



DECEMBER 2009 Quarterly Report

OPERATIONS REVIEW

- Maintenance programs on all generating plant completed on time; ready for forthcoming summer peak demand period.
- Contracts for the supply, installation and commissioning of two high efficiency gas turbines (HEGT) at Kwinana Power Station were completed with General Electric and the UGL Ltd.
- Kwinana Power Station Stage B demolition to make way for the HEGTs is on target. The 130m stack was demolished using a technique rarely used in Australia.
- Maintenance of the Collie Power Station saline waste water pipeline is underway.
- An operational review is underway as Verve Energy adjusts to its changed operating environment where there is an oversupply of baseload generation in WA.

FINANCIAL

- See Balanced Scorecard
- Verve Energy's financial position is improving as changed revenue arrangements take effect.
- Verve Energy is progressing towards providing its own IT&T services with the successful introduction of a new document management system.
- Arrangements were finalised with Fujitsu for development of a suitable Energy Trading Management System (ETMS)

BUSINESS DEVELOPMENT

- Muja AB refurbishment – joint venture agreement details are being finalised while environmental works approvals and community consultation continue.
- Verve Energy is assisting with the implementation of Oates Review recommendations involving the vesting contract, market rules and generation planning.
- Verve Energy was successful in the 2008 procurement program conducted by Synergy to provide energy capacity from 2011. Verve Energy also was nominated preferred tenderer in the 2009 procurement program.
- Feasibility studies continued into three wind farm prospects on the south coast and MidWest region of WA.
- Verve Energy is participating in an innovative carbon capture and storage project with Department of Mines and Petroleum and Collie region industries

CORPORATE SERVICES

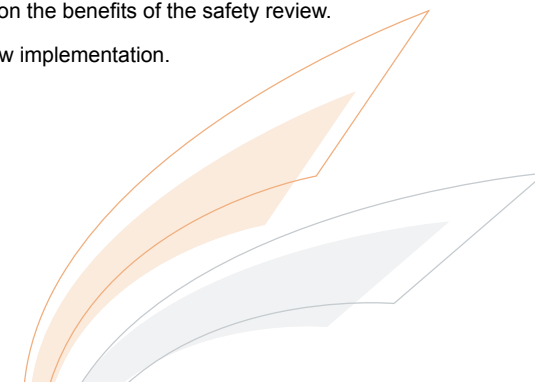
- A comprehensive review of Verve Energy's safety strategy could take about 12 months.
- About 100 employees' service was acknowledged at the 2009 employee service awards; the biennial employee survey was concluded and the annual corporate reputation survey produced positive results.
- A successful crisis exercise tested Verve Energy's emergency response at a corporate level.

COMMUNITY PARTNERSHIPS

- The Verve Energy Collie Community Fund has provided more than \$10,000 in grants to 10 local groups. Verve Energy supported a range of activities in the Collie and Kwinana regions and reached agreement with Engineers Australia to provide professional development program for graduates.
- A new employee giving program is benefiting three major recipients – RFDS, PMH and Cancer Council.
- Verve Energy is a member of the Industry Road Safety Initiative made up of government, local government and Collie region industry representatives to raise awareness of road safety.

CHALLENGES

- Managing the impact on Verve Energy's portfolio and operations of the current oversupply of base load generation in the system.
- Maximising the benefits of tariff increases and the new CSO arrangements.
- Ensuring stable fuel supply arrangements.
- Capitalising on the benefits of the safety review.
- Oates Review implementation.





DECEMBER 2009 Quarterly Report - Financial Review

Balanced Scorecard - December 2009 YTD

ITEMS	Dec-08	Dec-09
	YTD	YTD
FINANCIAL		
EBIT (\$M)	(112.0)	121.7
Average Unit Cost of Supply (c/kWh)	8.1	7.7
Return on Capital Employed (%)	(13.8)	13.8
CUSTOMERS		
Supply of Electricity (GWh)	7053.5	6008.5
Corporate Reputation Index	61.0	56.0
INTERNAL PROCESSES		
Thermal Efficiency (%)	21.3	30.6
Plant Availability (%)	83.5	81.3
Forced Outage Factor (%)	4.8	1.5
Fuel Diversity - Coal (%)	67.0	64.2
Fuel Diversity - Gas (%)	32.1	35.5
Fuel Diversity - Liquid (%)	0.9	0.4
Fuel Diversity - Biomass (%)	0.0	0.0
EMPLOYEES		
LTIFR (12 month moving average)	6.8	3.0
MTIFR (12 month moving average)	25.8	26.0

Commentary

EBIT of +\$121.7 million for the December 2009 YTD was +\$56.1 million favourable against the MYR budget of +\$65.6 million. This result is +\$233.7 million higher than the -\$112.0 million for the same period last year.

The loss in prior period was mainly due to the gas crisis and failure of Worsley.

Key reasons for the increase in profitability are:

- Ministerial approval has been granted for Verve Energy to receive cost reflective tariff through the proposed Community Service Obligation (CSO) payment from the Government via Synergy, resulting in higher Vesting revenue.
- Lower production costs, largely due to favourable electricity purchases of +\$11.2 million driven by favourable prices (+\$29.5M) as a result of the opportunity to purchase electricity on the WEM at less than Verve Energy's cost to produce. This was offset by increased purchases during Verve Energy's plant outages (\$18.3M).
- Other expenses were \$10.4 million below budget due to delays in operating projects at Kwinana and Muja and timing differences in other operating expenses.

Supply of electricity at 6008.5 GWh was 2.4% above MYR, largely due to favourable Vesting Sales to Synergy and sales to the Wholesale Electricity Market (WEM). It was however 14.8% lower than previous year's 7053.5 GWh.

Operational performance in the December 2009 YTD is highlighted by:

- Forced outage Factor of 1.5% is significantly lower than the 4.8% of the same period last year.
- Gas usage of 18,293 TJ is 2,588.9 TJ higher than MYR estimates and higher than the same period last year due to the consistent running of gas plants at high capacity factors, reflecting Verve Energy's increased balancing role YTD.
- Oil consumption has been kept to a minimum level. Liquid fuel burn of 4.1 Kt is 0.7 Kt lower than MYR estimates and lower than the same period last year.