

ACHIEVEMENTS

Wholesale Electricity Market started 21 September

- Verve Energy began trading activities after many months preparation,
- Assisting IMO, ERA and market participants with fine-tuning the WEM operations/activities. ◇

Consolidating the gains from setting up Verve Energy as a stand alone generation business.

Engineering Excellence Award – Verve Energy's Diesel and Wind Systems recognized by Engineers Australia.

Plant improvements

- Collie Power Station uprate completed,
- Muja Power Station Stage D uprate started,
- Preparations to replace control and instrumentation systems at Muja Power Station Stages C and D progressing,
- Kwinana Power Station - K5 overhaul completed,
- Pinjar control systems upgrade,
- NewGen – committed site works for the new gas-fired baseload power station at Kwinana are underway.

Sustainable Energy

- Environmental approvals – Hopetoun and Coral Bay;
- Rottnest Island wind-diesel handed over to Rottnest Island Board.

Fuel – DBNGP Stage 4 expansion commitment confirmed; Stage 5A expansion commitment will result in gas being available for Kemerton Power Station this summer (which reduces reliance on liquids).

INITIATIVES

Kwinana Power Station coal burning – study into extending coal-burning to cover gas supply insecurity.

IT&T strategic review completed; blueprint for future development.

Muja Power Station Stage A/B shutdown strategy - closure in April 2007; put on care and maintenance.

RWE maintenance review completed and report being assessed; strategy for implementation being prepared.

Safety

- LTI figure linked to incentive plan,
- Scratchies Safety Win program introduced to encourage and reward safe work practices.

Risk Assessment and management – completed and under regular review

- Procurement review to improve the effectiveness and efficiency of existing policies and strategies.

Sustainable Energy

- Biodiesel trial West Kalgoorlie gas turbine successful; planning extended trial using Pinjar gas turbine.

CHALLENGES

2006/07 summer readiness,
 Securing sufficient gas capacity to minimise liquid burn,
 Wholesale Electricity Market – trading activities and rule changes,
 Culture change within Verve Energy,
 Intensive maintenance program – response to RWE maintenance review,
 Improve reliability to assist improved financial performance.

BALANCED SCORECARD

For the quarter ended 30 September 2006

FINANCIAL	
EBIT - Earnings Before Interest & Tax (\$m)	(13.5)
ROCE - Return on Capital Employed (%)	(3.4)
Unit Cost of Supply (c/kWh)	7.2

CUSTOMERS	
Supply of Electricity (GWh)	3,342.0
Corporate Reputation Index	43.0

INTERNAL PROCESSES	
Thermal Efficiency (%)	32.1
Plant Availability (%)	80.6
Forced Outage Factor (%)	7.1
Fuel Diversity - Coal (%)	77.4
Fuel Diversity - Gas (%)	19.3
Fuel Diversity - Liquids (%)	3.2
Fuel Diversity - Biomass (%)	0.1

EMPLOYEES	
LTIFR - Lost Time Injury Frequency Rate	1.7
MTIFR - Medical Time Injury Frequency Rate	26.8
Labour Force Efficiency (%)	2.9

COMMENTARY

The second quarter of operation for Verve Energy has again provided a mixed result. Trends evident in our first quarter period of 1 April to 30 June have continued. The results in summary are:

- EBIT loss of \$13.5 million driven by higher liquid fuel costs due to lower coal plant availability, gas transport curtailments and higher liquid fuel prices.
- Supply of electricity has increased from 3,070 GWh in the first quarter of operation to 3,342 GWh in this quarter, an increase of 9%.
- Plant availability improved slightly from 79.5% in the last quarter to 80.6%.
- Poor plant reliability in coal-fired plant lead to an increase in average forced outage rate of 7.1% compared 5.3% the previous quarter.
- Safety performance at 1.7 LTIFR is an improvement on the previous quarter result of 3.6 LTIFR.
- Debt increased \$43 million during the quarter. Debt to equity ratio has increased from 120% in the last quarter to a new level of 137%.

CHALLENGES

- Increasing liquid fuel price and consumption
- Plant reliability and efficiency
- Gas transport curtailments
- Debt management