

directors' report

The directors present their report on operations of the company and its controlled entities for the financial year ending 30 June 2009.

Legislative authority

Aurora Energy Pty Ltd was formed under the *Corporations Act 2001* and pursuant to the *Electricity Companies Act 1997*. Its governing constitution is its Memorandum and Articles of Association.

The primary purposes of the company, as specified in the constitution, are to undertake:

- the distribution of electricity;
- the retailing of electricity;
- activities related to or associated with the distribution or retailing of electricity; and
- any other activity, which the shareholders may, by special resolution, approve.

The shareholders have approved company activities in the distribution and retailing of gas and telecommunications services.

In December 2008 the shareholders passed a special resolution approving the Aurora subsidiary EziKey Group Pty Ltd being used to commercialise, nationally and internationally, neutral detection technology.

In June 2009 the shareholders approved company activities in wholesaling gas and electricity that support gas and electricity retailing, electricity generation using the Tamar Valley Power Station, managing trading rights for the Bairnsdale Power Station and contracts to sell gas to wholesale customers.

The company is required under its constitution:

- to operate in accordance with sound commercial practice; and
- to maximise its sustainable return to its shareholders.

Principal activities

The company holds licences issued under the *Electricity Supply Industry Act 1995* for the retailing and distribution of electricity within the State of Tasmania, and has been operating since 1 July 1998. It also holds licences to retail electricity in Victoria, New South Wales, South Australia, Queensland and the ACT. In February 2004 the company obtained a licence to retail gas in Tasmania.

Its principal activities during the year continue to be the retailing and distribution of electricity within the State of Tasmania. Activities in the retailing of electricity in States other than Tasmania, and the retailing of gas in Tasmania, have progressively increased during the past 12 months.

With the acquisition of Aurora Energy (Tamar Valley) Pty Ltd as a wholly-owned subsidiary, the activities of the Aurora Group have expanded to include power station construction, generation of electricity and activities in the wholesaling of gas and electricity.

Review of operations

For the year ended 30 June 2009 the Aurora Group recorded a profit before tax, customer contributions, financial instrument fair value movements and superannuation actuarial adjustments of \$25.4 million, and its operating profit after income tax equivalent was \$9.1 million. The company delivered \$24 million to the Tasmanian Government and the community by way of income tax equivalents and dividends paid. Further particulars are contained in the company's annual financial report and the Chief Financial Officer's report.

Significant changes in the state of affairs

Tamar Valley Power Station

Pursuant to a Shareholder Direction in August 2008, Aurora entered into contractual arrangements to purchase the Tamar Valley Power Station then under construction by a subsidiary of Babcock and Brown Power Limited.

Under the arrangement, Aurora purchased Alinta Energy (Tamar Valley) Pty Ltd, renamed Aurora Energy (Tamar Valley) Pty Ltd (trading as AETV Power), as a wholly-owned subsidiary. AETV Power assumed responsibility for completing construction of the gas-fired power station, commissioning of the plant and eventual operation of the station in the National Electricity Market.

The shareholders provided \$100 million in equity finance towards the cost of the acquisition and construction.

The shareholders advised the Board that it was not intended that the Tamar Valley Power Station would remain in State ownership in the long term and the subsidiary should be established and operated in a manner that would enable its future sale.

On 14 September 2008 Aurora Energy and the Tasmanian Government entered into an undertaking with the ACCC pursuant to section 87B of the Trade Practices Act in relation to the power station project. Under that undertaking, the power station and associated assets were to be 'held separate' for an interim period of six months to enable a full public competition assessment of the acquisition to be conducted. Following comprehensive market enquiries, the ACCC advised that the power station acquisition did not in its view raise competition concerns under the Act and the undertaking was terminated.

The construction of the power station is referred to in further detail elsewhere in this report.

AETV Power acquired contractual rights securing the supply of gas to the power station and giving it additional rights in relation to wholesale gas trading and wholesale electricity rights attached to the Bairnsdale Power Station.

National Electricity Market

From 1 July 2006 the first tranche of contestability for Tasmanian customers in the national market commenced with major industrial customers with loads greater than 20GWh able to choose alternative suppliers. The second tranche for customers with loads greater than 4GWh commenced on

1 July 2007, while a further tranche with loads greater than 0.75 GWh commenced on 1 July 2008. The fourth tranche with loads greater than 0.15GWh commenced on 1 July 2009. To date, no timeframe has been set for the introduction of full retail contestability for all remaining Tasmanian customers.

Telecommunications

On 2 July 2008, Aurora and City Spring (the owners of the Basslink cable) signed a Heads of Agreement paving the way for future commercialisation of the Basslink optical fibre, which links Tasmania to the mainland. Subject to the completion of formal agreements and a range of subsequent commercial and other implementation steps required over the second half of 2008, the project would for the first time introduce competition to the long standing communications monopoly over Bass Strait.

On 11 June 2009, Aurora and the Tasmanian and Australian Governments signed a memorandum of understanding that sets the commercial arrangements for the construction of the National Broadband Network in Tasmania including the establishment of a joint venture.

In August 2009, Aurora entered into an agreement with TNBNCo, providing the contractual framework for the roll-out of the National Broadband Network in Tasmania.

Likely developments in future years

Developments with potential to have significant impact on the company's future operations are as follows:

- Further developments in telecommunications, particularly in the context of joint venture arrangements with the Australian Government as part of its National Broadband Network program.
- Electricity market competition – increased tranches of contestability in Tasmania will expose the business to increased retail competition. Full contestability, initially targeted to commence on 1 July 2010, remains

subject to a public benefit assessment process – a responsibility of State Government.

- Integration of the management of retail, wholesale and generation activities into one energy business, consistent with the trend for vertical integration seen across the National Electricity Market.
- Commercialisation of the household safety device in Australia and potentially internationally through Aurora's wholly-owned subsidiary EziKey Group Pty Ltd, under the product name WireAlert.

Shareholders

The sole shareholders in the company are the Minister for Energy and Resources for the State of Tasmania and the Treasurer for the State of Tasmania who hold their shares in trust for the State Crown.

Board composition

The company constitution provides that the number of directors is to be not less than three, nor more than eight unless otherwise resolved. In February 2006 the shareholders resolved to increase the maximum to nine.

The Chairman is appointed annually by the shareholders. Directors are appointed for terms of three years by the shareholders and are eligible for reappointment. The Chief Executive Officer holds office as a director while he holds the position of Chief Executive Officer. The names of the directors and details of their qualifications and experience appear on pages 86-87.

Board responsibilities

The Board is responsible for the overall corporate governance of the company. It is responsible for setting the strategic directions and objectives for the company and for monitoring the achievement of these objectives. The Board approves and monitors the business plan and operating budgets submitted by management. It is responsible for the approval and review of major expenditure items, and reviews operating performance on a monthly basis.

The Board receives and monitors reports from management on financial and business performance, projects of strategic significance, workplace health and safety, environmental performance, regulatory compliance, service delivery and human resource management. The Board Appointments and Remuneration Committee oversees the appointment and remuneration of key executives, including the Chief Executive Officer. Further details of corporate governance arrangements appear on pages 84-85.

Audit and risk management

This function is managed through the Board Audit and Risk Committee (BARC). The BARC is a committee of review and, as such, has no power to make decisions on behalf of the Board. All matters requiring approval are forwarded to the Board as 'recommendations' made from BARC. It is governed by the BARC charter.

The committee membership comprises:

- non-executive directors;
- a majority of independent directors;
- an independent chairperson, who is not chairperson of the board; and
- at least three members.

Membership of the committee is reviewed annually at the December Board meeting. The terms of appointment are at the discretion of the Board, but it is desirable to arrange these to maintain continuity while bringing a fresh perspective to the work of the committee.

The primary objectives of the committee are as follows:

- to assist the Board of Directors to discharge its responsibilities to exercise due care, diligence and skill in relation to the integrity of Aurora's
 - internal control system;
 - monitoring and controlling business risk;
 - application of accounting policies;
 - financial management;
 - regulatory compliance systems;

- improving the credibility and objectivity of the accounting process; and
- improving the effectiveness and independence of the internal and external audit functions, and the communications between the Board of Directors.

The accounts of the company are independently audited by the Auditor-General. The Auditor-General has provided the directors with an Independence Declaration as required under section 307C of the *Corporations Act 2001*. A copy of that declaration appears on page 96.

Aurora's internal audit unit performs regular audits of mitigating actions or internal controls identified. All outstanding issues are monitored through to satisfactory conclusion. This has been helped by the introduction of an issues tracking tool.

To recognise the increasing risks that the business faces, the BARC has a co-sourced internal audit arrangement with KPMG. The Manager Business Risk and Internal Audit, under the internal audit protocols document, manages the co-sourcing arrangement.

Board meetings

The Board meets monthly. The BARC meets quarterly or more frequently as required. The Appointments and Remuneration Committee meets quarterly and as required. Details of Board and Committee meetings attended by members during the year are set out in the table below.

Indemnification and insurance

The Tasmanian Crown provided indemnities in favour of the initial directors, J. Hasker, G. Loughran and D. Norton, against liabilities arising out of the company entering into a number of specified contracts at commencement of operations in July 1998 and in relation to any sale or lease of the assets or shares of the company pursuant to an Act of Parliament.

The company has agreed under its constitution, to the extent permitted by law, to indemnify 'officers' as defined by the Corporations Act, of the company and its subsidiaries, against any liability incurred as such by an officer and in relation to

reasonable legal costs in defending actions for such liability.

The company has insured its directors, officers and employees and the directors and officers of controlled entities, against liabilities for wrongful acts as permitted by the Corporations Act. Disclosure of further details is prohibited by a confidentiality clause in the policy.

CEO performance

The performance of the CEO is evaluated by reference to specific performance targets reviewed by the Board and arising out of the Balanced Scorecard targets for the company as a whole.

Independent oversight

As part of the existing legislative framework for energy, Tasmania has two independent offices with an oversight role:

- The Office of the Tasmanian Economic Regulator, which ensures that the industry delivers the objectives of the legislative reforms; and
- The Office of the Energy Ombudsman, which acts as an independent mediator in disputes between the electricity and gas industries and their customers.

During the year the Ombudsman dealt with 299 referrals from the public, up from 298 in the previous year.

As in previous years, all customer complaints were able to be resolved without the need for the Ombudsman to make a determination. This year we contributed \$192,553 to the Office of the Tasmanian Economic Regulator and \$327,688 to the Ombudsman.

Public interest

Aurora is subject to the *Public Interest Disclosures Act 2002*. This Act is intended to encourage and facilitate the disclosure of improper conduct by public officers and public bodies. The Act provides protection to persons who make disclosures in accordance with the Act and establishes a system for the matters disclosed to be investigated and for rectifying actions to be taken.

Figure 29

Board and Committee Meetings Attended by Directors for the 12 Months: July 2008 – June 2009

Directors	Board meetings held		Audit and Risk Committee meetings held		Appointments and Remuneration Committee meetings held	
	held	Attended	meetings held	Attended	meetings held	Attended
John Hasker AM	13	12	6	6	3	3
Caryle Demarte	13	11 *	N/A	N/A	3	3
Melvyn Cooper	13	13	N/A	N/A	3	3
Peter Davis	13	13	6	6	3	3
Brian Keane	13	12	1 **	0	N/A	N/A
Peter Lowe	13	13	6	6	N/A	N/A
Tony Beach	13	10	N/A	N/A	3	3
Geoff Willis	13	13	6	5	N/A	N/A

* Excused from one meeting due to conflict of interest.

** Appointed from Feb 2009

Aurora has developed procedures establishing a system for reporting disclosures of improper conduct or detrimental action by Aurora, its employees or officers. The procedures are available for viewing at www.auroraenergy.com.au or by contacting the Protected Disclosure Officer, Aurora Energy Pty Ltd, GPO Box 191, Hobart Tasmania, 7001.

Freedom of information

Aurora is subject to the *Freedom of Information Act 1991*. In accordance with its obligations under the Act, Aurora reports annually on applications made. During 2008/2009, a total of 30 applications were received, compared with 13 in the previous year.

Environmental regulation

The operations of the company are subject to the *Environmental Management and Pollution Control Act 1994* and other State legislation such as the *Threatened Species Act 1994*. We are also subject to the *Environment Protection and Biodiversity Conservation Act 1999* under Commonwealth legislation. The company is committed to ensuring compliance with relevant environmental legislation as a minimum standard. No environmental protection notices were served or prosecutions launched against Aurora under this legislation during the year under review.

The company has detailed environmental management system procedures to ensure compliance with company environmental policy and regulatory requirements. The system carries ISO 14001 certification and requires reporting and recording of all incidents and quarterly reports to the Board.

We continue to ensure that appropriate environmental assessments are performed on major construction projects as well as for any operations occurring in environmentally sensitive areas.

The subsidiary company Aurora Energy (Tamar Valley) Pty Ltd now has all the necessary environmental licences to operate the new power station, and has an environmental management plan in place, which is closely monitored by dedicated staff, supported by expert consultants. Neither the operations team nor the construction projects team have had any significant environmental incidents during the year, indicating the strict controls that have been put in place are effective.

Environmental incidents

All environmental incidents that caused or could have caused material or serious environmental harm are reported to the Department of Primary Industries, Parks, Water and Environment. Other stakeholders such as the Tasmania Fire Service and local councils are notified when required.

There were eight oil spill incidents reported during the year. Of these, seven incidents were over 50 litres. As with all chemical spill incidents, all necessary steps were taken to control the spills. Soil samples were taken for analysis, contaminated soil was removed and the sites rehabilitated.

Activities to reduce the incidence of bird interactions with power assets are now undertaken as part of network planning, design and construction work and field maintenance and monitoring and no longer operate as a separate mitigation program.

During 2008/2009 there were five incidents involving birds of prey and power assets. Two wedge-tailed eagles and a white-bellied sea eagle died when they collided mid-span with overhead conductors, while the deaths of two grey goshawks were caused by electrocution on a pole and overhead configuration.

Superannuation

Approximately 75 per cent of the Aurora Energy workforce are members of either the contributory or non-contributory schemes under the *Retirement Benefits Act 1993*.

The company has met the requirements of the *Commonwealth Superannuation Guarantee (Administration) Act 1992* in respect of those employees who are not covered by the *Retirement Benefits Act 1993*.

Signed in accordance with a resolution of the directors:



John Hasker AM
Chairman

24 September 2009



Peter Davis
Chief Executive Officer

24 September 2009