional Services Arrangement) model as directed by New South Wales Treasury. The model assumed the Retail business would be sold on 1 July 2010. The actual figures reflect a Network/Retail or 'business as usual' business model.

Country Energy's earnings before interest and tax exceeded its target by $203 million. This was mainly due to a more favourable gross margin, which exceeded budget by $204 million, and $53 million lower than budget operating expenses. The improvement in the gross margin was due mainly to more favourable wholesale cost outcomes than budget and better than expected network sales. Capital contributions from developers and customers were $16.0 million higher than anticipated.

The higher earnings before interest and tax also increased Country Energy's return on assets and its distribution to government. Return on equity was much higher than budget, but declined from the previous year because of the higher value of average equity following the revaluation of system assets in the current year.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
OPERATING REVENUE	***2,648,496***	2,489,877	***2,646,967***	2,488,291
OPERATING PROFIT BEFORE BORROWING COSTS, DEPRECIATION, OTHER GAINS AND TAX	***683,797***	547,180	***676,954***	537,872
Borrowing costs	***244,383***	201,038	***244,383***	201,038
Depreciation	***203,287***	177,998	***198,459***	173,488
Operating Profit before other gains and tax	***236,127***	168,144	***234,112***	163,346
Fair value losses on financial instruments	***2,059***	43,133	***2,059***	43,133
PROFIT BEFORE TAX	***234,068***	125,011	***232,053***	120,213
Income tax equivalent expense	***71,726***	33,983	***70,696***	32,118
PROFIT AFTER TAX	***162,342***	91,028	***161,357***	88,095
OTHER COMPREHENSIVE INCOME				
Gain on revaluation of fixed assets	***1,243,750***	15,036	***1,243,750***	15,036
Defined benefit plan actuarial losses	***(21,475)***	(91,578)	***(21,475)***	(91,578)
Loss from changes in fair value of cash flow hedges	***(46,676)***	(190,268)	***(46,676)***	(190,268)
Income tax (expense)/benefit on other comprehensive income	***(352,679)***	80,042	***(352,679)***	80,042
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	***822,920***	(186,768)	***822,920***	(186,768)
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	***985,262***	(95,740)	***984,277***	(98,673)
Dividend provided	***47,600***	29,200	***47,600***	29,200

Operating revenue includes $2.5 billion ($2.3 billion) from the sale and delivery of electricity and gas. Borrowing costs increased in 2010 in line with the increase in interest bearing liabilities as at 30 June 2010.

Abridged Statement of Financial Position

At 30 June	Consolidated		Parent	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Current assets	***562,534***	629,932	***618,840***	686,262
Non-current assets	***6,150,522***	4,344,350	***6,078,796***	4,271,415
TOTAL ASSETS	***6,713,056***	4,974,282	***6,697,636***	4,957,677
Current liabilities	***860,535***	1,502,013	***863,885***	1,503,403
Non-current liabilities	***4,075,629***	2,633,039	***4,072,971***	2,630,171
TOTAL LIABILITIES	***4,936,164***	4,135,052	***4,936,856***	4,133,574
NET ASSETS	***1,776,892***	839,230	***1,760,780***	824,103

The significant decrease in current assets was mainly due to a decrease of $51.5 million in the value of derivative financial instruments based on fair value adjustments.

The $1.8 billion increase in non-current assets included an increment of $1.2 billion arising from the revaluation of electricity system assets and a further $740 million from capital expenditure during the year.

In April 2009, the Australian Electricity Regulator approved Country Energy's plan to invest almost $4.0 billion in its network over the five year period to 2014. Under this plan, in 2009-10, Country Energy invested $740 million in its network and $341 million in maintenance programs.

In 2009-10, total liabilities rose by $801 million primarily due to an additional $388 million of debt and an increase of $345 million in deferred tax liabilities. The total balance of loans outstanding increased to $3.3 billion ($2.9 billion).

COUNTRY ENERGY GAS PTY LIMITED

On 26 February 2010, Country Energy announced the sale of the gas network operations in southern New South Wales to the private sector. The sale had not concluded as at 30 June 2010.

Country Energy Gas had total assets of $102 million ($103 million) as at 30 June 2010, and in 2009-10 contributed $1.0 million ($2.9 million) to the group's profit after tax.

CORPORATION ACTIVITIES

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

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

For more information on Country Energy, refer to www.countryenergy.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

EnergyAustralia

AUDIT OPINION

The audits of EnergyAustralia and its controlled entities' financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

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

KEY ISSUES

Sale of the New South Wales Government's Retail Electricity Operations

On 10 September 2009, the New South Wales Government released its Energy Reform Transaction Strategy which included transferring the electricity retailing operation of EnergyAustralia to the private sector.

See the 'Electricity Industry Overview' section appearing earlier in this report for progress on the sale process.

PERFORMANCE INFORMATION

EnergyAustralia provided the following information regarding its performance.

Operational Performance

A prime objective of EnergyAustralia is to deliver a safe and reliable supply of energy to its customers. The following table shows its performance in relation to customer satisfaction, employee safety and customer numbers.

Year ended 30 June	Target*	Actual				
	2010	2010	2009	2008	2007	2006
Customer satisfaction index (%) (a)	***95***	***96***	96	97	94	95
Minutes customers were without supply	***103***	***79***	109	100	102	90
Lost time injury frequency – (hours per million hours worked)	***3.5***	***3.5***	4.1	3.9	2.9	3.8
Customers at year end (000's)**	***--***	***1,606***	1,591	1,581	1,568	1,557

Source: EnergyAustralia Annual Report 2009-10 (unaudited).

* Target agreed with the Statement of Corporate Intent (SCI) 2009-10.

** Customer network connections at 30 June.

(a) Very and extremely satisfied.

EnergyAustralia achieved its target level for customer satisfaction of 'satisfied', 'very satisfied' or 'extremely satisfied'.

Customer minutes without electricity supply were significantly better than target this year due mainly to greater investment in the electricity network and milder weather conditions.

Environmental Performance

EnergyAustralia met its obligations under both the Commonwealth and New South Wales Government's renewable energy schemes for 2010.

In complying with the Commonwealth's Mandatory Renewable Energy Target, EnergyAustralia surrendered certificates representing generation of 1,037,989 megawatt hours of electricity from approved renewable generators.

Under the New South Wales Greenhouse Gas Abatement Scheme, EnergyAustralia delivered 5.9 million tonnes of greenhouse gas savings associated with electricity use.

Smart Meters and Smart Grids

The Commonwealth Government established the Smart Grid Smart City initiative, which is aimed at supporting the installation of Australia's first commercial-scale smart grid. The Commonwealth announced that an EnergyAustralia-led consortium was selected to implement a commercial scale smart network trial. The project will receive up to $93.0 million in Commonwealth funding. The initiative is expected to connect up to 50,000 homes and business to a smart grid at five sites in Newcastle, Scone, Sydney CBD, Ku-ring-gai and Newington.

The 'smart technologies' will provide households with an instant picture of their energy and water use, including costs, environmental impact and incentives to reduce them.

Solar Feed-in Tariff Scheme

The New South Wales Government commenced a Solar Feed-in Tariff 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 cents per kilowatt hour is paid to small customers for electricity that is fed back into the electricity network.

EnergyAustralia advised that at 30 June 2010, the Scheme achieved 10,520 customer connections, with a further 7,711 awaiting connection. This represents a total of over 31 megawatts of renewable electricity capacity.

Financial Performance

Year ended 30 June	Target *	Actual				
	2010	2010	2009	2008**	2007	2006
Earnings before interest and tax ($m)	***709.0***	***913.0***	596.0	574.4	594.1	527.2
Return on average equity (%) (a)	***10.3***	***19.0***	12.4	12.1	12.4	14.4
Return on average assets (%) (b)	**--**	***9.5***	7.1	7.5	7.6	8.4
Debt to equity (%)	**--**	***316.0***	276.9	207.1	144.6	162.8
Interest cover (times)	**--**	***2.1***	2.2	2.5	2.7	2.9
Total distributions to government ($m) (c)	***180.0***	***386.0***	272.0	272.1	277.7	304.0
Capital expenditure ($m) (excluding capital contribution)	***1,360.4***	***1,319.0***	1,291.0	951.1	783.5	603.9

* Target is a combination of the retail and network business plans for 2009-10. The SCI for 2009-10 did not include the retail business.

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

(a) Profit after income tax expense divided by average equity.

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

(c) Dividend plus income tax expense

EnergyAustralia's results for 2010 exceeded target and the financial performance of the previous year. A significant contribution to the result was from tariff increases from 1 July 2009 and overall lower energy costs gained through a combination of market events and portfolio positioning.

As a result of the current year's financial performance, total distributions to Government were higher than target and better than prior year.

FINANCIAL INFORMATION

Abridged Consolidated Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
TOTAL REVENUE	***3,980,400***	3,339,200	***3,980,400***	3,339,200
PROFIT BEFORE FINANCE COSTS, DEPRECIATION AND TAX	***1,255,200***	889,500	***1,255,200***	889,500
Finance costs	***431,700***	265,300	***431,700***	265,300
Depreciation	***342,200***	293,500	***342,200***	293,500
PROFIT BEFORE TAX	***481,300***	330,700	***481,300***	330,700
Income tax equivalent expense	***136,300***	99,400	***136,300***	97,100
PROFIT AFTER TAX	***345,000***	231,300	***345,000***	233,600
OTHER COMPREHENSIVE INCOME				
Decrease in fair value of cash flow hedges	***(2,600)***	(144,500)	***(2,600)***	(144,500)
Increase/(decrease) on revaluation of land and buildings	***4,300***	(4,800)	***4,300***	(4,800)
Defined benefit superannuation actuarial loss	***(33,400)***	(152,400)	***(33,400)***	(152,400)
Income tax credit on other comprehensive income items	***8,800***	91,800	***8,800***	91,800
TOTAL OTHER COMPREHENSIVE/EXPENSE	***(22,900)***	(209,900)	***(22,900)***	(209,900)
TOTAL COMPREHENSIVE INCOME	***322,100***	21,400	***322,100***	23,700
Dividend provided	***250,200***	**172,900**	***250,200***	**172,900**

Total revenue of $4.0 billion ($3.3 billion in 2008-09) includes $3.8 billion ($3.2 billion) for the sale and delivery of energy (electricity and gas) to retail customers and public lighting system charges. Revenue from the sale of electricity increased after regulatory network and retail price increases came into effect on 1 July 2009. Costs associated with the distribution of energy totalled $3.0 billion ($2.7 billion). The wholesale price of electricity was marginally lower than in the previous year.

Increased finance cost of $432 million ($265 million) was due to higher borrowings necessary to fund the Corporation's capital projects; borrowing costs also include $109 million ($38.4 million) relating to government loan guarantee fees. Depreciation expense increased to $283 million ($256 million) as a result of the increased spending on capital projects.

Profit after tax increased mainly due to the increased margin from the sale of electricity and gas.

Abridged Consolidated Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Current assets	***1,056,500***	747,100	***1,056,600***	747,200
Non-current assets	***9,281,000***	8,201,000	***9,281,000***	8,201,000
TOTAL ASSETS	***10,337,500***	8,948,100	***10,337,600***	8,948,200
Current liabilities	***1,800,400***	2,110,700	***1,800,400***	2,110,700
Non-current liabilities	***6,682,000***	5,054,200	***6,682,000***	5,054,200
TOTAL LIABILITIES	***8,482,400***	7,164,900	***8,482,400***	7,164,900
NET ASSETS	***1,855,100***	1,783,200	***1,855,200***	1,783,300

The increase in current assets was largely due to an increase in cash and cash equivalents of $153 million arising from timing differences associated with the drawdown of debt during 2010. Non-current assets increased because of significant expenditure of $1.1 billion to expand the network, replace ageing assets and comply with additional licence conditions regarding steps to reduce the risk of supply interruptions.

Current liabilities decreased mainly due to a $561 million reduction in the current portion of borrowings, which was offset by increases in other creditor balances and provisions of $245 million. The increase in other creditors resulted from $83.2 million in interest payable and government loan guarantee fees.

Non-current liabilities increased largely due to an increase in borrowings of $1.5 billion from the previous year. Overall borrowing increased by $933 million to $6.0 billion at year end.

ENTITY ACTIVITIES

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

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

For further information on EnergyAustralia, refer to www.energy.com.au.

CONTROLLED ENTITIES

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

Entity Name
EnergyAustralia Pty Limited
Downtown Utilities Pty Limited

Integral Energy Australia

AUDIT OPINION

The audit of Integral's financial statements for the year ended 30 June 2010 resulted in an unqualified Independent Auditor's Report.

KEY ISSUES

Restructure of Electricity Industry

On 10 September 2009, the NSW Government released its Energy Reform Transaction Strategy, which included transferring the electricity retail operations to the private sector. See the 'Electricity Industry Overview' section appearing earlier in this report for progress on the sale process.

PERFORMANCE INFORMATION

Operational Performance

Statistics provided by Integral show:

Year ended 30 June	Target	Actual		
	2010	2010	2009	2008
Customer satisfaction index (%)	***82-84***	***80.0***	83.0	83.0
Network reliability –average minutes customers were without supply	***90***	***79.4***	89.3	97.8
Lost time Incidents	***14***	***15***	17	19
Reportable environmental incidents	***0***	***0***	2	4
Total network customer connections	***860,402***	***866,767***	859,519	853,340

Customer Satisfaction has declined and is now below target. This is the percentage of customers surveyed who rated Integral as 'good' or 'very good' in relation to certain aspects of its performance. Integral advised the decline is due to the adverse impact of the price increases. Integral is supporting customers in financial hardship with customer assistance programs which provide payment plans, energy audits and welfare assistance in order to keep customers connected.

Network reliability improved a further 11.1 per cent over last year. Network reliability measures the number of minutes customers are, on average, without electricity each year. Integral attributed the significant improvement to its capital investment in the network over the last five years, although it also acknowledged that milder weather patterns may have contributed to this result. Integral had targeted an improvement to 80 minutes by 2013-2014, to meet its licence conditions, but achieved this target four years ahead of schedule. There were 3,824 interruptions in 2009-10 (4,145 in 2008-09), including 514 caused by adverse weather, 1,283 caused by defective equipment, and 659 caused by lightning.

Environmental Performance

In 2010, Integral purchased 14.0 per cent (12.0 per cent) of its energy from sources other than coal fired power stations. The energy from these alternative sources is generated by natural gas, land fill gas, methane gas from coal mines, wind and water. However, purchases from some of these sources are not considered to be renewable energy purchases under emission rights schemes.

Financial Performance

Year ended 30 June	Target*	Actual	
	2010	2010	2009
Earnings before interest and tax ($m)	***364.9***	***439.3***	355.7
Return on equity (%) (a)	***13.6***	***17.3***	14.6
Return on assets (%) (b)	***8.5***	***9.5***	8.7
Debt to equity	***3.1***	***2.1***	2.5
Interest cover (times)	***1.9***	***2.3***	2.4
Total distributions to Government ($m)(c)	***142.8***	***215.3***	167.1
Capital expenditure ($m)	***508.8***	***417.4***	442.9

* Target is based on the Statement of Corporate Intent (SCI) which reflects financial targets on a network only structure effective 1 July 2009 given the proposed sale of the retail business.

(a) Profit after tax divided by average equity
(b) Earnings before interest and tax divided by average total assets
(c) Dividend + income tax expense

Earnings before interest and tax increased due to increases in electricity sales and network use of system income in line with regulatory allowances, operating cost efficiency initiatives, customer mix changes, and increased volume of electricity sold, partly driven by increased customer numbers in Queensland.

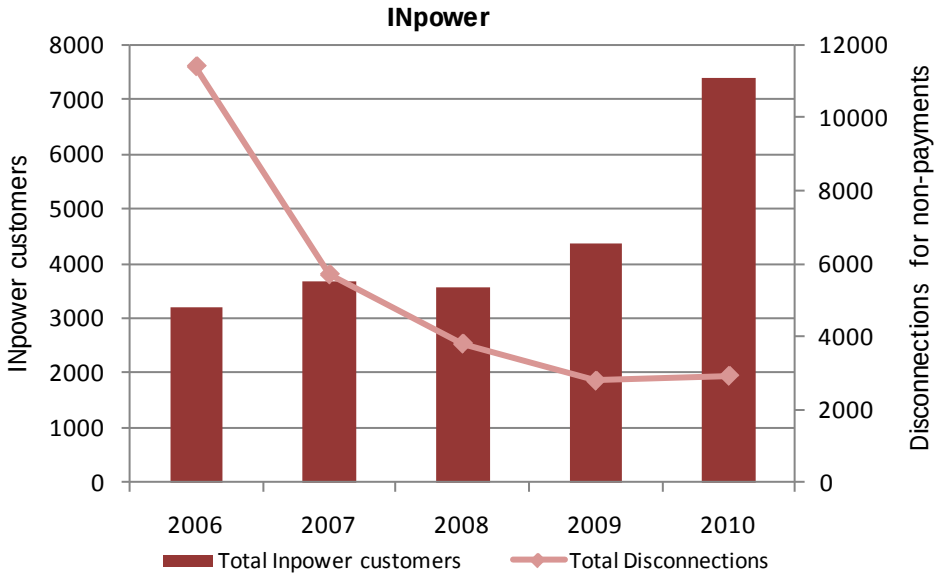
Total distributions to Government were higher than the previous year due to the increased profitability.

Social Performance

Electricity regulation requires all energy retailers to offer assistance to residential customers experiencing financial difficulties. This includes offering customers payment plans designed to give them options for managing their bills during periods of financial difficulty, such as regular instalment payments over an agreed period.

Integral's successful implementation of its INpower program has reduced customer disconnections for non-payment of accounts by more than 74.0 per cent, from 11,401 customers in 2005-06 to 2,912 customers in 2009-10. Over the same period, INpower customers have more than doubled from 3,196 to 7,411. INpower is an Integral program to assist customers facing financial hardship to pay for their electricity consumption.

The graph below illustrates the trend between customers enrolled in the INpower program and total disconnections.



Source: Data obtained from Integral (unaudited)

To strengthen this framework, the NSW Government introduced new requirements from 1 March 2010. These regulatory changes require energy retailers to develop, implement and publish detailed Customer Hardship Charters that identify customers in hardship and provide flexible payment options for such customers. Integral has complied with this requirement and has published a customer hardship charter on its website.

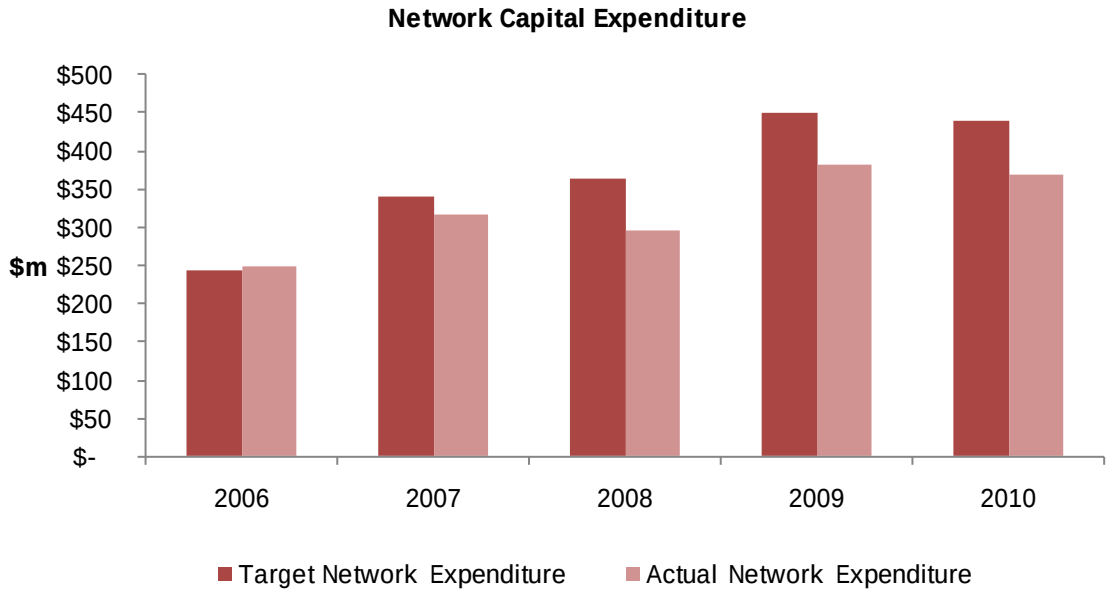
OTHER INFORMATION

Network Capital Expenditure

According to Integral's internal assessment, population in the region is forecast to grow by 6.0 per cent by 2013-14, while maximum demand for electricity is forecast to increase by 33.0 per cent at the same time. To meet this growth forecast, Integral must ensure there is sufficient capacity available in the network to meet load and security requirements in a sustainable and cost effective manner. Integral also needs to meet the NSW Government's licence requirements for improved reliability.

Many of the existing network assets were built in the 1960s and 1970s and are now nearing the end of their useful lives. For example, 45.0 per cent of major power transformers have been in service for 36 years or more. As a result, asset renewal has been a core component of capital expenditure in the last 5 years.

While the capital investment has been significant it fell short of Integral's investment target in four of the last five years.



Source: Information provided by Integral (unaudited)

In 2008-09, Integral reviewed its network capital program processes to improve its capability to deliver an expanded program over the coming five years. It did not achieve its capital expenditure target by 16 per cent in the first year (2009-10) of its expanded program.

The 2009-10 target was not achieved due to continued pressure on suppliers in meeting increased demand from the NSW electricity industry generally and challenges in the recruitment of qualified project management, design and construction staff.

To ensure Integral delivers the substantial increase in necessary network investment over the next four years, Integral is implementing a peak resourcing strategy that will supplement their expanding workforce with external service providers. The peak resources being engaged encompass the project management, design and/or construction phases of Integral's program.

While Integral's network reliability currently exceeds its target, difficulties in fully delivering its capital program may impact its ability to meet growth in maximum demand for energy, to replace ageing assets and to improve network security and reliability as agreed with the Australian Energy Regulator.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 $'000	2009 $'000
TOTAL REVENUE	***2,272,145***	1,998,374
PROFIT BEFORE BORROWING COSTS, DEPRECIATION, AMORTISATION AND TAX	***588,980***	492,817
Borrowing costs	***187,616***	150,075
Depreciation and amortisation	***149,718***	137,107
PROFIT BEFORE TAX	***251,646***	205,635
Income tax equivalent expense	***72,667***	63,445
PROFIT AFTER TAX	***178,979***	142,190
OTHER COMPREHENSIVE INCOME		
Gain/(loss) on revaluation of fixed assets	***330,035***	(21,202)
Defined benefit plan actuarial gains/(losses)	***(3,566)***	(70,901)
Gain/(loss) from changes in fair value of cash flow hedges	***(31,467)***	(144,826)
Income tax on other comprehensive income	***(88,502)***	71,080
TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)	***206,500***	(165,849)
TOTAL COMPREHENSIVE INCOME/(EXPENSE)	***385,479***	(23,659)
Dividend provided	***142,610***	103,619

Total revenue included $1.6 billion in electricity sales ($1.5 billion) and $524 million in network use of system charges ($382 million).

Abridged Statement of Financial Position

At 30 June	2010 $'000	2009 $'000
Current assets	***599,973***	583,396
Non-current assets	***4,340,621***	3,722,319
TOTAL ASSETS	***4,940,594***	4,305,715
Current liabilities	***1,190,076***	1,159,894
Non-current liabilities	***2,596,669***	2,234,841
TOTAL LIABILITIES	***3,786,745***	3,394,735
NET ASSETS	***1,153,849***	910,980

The increase in total assets is due to Integral's capital expenditure program and revaluation increments. The revaluation increased system assets by $362 million, while $287 million ($361 million) of system assets were added from the capital expenditure program.

Borrowings at 30 June 2010 were $2.4 billion ($2.3 billion).The majority of the borrowings are from New South Wales Treasury Corporation. The increase in borrowings helped finance the capital expenditure program.

Total expenditure commitments at 30 June 2010 were $2.6 billion ($2.5 billion), the bulk of which relates to an electricity purchase contract, which is due to expire in 2027.

CORPORATION ACTIVITIES

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

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

For more information on Integral, refer to www.integral.com.au.

TransGrid

AUDIT OPINION

The audit of TransGrid's financial statements for the year ended 30 June 2010 resulted in an unqualified Independent Auditor's Report.

PERFORMANCE INFORMATION

TransGrid is responsible for providing accessible, efficient, safe and reliable facilities for transmitting electricity in New South Wales. The following are some of the key indicators it uses to assess its performance.

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's performance for the years ended 31 December 2007 to 2009 was:

Year ended 31 December	Target	Actual		
	2009-14	2009	2008	2007
Transmission line availability (%)	***99.26***	98.00	98.54	99.38
Transformer availability (%)	***98.61***	98.26	98.53	97.46
Reactive plant availability (%)	***99.12***	97.66	99.00	99.23
Frequency of lost supply events greater than 0.05 mins	***4***	3	2	4
Frequency of lost supply events greater than 0.25 mins	***1***	1	--	1
Average outage duration (minutes)	***824***	817	869	788

Source: Australian Energy Regulator and TransGrid.

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

Energy Maximum Demands

Energy use in New South Wales increased by 1,310 gigawatt hours (GWh) per annum over the past ten years. TransGrid reported the following peak demands:

Year Ended 30 June	Peak Demands (MW)		
	2010	2009	2008
Winter Peak Demand	***13,176***	14,274	13,813
Summer Peak Demand	***13,765***	14,106	12,954

Source: Information provided by TransGrid (unaudited)

TransGrid estimates that peak electricity demand in New South Wales will increase on average by 3.8 per cent annually for the next ten years. TransGrid will spend $2.6 billion on its capital works program over the five year regulatory period from 1 July 2009 to 30 June 2014 to meet increasing electricity demand. TransGrid spent $429 million in 2009-10 on capital expenditure. This was funded by borrowings of $205 million, which increased its total debt to $2.2 billion.

Financial Performance

Year ended 30 June	Target*	Actual		
	2010	2010	2009	2008
Earnings before interest and tax ($m)	***311***	***362.4***	320.5	290.5
Return on equity (%) (a)	***7.0***	***7.5***	8.0	7.7
Return on assets (%) (b)	***6.2***	***6.5***	6.8	7.1
Dividends to government ($m)	***105***	***135.1***	120.2	105.9
Capital expenditure	***468***	***428.7***	619.9	355.0

* Source: TransGrid 30 June 2010 Statement of Corporate Intent (SCI).
(a) net profit after tax divided by average equity.
(b) earnings before interest and tax divided by average assets.

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

Contributions to Government for 2009-10 were $185.5 million, comprising a dividend of $135 million ($120 million in 2009) and taxation of $50.5 million ($42.4 million in 2009).

Capital expenditure decreased significantly from 2009 as some major capital projects were completed in 2009, including the Western 500kV Development Project, Wollar-Wellington 330kV Transmission Line projects and the 133MW Capital Wind Farm.

FINANCIAL INFORMATION

Abridged Statement of Comprehensive Income

Year ended 30 June	2010 $'000	2009 $'000
TOTAL REVENUE	***695,033***	652,797
PROFIT BEFORE BORROWING COSTS, DEPRECIATION, AMORTISATION AND TAX	***545,349***	475,377
Borrowing costs	***138,753***	105,072
Depreciation and Amortisation	***181,299***	152,884
PROFIT BEFORE TAX	***225,297***	217,421
Income tax equivalent expense	***63,224***	67,130
PROFIT AFTER TAX	***162,073***	150,291
OTHER COMPREHENSIVE INCOME		
Net increase/(decrease) in revaluations, including impairments	***513,250***	414,560
Cash Flow Hedge Reserve: net movement in equity	***(3,706)***	14,397
Superannuation Actuarial gains /(losses)	***(44,034)***	(133,287)
Income tax relating to components of other comprehensive income	***(139,654)***	(88,701)
TOTAL OTHER COMPREHENSIVE INCOME	***325,856***	206,969
TOTAL COMPREHENSIVE INCOME	***487,929***	357,260
Dividend provided	***135,058***	120,233

Total revenue includes $675 million ($603 million) from the transmission of electricity, a 12.0 per cent increase. The increase was due to a higher revenue cap set by the regulator and performance incentives. The revenue cap is adjusted each year by indexing for inflation. However, on 25 November 2009, the Australian Competition Tribunal granted TransGrid an increase in its prescribed revenue for the 2009-10 to 2013-14 regulatory period which contributed to the increased revenue cap for 2009-10.

Borrowing costs increased as a result of higher level of debt financing to fund the additional capital works program over the five year regulatory period from 1 July 2009 to 30 June 2014.

Abridged Statement of Financial Position

At 30 June	2010 $'000	2009 $'000
Current assets	***167,120***	163,904
Non-current assets	***5,772,011***	5,006,997
TOTAL ASSETS	***5,939,131***	5,170,901
Current liabilities	***642,727***	728,433
Non-current liabilities	***2,955,834***	2,454,931
TOTAL LIABILITIES	***3,598,561***	3,183,364
NET ASSETS	***2,340,570***	1,987,537

Non-current assets increased by $765 million largely due to a revaluation of network assets and capital expenditure.

Total liabilities increased due to additional borrowings of $205 million to fund capital projects and an increase in deferred tax liabilities of $183 million.

CORPORATION ACTIVITIES

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

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

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

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

Appendix

Appendix 1
Agencies not reported elsewhere in this Volume

Appendix 1 – Agencies not reported elsewhere in this Volume

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
Cobbora Unincorporated Joint Venture	*	30 June 2010
Cobbora Management Company Pty Limited	*	30 June 2010
Cobbora Coal Unit Trust	*	30 June 2010
CCP Holdings Pty Limited	*	30 June 2010

* This entity does not have a website.

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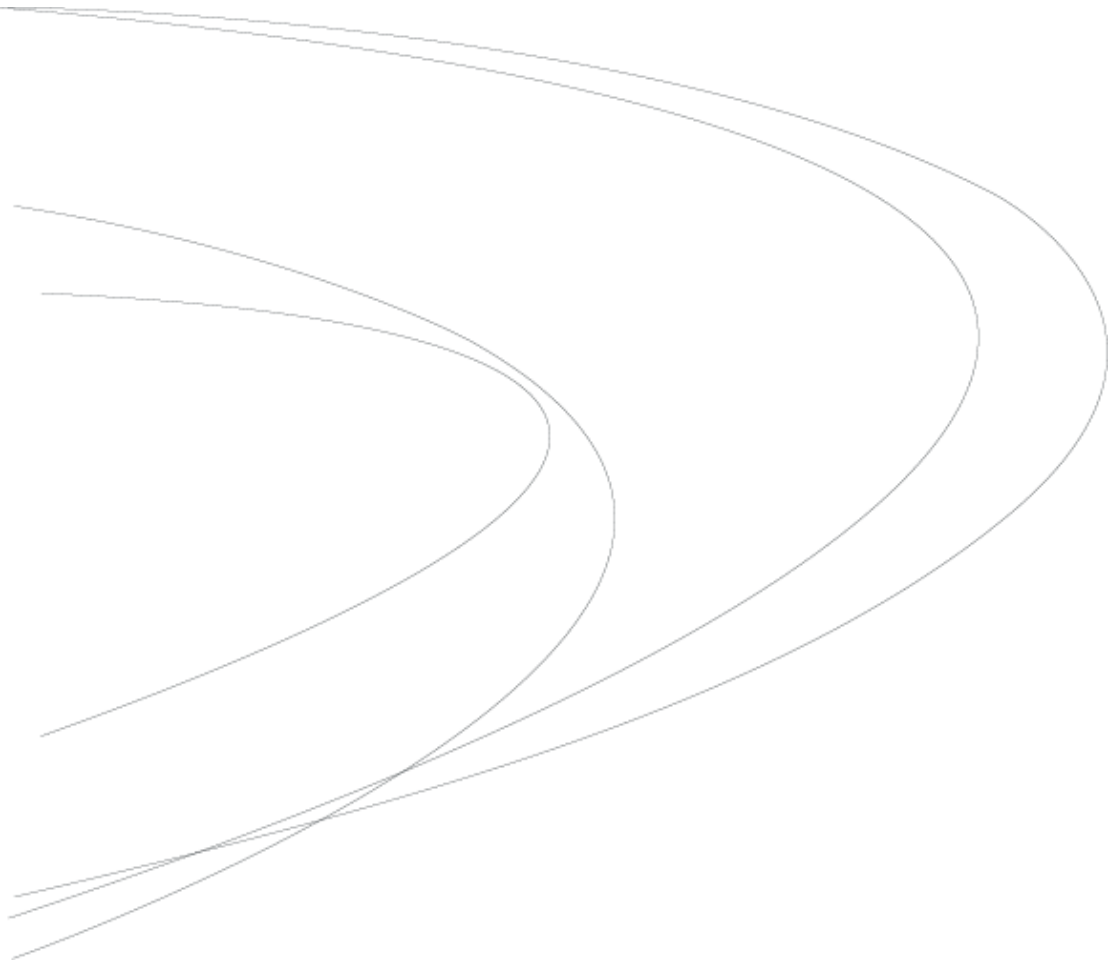

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