

# Aurora Energy Pty Ltd – Report from the Chief Financial Officer



The 2008/2009 financial statements have been prepared during a period of significant change for the Aurora Group, with:

- continued growth in the core distribution business and works program;
- continued evolution of the energy markets in Tasmania;
- the acquisition of the Tamar Valley Power Station and the purchase of gas and gas transport contracts together with dispatch rights to Bairnsdale Power Station in Victoria; and
- Aurora and the Tasmanian Government recently announced as partners with the Australian Government in rolling out the National Broadband Network (NBN) in Tasmania.

Aurora's profit before tax, superannuation actuarial losses, financial instrument fair value movements and customer contributions for 2008/2009 was \$25 million, compared with \$30 million in the prior corresponding period. This is a pleasing result given:

- this result includes \$13 million of losses from AETV Power following its acquisition, which was in line with expectations. The power station started to commission individual generating

units in the second half of the year with final completion and operation expected in September 2009. The loss for the 2008/2009 year represents operating costs incurred during the construction and partial operation phase, net of generation revenue. Operating costs represent those operational costs which cannot be capitalised to the construction project under Australian Accounting Standards; and

- operating profitability was significantly impacted by extreme energy market price volatility in June 2009 when Aurora was exposed to purchasing energy from the spot market at unprecedented high levels. These events eroded pre-tax profitability by about \$8.5 million. Exposure to similar extreme price events will be partially mitigated with the full commissioning of the power station in September 2009.

Commentary on the key items within the profit result is set out below.

## **Aurora Group Revenue**

Group revenue rose by \$112 million to \$1.018 billion.

Revenue increased due to growth in electricity sales in interstate markets, regulated price increases in the Tasmanian market and new revenue from electricity generation and wholesale gas contracts.

## **Group energy and transmission purchases and functional expenses**

The primary operating cost for Aurora is energy and transmission purchases.

This cost rose \$78 million to \$703 million in 2008/2009, supporting business expansion and revenue growth and including regulated cost increases from transmission.

Functional expenses rose \$20 million to \$144 million as a result of the increased scale and complexity of the business, including AETV Power.

## **Borrowing costs**

Borrowing costs rose \$5.5 million to \$40 million as debt levels increased to fund the distribution program of works.

For 2009/2010, an additional interest expense will be incurred as the power station moves to its full operational phase and interest is no longer capitalised to the construction project.

## **Depreciation and amortisation**

Depreciation and amortisation rose \$7 million to \$78 million as a result of the increase to assets under management.

## **Financial instrument fair value movements**

The Aurora Group sources most of its electricity from the NEM at the spot price. In order to achieve a firm price for the electricity consumed by its customers, Aurora uses electricity derivatives to hedge the price for expected load. The value of these derivatives changes as the forward contract prices change.

The application of Accounting Standards and changes in fair value can lead to fluctuations in annual profit. More detail on Aurora's accounting policy can be found in notes 1(r) and 1(s) to the financial statements.

Aurora began to fair value Tasmanian market contracts with effect from 1 July 2008 after concluding that there was sufficient information to determine a Tasmanian market contract price curve for electricity. This treatment, and falls in market prices in all regions by year's end, resulted in a \$22 million book loss of marked-to-market losses (before tax) being recorded in the income statement for the year.

## **Superannuation actuarial losses**

As a result of the outcomes of an independent actuarial review of a defined benefits superannuation fund and based upon current market variables, a superannuation expense of \$6 million was booked in June 2009 compared to a \$1.7 million gain in June 2008.