

ANNUAL REPORT **2003**



LETTER OF SUBMISSION TO THE VOTING SHAREHOLDERS

The Hon M. Egan MLC
Treasurer, Minister for State Development
and Vice-President of the Executive Council

The Hon J. J. Della Bosca MLC
Special Minister of State, Minister for
Commerce, Minister for Industrial Relations,
Assistant Treasurer and Minister for the
Central Coast

Dear Shareholders,

It is our pleasure to submit to you the annual report of Delta Electricity for the year ending 30 June 2003. The annual report covers Delta's activities and contains the statement of accounts for the financial year.

The annual report was prepared in accordance with Section 24A of the State Owned Corporation Act 1989 and the Annual Reports (Statutory Bodies) Act 1984. It is being submitted for presentation to Parliament.



Peter Dodd
Chairman



Jim Henness
Chief Executive

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Front cover:
Tasmin and Hannah Tynski
visiting Mt Piper Power Station.

Q. How are you taking responsibility for our future?

A. We are dedicated to business solutions that ensure the future is a sustainable one.

The principles of sustainability are defining the policy initiatives of government and are a major factor in the strategy development of many businesses.

For Delta Electricity, the principles mean the development of a framework that provides for the long-term security of its commercial operations, preserves the environment for future generations and supports the development and growth of communities in which these operations are located.

The approach to this Report provides Delta's stakeholders with information about the way the Corporation makes responsible decisions for the development of the business, including recognising the benefits and impact of these decisions. The Report integrates Delta's environment report which has been produced as a separate report in the past. Additionally, information on social and economic performance is included for a more complete view of our business.

Delta's long-term business success is through the development of new market opportunities that strengthen its commercial position but lower the overall rate of greenhouse gas emissions. Some delays have occurred in the quest to develop biomass co-generation facilities but Delta remains optimistic that within the next couple of years renewable energy capacity of more than 60MW will have been commissioned.

EXECUTIVE SUMMARY

REPORTING OBJECTIVES

Delta Electricity's report aims to meet a standard of reporting that satisfies our stakeholders' expectations for accountability and transparency. The information needs of Delta's key constituencies – customers, local communities, employees and shareholders – may be different but there is convergence on a framework that best meets these needs.

For this reason, guidelines developed by the Electricity Supply Association of Australia have been used to structure the content of the report.

The guidelines assist Delta in the communication of its performance from economic, environmental and social perspectives. The framework is also used to describe Delta's capability to manage its operations for long-term viability.

This report provides information to stakeholders for an assessment of Delta's performance and the sustainability of its operations.

We believe it conveys a message of a business that seeks to play its part in the long-term energy solutions for Australia.

PERFORMANCE SUMMARY

MAJOR ACHIEVEMENTS

Delta Electricity's key achievements in the year were:

Plant Performance

Excellent plant performance over the past two years has resulted from a maintenance approach focused on improving plant reliability.

Environmental Management

Delta maintained its accreditation to the international environmental standard ISO 14001 by successfully completing surveillance audits at each power station site. The requirements of this standard include the involvement and commitment by all staff to vigorous environmental management and systems.

Licence Compliance

Delta is subject to a number of licence conditions required by regulators. In the past year, Delta has achieved full compliance with all licence conditions. Due to effective procedures and systems, plant performance and staff training there have been no significant environmental incidents at any power station site in the last three years.

Particulate Emissions

Total particulate emissions were significantly reduced to a level of less than half the amount three years ago. This reduction comes from the introduction of flue gas conditioning at Wallerawang where a major reduction in emissions has occurred from the level three years ago.

Safety

Each of Delta's three business units maintained a Five Star rating under the National Safety Council of Australia's safety award system with Mt Piper, Munmorah and Wallerawang power stations and Corporate office all recording milestones in relation to days without a lost time injury.

MAJOR CHALLENGES

Safety

Delta Electricity's safety record has generally shown an improving trend over the past six years. Delta recognises that many injuries result from the behaviour of people. In an effort to reduce such injuries, a behavioural safety program will be implemented. This type of program operates on the basis that the main cause of injuries are unsafe acts, rather than unsafe

conditions, and focuses on positive performance indicators as the drivers of change.

Stack Emissions

Delta's annual community survey identifies stack emissions from Vales Point Power Station as an area of rising concern for local residents. The emissions are well within the licenced limits for the station but under certain weather conditions, the plume is readily visible.

Delta has continually updated the community on precipitator improvements, and the introduction of flue conditioning at Vales Point has shown some early positive signs. While the number of complaints and enquiries has fallen over the last two years, monitoring of the emissions will determine the need for further initiatives.

Water

Drought conditions in inland NSW have reduced inflows to the dams supplying Mt Piper and Wallerawang power stations. Under Delta Electricity's water licence, environmental flows are reduced when a "drought trigger" combined storage level is reached in these dams. The drought trigger was in effect for the entire year. Continued dry weather will further reduce water storage levels and place pressure on generation from these stations in the medium-term.

CHAIRMAN'S REPORT

For the second consecutive year, outstanding plant performance enabled Delta Electricity to deliver a sound financial result. A forced outage rate of below two percent ensured the plant met market demands from our customers for flexibility and reliability of supply. A net profit before tax of \$102.0 million is testament to the capability and effort of Delta's people and on behalf of the Board, I thank them for this result.

MARKET PERFORMANCE

The National Electricity Market (NEM) continued to experience increased demand for energy. Record summer demands were experienced by New South Wales, Queensland and Victoria, with the latter two states also establishing record winter demands in the year.

Despite this growth in demand, average yearly spot prices in New South Wales declined for the second year running. Increases in the transfer capacity of interconnectors coupled with extra generation from new plants in Queensland saw a growth in the levels of electricity imported into New South Wales.

Delta Electricity's response to these competitive pressures came from all areas of the business and a generation level of over 20,000 gigawatt hours was achieved over the year.

MARKET DIRECTIONS

The National Electricity Market developed further throughout the year with greater involvement of the jurisdictions. The significant developments during the year included:

- Separate reviews of the NEM conducted by member jurisdictions through the NEM Ministers' Forum; and



- The Council of Australian Government's Energy Markets Review (the "Parer Panel").

Delta has and will continue to actively work with these regulatory and governing agencies in the development of the market environment and regulatory framework.

GOVERNANCE

Stakeholder demands for accountability, risk assessment and monitoring and integrity in corporate performance received widespread commentary during the year. The Board examined Delta's corporate governance practices against better practice recommendations to determine the extent these practices were already in place. I am pleased to report Delta's practices are substantially aligned to the recommendations.

Sandra Moait joined the Board during the year, replacing Jennie George who resigned to contest successfully a seat in Federal Parliament. I thank Jennie for her valuable contribution during her term on the Board.

FUTURE DIRECTIONS

The dominant consideration in Delta's strategic direction is the increasing capacity in the electricity market, particularly in Queensland, that has depressed spot market prices. This means Delta's existing portfolio of plant must remain low cost, reliable and efficient. The exceptional plant performance over the past two years will need to be replicated into the future and planned flexible maintenance strategies have been developed to meet this requirement.

Additionally, a focus will be increasing Delta's internal efficiency. Material and expense costs will need to be continually reduced. Improvements to plant outage programs, supplier arrangements and coal supply sourcing

are all expected to reduce costs and improve Delta's competitive position.

Reviews of market design principles and environmental policy frameworks create an uncertain climate for the industry. Delta's submission to the Mandatory Renewable Energy Target Review supported a slight increase in the energy target and the introduction of either indexed escalation to the penalty or other commercial incentives to support this emerging industry.

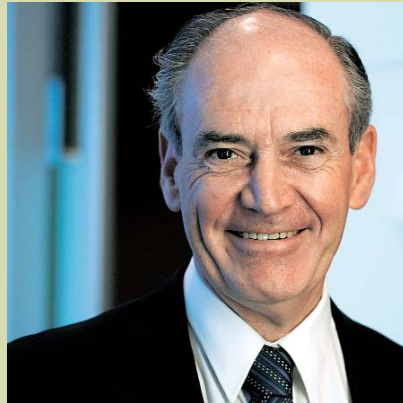
Low greenhouse gas emission developments remain a focus and development consent and approval has been received for construction of a 30 megawatt renewable energy plant at the New South Wales Sugar Milling Co-operative's Condong site. Also, environmental assessment of a proposed wind farm in the southern tablelands region of New South Wales was substantially progressed.

On behalf of my fellow Board members I want to thank Jim Hennessey and his team for their combined efforts that have produced another excellent performance.

To the staff of Delta thank you for your commitment and support.

Peter Dodd
Chairman

CHIEF EXECUTIVE'S REPORT



Delta Electricity continued its strong performance throughout the year with effective contributions from all parts of the business. Plant operations were a significant factor enabling a high level of unit availability to meet customer energy needs.

Successful management of market risks enabled Delta to report a net profit before tax of \$102.0 million, slightly above target. A dividend of \$113.1 million was declared to the Shareholders which included a special dividend of \$50 million sourced from retained profits.

On a range of financial measures Delta performed extremely well. However, there are other, non-financial measures on which businesses are also being assessed. Environmental and social performance as well as the rigour of corporate governance arrangements are areas on which stakeholders are now seeking information. Delta has continued to measure its performance using the “balanced scorecard” method covering financial, employee, plant, environment and community indicators. This Report is structured to convey information to stakeholders on these business areas as well as Delta’s overall financial performance.

ENVIRONMENT

Delta’s strategy to improve greenhouse gas emission rates by diversifying its generation portfolio gathered momentum. Renewable energy production increased to more than 15 gigawatt hours this year mainly through successful co-firing of accredited biomass materials at three power stations. Additionally, a third mini-hydro generator was commissioned at Dungog, an environmental assessment for a wind-farm was progressed and development consent was granted for a co-generation plant at Broadwater.

Delta maintained its accreditation to the international environmental standard ISO 14001 by successfully completing surveillance audits at each power station site. The requirement of this standard includes

the involvement and commitment by all staff to vigorous environmental management and systems. That Delta recorded, for the third consecutive year, no major environmental incidents or licence breaches, is testament to the endeavours and commitment of our people.

Dust emissions from power station operations are a source of concern for local communities. It is, therefore, pleasing to report a significant decline in these emissions since 1999/2000, which follows the installation of flue conditioning plants at Wallerawang and Vales Point.

ETHICS AND RISK

Delta values fairness and integrity in the work environment and particular attention is given to the expectations of employee behaviour. The ethical framework in place is clear and unambiguous and provides all stakeholders with a high level of confidence in their dealings with any employee.

Delta’s Code of Conduct was revised in the year, taking into account trends that have emerged in corporate responsibilities. The Code was reviewed by an independent external agency to ensure it met contemporary community expectations.

Compliance with various Acts and industry specific Codes is important for the protection of Delta’s commercial position and reputation. A computer-based program for trade practices compliance training was implemented in the year to raise awareness and develop an understanding of these regulatory principles.

Additionally a fraud and corruption risk assessment, including a review of key policies and audit reports, demonstrated that the risk mitigation measures in place are effective in preventing fraudulent activity.

International events and the response from the Commonwealth and State governments resulted in the adoption of new security measures at each of Delta’s establishments. While there has been no specific threat to any power station, Delta has implemented initiatives consistent with the level of security alert for the protection and safety of its plant, employees and local communities.

SAFETY

Each of Delta’s three business units maintained a Five Star rating under the National Safety Council of Australia’s safety award system. However, an increase in injuries involving lost time from work is an area of concern and will be addressed through the implementation of a behavioural safety program. A task based risk assessment tool has been implemented across each of the business units as part of a safety rules management system, further strengthening Delta’s commitment to the risk management principles outlined in the revised OHS Regulations.

COMMUNITY

Delta’s community relationship program addressed community stakeholders’ needs, with a structured approach including sponsoring diverse community activities. Some 120 community groups in the Lithgow and Central Coast regions now partner with Delta.

The annual survey of Lithgow and Central Coast communities found that general environmental concerns are increasing in these communities. While our survey generally indicates that Delta is not viewed as a major contributor, specific initiatives at the power station sites have addressed these concerns.

FUTURE DIRECTIONS

Average annual market prices, although supported by volatility in periods of high demand, have declined in the past two years. Excess generating capacity is likely to keep this downward pressure on prices and deter any major new investment in the short-term. In this environment cost reductions will be important to maintain Delta’s competitive presence.

The implementation of initiatives resulting from the several reviews of the electricity market, will determine changes to the market in which Delta will operate. It is expected that these changes will provide for a more efficient market and Delta welcomes these changes.

I am proud of Delta’s achievements in this and previous years and I am confident that Delta will continue to meet the competitive challenges of the market. Delta employees have provided the impetus for our performance and I thank them for their effort. I also thank the Board for its sound and valuable advice.

Jim Henness
Chief Executive

CORPORATE PROFILE

OVERVIEW

Delta Electricity is an electricity generation company. We produce electricity from several facilities and a diversified set of energy sources including coal, water and biomass materials.

Our generators produce around 13% of the electricity needed for the national electricity spot market, meeting the needs of electricity consumers from Queensland to South Australia across the east coast of Australia.

Most of Delta's generation derives from the coordinated operation of four coal-fired power stations located in NSW: Mt Piper and Wallerawang near Lithgow, and Vales Point and Munmorah on the Central Coast. The total available generating capacity is 4,240 MW.

Delta aims to achieve a lowest cost of overall production commensurate with the needs of managing the commercial risks of our participation in the market. While coordinating the operation of the four power stations presents complex operating challenges, we gain considerable benefits from our ability to respond rapidly to changing market and plant conditions.

The remainder of Delta's generation is from renewable energy sources. The contribution from mini-hydro generators and biomass materials is small at this time, but will grow as new projects are completed.

Delta Electricity operates under the Energy Services Corporations Act (1995) and the State Owned Corporations Act (1989). The organisation was formed on 1 March 1996 as part of the NSW Government's restructure of the state's electricity industry. This restructure was in response to large scale changes in generation, transmission and supply of electricity in eastern Australia following the Federal Government's program of competition reform.

PRINCIPAL FUNCTIONS AND OBJECTIVES

Delta Electricity's principal functions are to:

- (a) establish, maintain and operate facilities for the generation of electricity and other forms of energy
- (b) supply electricity and other forms of energy.

Guiding Delta in carrying out these functions are the following principal objectives:

- (a) to be a successful business and, to this end to:
 - (i) operate at least as efficiently as any other comparable businesses;
 - (ii) to maximise the net worth of the state's investment in Delta; and
 - (iii) to exhibit a sense of social responsibility by having regard to the interests of the community in which it operates.
- (b) to protect the environment by conducting its operations in compliance with the principles of ecologically sustainable development contained in section 6 (2) of the Protection of the Environment Administration Act 1991;
- (c) to exhibit a sense of responsibility towards regional development and decentralisation in the way in which it operates;
- (d) to operate efficient, safe and reliable facilities for the generation of electricity;
- (e) to be an efficient and responsible supplier of electricity;
- (f) to be a successful participant in the wholesale market for electricity.

VISION, MISSION AND VALUES

Vision

Generating Performance Through Innovation

Mission

To be the supplier of first choice in the electricity market by ensuring that:

- **Customers** receive competitive prices, reliable supply and innovative, customised services.
- **Staff** work in a safe, challenging and creative workplace, receive a fair return for their contribution, and have opportunities to develop.
- **Community** members welcome us as a valued, environmentally responsible organisation.
- **Stakeholders** are confident that we effectively manage the business and associated risks.

Shared Values

We value:

- **productive relationships**
Maintaining productive relationships with customers, colleagues and suppliers.
- **safety, health and welfare**
Providing for the safety, health and welfare of our people, visitors and the community.
- **continuous improvement**
Demonstrating continuous improvement in all aspects of our business.
- **learning and development**
Supporting the learning and development of our people for business success.
- **environmental performance**
Caring for the environment for future generations.
- **honesty, fairness and integrity**
Ensuring honesty, fairness and integrity in all that we do.

EXECUTIVE SUMMARY

FIGURE TWO: LOCATION OF OPERATIONS



- ▲ Coal
- ▲ Hydro
- ▲ Biomass
- ▲ Hydro planned
- ▲ Biomass planned
- ▲ Wind farm planned

Location	Unit size	Total units	Capacity
Coal			
Mt Piper	660MW	2	1320 MW
Vales Point	660MW	2	1320 MW
Wallerawang	500MW	2	1000 MW
Munmorah	300MW	2	600 MW
			4240 MW
Hydro			
Mt Piper	350kW	1	350 kW
Chichester Dam	110kW	1	110 kW
Dungog Water Treatment Plant	110kW	1	110kW
			570 kW
Biomass			
Biomass operations at Mt Piper, Wallerawang and Vales Point involve the addition of biomass materials to the coal being conveyed to the station for combustion. This activity does not change the capacity of the station. Output for 2002/2003 was 11.4 gigawatt hours.			

EXECUTIVE SUMMARY

TABLE ONE: **Key Performance Indicators – Statistical Summary**

	Unit	02/03*	01/02	00/01	99/00	98/99	97/98
Financial statistics							
Total Sales Revenue	\$m	727.7	719.3	737.8	639.8	562.9	559.8
EBIT	\$m	173.2	200.6	225.1	167.1	96.4	96.9
Net Profit Before Tax	\$m	102.0	142.4	188.1	158.7	60.7	54.6
Net Profit After Tax	\$m	61.4	95.0	133.0	119.7	38.5	31.9
Total Debt	\$m	784.3	728.6	730.9	351.4	420.9	424.6
Total Equity	\$m	800.6	393.6	384.1	760.8	727.7	722.0
Return on Assets	%	8.6	12.6	14.5	11.2	7.0	7.1
Return on Equity	%	7.7	24.1	34.6	13.4	5.3	4.4
Gearing	%	49.5	64.9	65.6	31.6	36.6	37.0
Interest Cover	Times	2.4	3.4	6.1	4.9	2.7	2.3
Debt:Equity	%	98.0	185.1	190.3	46.2	57.8	58.8
Current Ratio		1.3	1.3	1.3	1.3	1.0	1.3
Operational statistics							
Production	GWh	20,354	20,843	21,163	20,481	20,006	19,222
EFOF	%	1.7	0.9	3.5	9.6	4.2	4.5
Availability	%	88.8	90.4	85.2	82.9	86.7	87.5
Thermal Efficiency	%	35.3	35.0	34.9	35.2	35.3	35.6
Coal Stockpile Levels	\$m	65.8	54.9	48.3	30.2	28.0	32.8
Employee statistics							
GWh/employee		27.1	27.6	27.1	25.9	24.3	18.6
Staff Numbers		751	754	782	797	822	1032
Training	Days/employee	5.9	7.1	6.9	7.2	8.2	8.3
Sick Leave	Days/employee	6.1	5.8	6.5	6.6	8.5	9.2
Safety	Frequency rate	8.7	5.3	7.0	11.8	5.7	14.6
Environment Statistics							
Licence Breaches		0	0	0	2	3	3

* Figures relate to Delta Electricity's consolidated result