

# Economic Performance



## ECONOMIC PERFORMANCE

**Effective supplier relationships contributed to Delta's economic performance. Neil Alston of Centennial Coal and Delta's Dave Williams at the pilot methane plant at Vales Point.**

### CUSTOMERS

Delta Electricity's principal function is to establish, maintain, and operate facilities for the profitable generation of electricity and ancillary services for the benefit of stakeholders including shareholders, customers, employees and the wider community. It does this ethically, safely and productively with best practice environmental management procedures.

Delta's customers in the wholesale electricity market are electricity retailers. We recognise that good customer relationships with these retailers are at the heart of our continuing business success. Personalised customer service is provided by a team valued for its professionalism, trustworthiness and responsiveness. Delta's team is fully committed to understanding each customer's business and to developing customised products to suit their needs.

Generating some 21,308 GWh of electricity last year, Delta contributed about 12% of the total generation in the National Electricity Market. Sales revenue was \$724.2 million.

#### Contribution to renewables

Additionally, Delta seeks new opportunities to leverage its skills and resources, particularly in developing sustainable energy production. Rigorous financial, feasibility, environmental and social impact analysis is undertaken to manage new and existing ventures. Potential projects include renewable energy from sugar cane-based fuels on the NSW North Coast, developing a wind farm on the Southern Tablelands and expanding operations at Mt Piper Power Station near Lithgow.

Managing the legislative requirements and community expectations for renewable energy has also seen Delta establish three mini-hydro facilities and co-firing biomass at three of its existing power stations.

Renewable energy generation totalled 28.2 GWh. Revenue from renewable products related to the energy price – typically the market price as determined through the pool – and income from any green premium or market instrument. There are two market based schemes – the NSW Greenhouse Gas Abatement Scheme (NGAS) program and, nationally, the Renewable Energy Certificate program.

The objective of the NGAS scheme is to reduce greenhouse gas emissions associated with the production and use of electricity and to encourage participation in activities to offset the production of greenhouse gas emissions. Electricity suppliers are required to surrender NGAS certificates each year based on the volume of electricity sales. Fines are levied if retailers are unable to source sufficient NGAS certificates to meet their obligations.

Delta's application for accreditation of Mt Piper, Vales Point and Wallerawang power stations as NGAS certificate providers was approved in the year by the Independent Pricing and Regulatory Tribunal. The registration of NGAS certificates by Delta reflected efficiency improvements that lowered each station's emission rate below the lower bound of the Generator Efficiency Standard.

Renewable Energy Certificates (RECs) are created by the Renewable Energy (Electricity) Act 2000 and are used to

demonstrate compliance with the requirements of the Federal Government's mandatory renewable energy target. The energy attributable to the co-firing of biomass materials at Mt Piper, Wallarawang and Vales Point power stations and the Dungog and Chichester mini-hydros all qualified for RECs.

### SUPPLIERS

#### Raw materials

Delta principally derives its coal supplies from mines located in relatively close proximity to its Central Coast and Western power stations. However, a small proportion has been sourced from other areas via the rail receival facility on the Central Coast. All of the mines delivering to Delta are privately owned with Centennial Coal being the single largest supplier. Approximately 95% of the coal delivered is produced from underground mines utilising either longwall or continuous miner technology.

The coal is delivered under contracts with durations that are a mix of short, medium and long terms so that Delta can balance its requirements for cost competitiveness and security of supply.

Wood residues are purchased for co-firing at three power stations – Wallerawang,

Mt Piper and Vales Point. These materials include chipper residues, residues after plantation logging and some construction and demolition material. All of these materials are accredited as materials suitable for the production of renewable energy.

#### Operations and maintenance

Delta manages its large asset base to optimise performance while ensuring strong profitability now, and in the future. Sophisticated planning and control processes ensure optimal management of resources in meeting performance objectives.

Delta coordinates the production and maintenance at its four thermal power stations to ensure maximum generating power is available. Improved plant control systems also provide for the better management of assets and maintenance programs. Constant refinement of procedures drives continuous improvement, lifting productivity and ongoing financial success.

All capital expenditure undertaken by Delta relates to its current business activities. The majority of capital expenditure is focused on existing power station assets with the aim of improving operational efficiency, lowering future maintenance costs and ensuring the power station assets operate effectively until the end of their economic lives. However, recognising legislated renewable energy targets and future business opportunities, Delta is engaged in feasibility analysis and development of renewable energy projects.

Major capital projects are subject to an initial technical appraisal and, if successful, require a full financial evaluation to support any proposed expenditure prior to commitment. All capital works will be financed from internally generated sources.

#### Relationship with suppliers

Delta has a transparent supplier management process which focuses on identifying competent, ethical partners to establish mutually beneficial relationships. Key Performance Indicators specifically address supply management issues, such as ensuring suppliers are paid within 30 days.

Expenditure on consultants totalled \$588,535. Table eight provides a breakdown of this expenditure.

### CONTRIBUTIONS

#### Taxes and government payments

Delta's distributions provide for sufficient cash for operations and capital investment needs, underpinning ongoing financial security. The current policy is to allow for a dividend distribution equal to 100% of after tax profit.

TABLE EIGHT: EXPENDITURE ON CONSULTANTS

#### Consultants equal to or more than \$30,000

Consultant	Cost	Title/Nature
<i>Engineering</i>		
Connell Wagner	\$88,609	Pre-feasibility study for power station expansion
Maunsell	\$48,900	Coal study
Maloney Field Services	\$122,973	Advice and valuation on property matters for new developments
Minarco Asia Pacific	\$49,355	Feasibility study into mine value
Sub Total	\$309,837	
<i>Finance and Accounting/Tax</i>		
KPMG	\$139,000	Advice on the adoption on IFRS
Sub Total	\$139,000	
<i>Management Services</i>		
Lane Safety Systems	\$62,700	Advice on the requirements for self insurance
Sub Total	\$62,700	
Total consultancies equal to or more than \$30, 000	<b>\$511,537</b>	
<b>Consultancies less than \$30,000</b>		
During the year, seven other consultancies were engaged in the following areas:		
Engineering	\$15,840	
Environment	\$14,282	
Finance and Accounting/Tax	\$17,680	
Information Technology	\$4,950	
Management Services	\$18,776	
Organisational Review	\$5,470	
Total consultancies less than \$30, 000	<b>\$76,998</b>	
<b>Total Consultancies</b>	<b>\$588,535</b>	

## Economic Performance

In managing annual funding requirements Delta reviews:

- Medium term fixed asset expenditure program.
- Investment in new business opportunities.
- Sustainable financial structure for Delta.
- Working capital requirements.

### Contribution to community agendas

Economic performance focuses on how Delta impacts its direct and indirect stakeholders. The electricity industry is a significant contributor to Australia's GDP with an aggregate annual turnover of more than \$20 billion. Direct employment totals more than 30,000 people with significant flow-on benefits. Reliable, cost-effective energy is also vital to the continued development of the overall economy.

In its regions, and within the state of NSW, Delta plays an important economic role, through its direct employment and role as a major coal purchaser.

### Financial measures

Delta has identified financial performance measures which are shown in Table nine.

## INDIRECT INDICATORS

### Cost of reporting

Delta has for several years produced an Annual Report and an Environment Report. To save on total reporting costs, the two reports have been combined into one. The total cost of the report is \$48,615.

### Cost of compliance

Under the NSW Protection of the Environment Operations Act, many environmental protection licence holders are required to pay fees based on the nature and quantity of certain substances released to the environment. For coal-fired power stations these include coarse and fine particulates (dust), nitrogen dioxide, sulfur dioxide and fluoride. This process is called Load Based Licensing (LBL) and was developed by the Environment Protection Authority to provide financial penalties which could encourage companies to invest in pollution reduction. The total LBL fees paid by Delta in 2003/04 were almost \$3.6 million.

TABLE NINE: FINANCIAL PERFORMANCE MEASURES

	2003/04	2002/03	2001/02	2000/01	1999/00
Tax expense (\$m)	36.9	33.9	47.4	55.0	39.0
Dividend Payable (\$m)	74.2	113.0	85.5	129.7	86.7
Return on Assets (%)	9.4	8.7	12.6	14.5	11.2
Return on Equity (%)	9.4	7.7	24.1	34.6	13.4