5 Electricity

Key points

- The performances of 23 electricity government trading enterprises (GTEs) are presented in this chapter. Together they controlled assets valued at $76.9 billion and generated $26.4 billion of income in 2006-07.
- Overall, the profit before tax of electricity GTEs increased by more than 105 per cent in real terms to $5.6 billion in 2006-07. Within the sector:
  - 85.3 per cent of the increase in profit before tax was attributable to two GTEs (Ergon Energy and ENERGEX)
  - profits (in real terms) declined for eight GTEs
  - three GTEs recorded a loss before tax.
- Return on assets improved to 11.5 per cent in 2006-07. Of the monitored GTEs, four did not earn a risk-free rate of return.
- Debt to assets for the sector decreased from 43.5 per cent to 42.2 per cent in 2006-07. Two electricity GTEs operated without debt.
- Nineteen electricity GTEs made dividend payments to owner-governments, totalling $2.7 billion. The sector recorded an income tax-equivalent expense of $872 million in 2006-07.
- Ten electricity GTEs received community service obligation (CSO) funding totalling $543 million in 2006-07. CSO payments comprised 2.1 per cent of sector income.

The financial performances of 23 electricity government trading enterprises (GTEs) are reported in this chapter. Together they controlled $76.9 billion in assets and generated around $26.4 billion in income in 2006-07.

The majority (18) of the monitored GTEs operate in the National Electricity Market (NEM), a wholesale market for the supply and purchase of electricity. The five monitored GTEs not currently operating in the NEM are based in Western Australia and the Northern Territory. Tasmania entered the NEM on 29 May 2005 and began trading with other States when the Basslink interconnector became operational on 29 April 2006.

Financial performance summaries, including performance indicators for each electricity GTE monitored over the period 2004-05 to 2006-07, are presented after

this introduction. Their financial performances are examined using the financial indicators defined in chapter 1.

There are some differences between measured performance for 2004-05 and 2005-06 in this and earlier reports because of changes in accounting standards, data sources and indicators (chapter 1). Further, the set of monitored GTEs can change over time because of restructuring and privatisation. Consequently, care should be exercised in making performance comparisons over longer time periods than that covered in this report.

When making comparisons between GTEs, consideration must be given to: differences in the nature and scale of the businesses; their individual market environments; a number of issues relating to the valuation of their assets; and the level of payments for community service obligations (CSOs).

5.1 Monitored GTEs

The types of activities undertaken by the individual electricity GTEs and their involvement in ancillary services should be taken into account when comparing financial performances (table 5.1).

The four principal activities carried out by electricity businesses are: generation of electricity; the transmission of electricity at high voltages; the distribution of electricity at low voltages; and the retailing of electricity to customers.[1] Of the 23 GTEs monitored, 12 were involved in only one principal activity in 2006-07. Eight solely generated electricity, three solely transmitted electricity and one solely provided retail services. The remaining 11 performed more than one principal activity, with two being fully-integrated utilities — Horizon Power in Western Australia and Power and Water Corporation (PWC) in the Northern Territory — involved in all four activities.[2]

In addition to providing generation, transmission, distribution or retail services, and combinations thereof, many electricity GTEs are also involved in engineering

1 Transmission and distribution classifications are based on the Australian Energy Regulator classifications. Transmission GTEs transfer electricity at 220 KV or above, although they may also have network assets that operate between 66 KV and 220 KV. GTEs with no network assets operating at 220 KV or above are deemed to be distribution GTEs.

2 For this chapter, electricity GTEs are classed as ‘generation’, ‘transmission’ or ‘distribution’ GTEs according to their primary activity (with distribution including retailing). The two GTEs that perform generation, transmission, distribution and retail are classified as ‘integrated’.

Table 5.1 **Activities — electricity GTEs, 2006-07[a]**

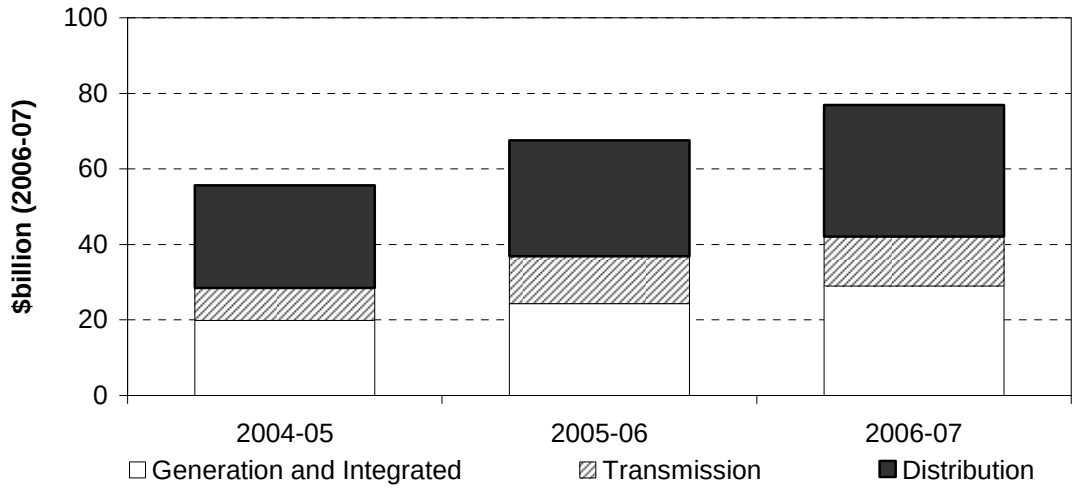
Electricity GTE	*Activities*			
	Generation	*Transmission*	*Distribution*	*Retail*
New South Wales, Victoria, Australian Government				
Snowy Hydro	✓	✗	✗	✓
New South Wales				
Country Energy	✗	✓	✓	✓
Delta Electricity	✓	✗	✗	✗
EnergyAustralia	✗	✗	✓	✓
Eraring Energy	✓	✗	✗	✗
Integral Energy	✗	✗	✓	✓
Macquarie Generation	✓	✗	✗	✗
TransGrid	✗	✓	✗	✗
Queensland				
CS Energy	✓	✗	✗	✗
ENERGEX	✗	✗	✓	✓[b]
Enertrade[c]	✓	✗	✗	✗
Ergon Energy Group	✓	✗	✓	✓[d]
Powerlink	✗	✓	✗	✗
Stanwell Corporation	✓	✗	✗	✗
Tarong Energy	✓	✗	✗	✗
Western Australia				
Horizon Power	✓	✓	✓	✓
Synergy	✗	✗	✗	✓
Verve Energy	✓	✗	✗	✗
Western Power	✗	✓	✓	✗
Tasmania				
Aurora	✗	✗	✓	✓
Hydro-Electric Corporation	✓	✗	✓	✓
Transend Networks	✗	✓	✗	✗
Northern Territory				
Power and Water Corporation	✓	✓	✓	✓

a No electricity government trading enterprises exist in Victoria or South Australia as the electricity sector was completely privatised in these States during the mid-1990s. **b** ENERGEX sold its retail business in 2006-07. **c** Enertrade also trades power from privately-owned generators into the National Electricity Market. **d** Ergon Energy Group sold its retail business in 2006-07.

consulting services. In 2006-07, five electricity GTEs also supplied gas and two — Country Energy and PWC — supplied water.

Between 2005-06 and 2006-07, total assets controlled by electricity GTEs grew by $9.4 billion (13.9 per cent) in real terms to $76.9 billion (figure 5.1).

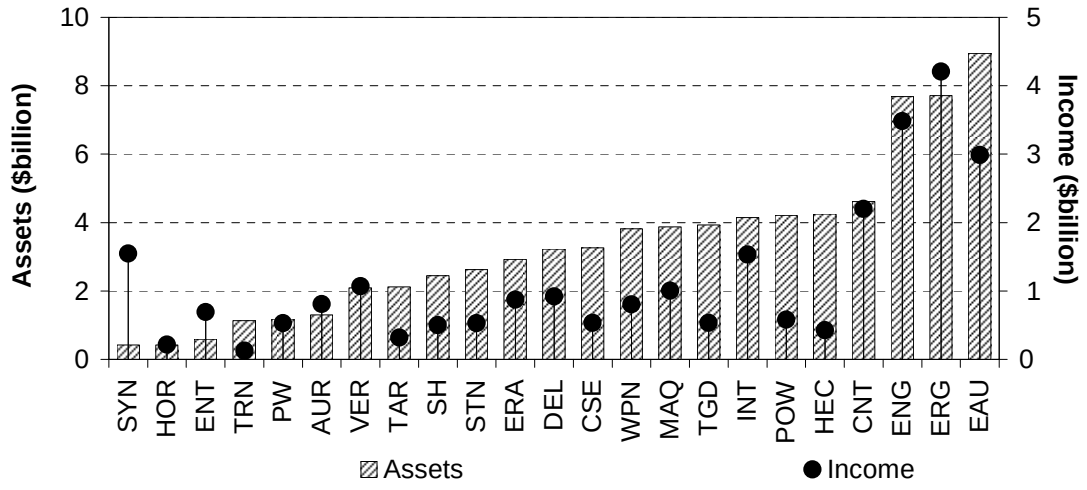
Figure 5.1 **Sector assets — electricity GTEs[a,b]**



a The value of sector assets is reported in 2006-07 dollars using the ABS implicit price deflator — gross fixed capital formation for public corporations (chapter 1). **b** Electricity government trading enterprises (GTEs) are classed as 'generation', 'transmission' or 'distribution' GTEs according to their primary activity (with distribution including retail). The two GTEs that perform generation, transmission, distribution and retail are classified as 'integrated' GTEs.

Source: Productivity Commission estimates.

Figure 5.2 **Assets and income — electricity GTEs, 2006-07**



Source: Productivity Commission estimates.

EnergyAustralia and Eraring Energy (Eraring) were the largest contributors to total asset growth, with real increases in the value of their assets of $1.8 billion and $1.2 billion respectively.

Among electricity GTEs, the asset base of generation GTEs grew the most (relative to the asset bases of distribution and transmission GTEs) in real terms from 2005-06 to 2006-07, increasing by $4.8 billion. The key drivers behind the growth in assets of these GTEs were the revaluation of existing capital assets, increases in receivables, and substantial increases in deferred tax assets caused by changes in the fair value of derivative liabilities. The asset base of distribution GTEs grew by $4.1 billion in real terms, largely due to the $1.8 billion real increase in EnergyAustralia's assets.

The size of the monitored electricity GTEs varies in terms of the value of the assets controlled and revenue generated (figure 5.2). In 2006-07, the smallest in terms of asset value was Synergy ($422 million) and the largest was EnergyAustralia ($8.9 billion).

5.2 Market environment

Governments have introduced reforms aimed at improving the efficiency and financial performance of electricity GTEs. The reforms have focused on the governance of GTEs, the efficiency of the production process, the environmental impact of electricity consumption and the competitiveness of market structures in which the GTEs operate. These reforms have implications for the financial performance of GTEs and the comparison of performances over time.

Structural reform

Since the mid-1990s, there has been a series of structural reforms (and privatisations) aimed at increasing the commercial focus of the electricity industry. These include the separation of the competitive generation and retail sectors from the natural monopoly elements of transmission and distribution. Recent structural reforms include:

- In New South Wales, Country Energy absorbed the operations of Australian Inland Energy on 1 July 2005, leaving three distribution businesses in total.
- In Queensland, the transmission business of the Queensland Transmission and Supply Corporation (QTSC) was established as a separate corporation, trading as Powerlink, along with a fourth generation GTE, subsequently renamed Enertrade.[3]

[3] Queensland Power Trading Corporation (QPTC) was established to assist in the transition to the new industry structure by finalising a range of financial and administrative matters arising

- In Western Australia, Western Power was disaggregated into four independent corporations — Verve Energy (generation), Western Power (distribution and transmission), Synergy (retail) and Horizon Power (integrated regional provider) on 1 April 2006.

The National Electricity Market

The market environment has continued to evolve over the past decade, with the development of the NEM and its associated regulatory structures. Over the same period, the extent of customer contestability has been expanded to provide users with greater choice of electricity supplier in each jurisdiction.

Western Australian businesses do not participate in the NEM. However, the State Government established the WA Wholesale Electricity Market in September 2006. This market provides a vehicle for electricity trading between generators and distributors. The Independent Market Operator — a statutory corporation established on 1 December 2004 — is responsible for administering and operating the market.

The electricity retail sector has also been transformed, with retail contestability applying in New South Wales, Victoria, South Australia and the ACT. Queensland also implemented full retail contestability from 1 July 2007.

These changes, and the development of the NEM, have a number of implications for GTE performance. Most electricity generation and retail GTEs now face greater competition than they experienced in the past. Competition has also been facilitated in most jurisdictions by the adoption of the access provisions for distribution and transmission networks. These provisions give retailers and businesses purchasing wholesale electricity a right of access to these networks.

Recent developments in the National Electricity Market

Australian Governments signed the Australian Energy Market Agreement in June 2004. The agreement includes the creation of the Australian Energy Market Commission (AEMC), which has responsibility for rule-making and market development, and the Australian Energy Regulator (AER), which has responsibility for market regulation (other than retail pricing) and enforcement.

from the restructure of QTSC. QPTC was also involved in trading electricity generated by a number of private-sector generators. Although established as a transitional body, QPTC became Queensland's fourth generation GTE in June 1999 and was renamed Enertrade.

At the COAG meeting in April 2007, the Australian, State and Territory Governments agreed to establish a NEM Operator (NEMO) for both electricity and gas, encompassing a new national transmission planning function. It was decided that the new arrangements would not bind transmission companies to specific investment decisions, and that accountability for jurisdictional transmission investment, operation and performance would remain with the transmission network service providers. New South Wales stressed that its agreement to the establishment of the national transmission planning function was conditional on the planner not impeding the State's significant investment in its transmission network (COAG 2007).

Recent moves within the electricity industry toward integration of generators and retailers might also affect efficiency and competitiveness in the NEM. The Australian Competition and Consumer Commission has expressed the view that this type of merger can be beneficial because of improved risk management and that it is not necessarily anti-competitive (Willet 2005a; 2005b).

Price and environmental regulation

Most of the monitored electricity GTEs operate under some form of price regulation. AER is responsible for the regulation of transmission GTEs (except in Western Australia), and is scheduled to progressively accept responsibility for distribution GTEs from 2008, which are currently administered by the States (AER 2007).

Retail price caps are administered by the States. However, Australian governments have agreed to remove these caps once effective retail competition has been established in their respective jurisdictions.[4] To determine the appropriate timing for the removal of these caps, AEMC will undertake assessments of the retail competition in New South Wales, Victoria and South Australia over the next three years (AER 2007).

All electricity GTEs are subject to environmental regulation. On 8 December 2000, the Commonwealth Parliament passed the *Renewable Energy (Electricity) Act 2000*, establishing renewable energy targets for electricity supply in Australia. The legislation requires wholesale purchasers of electricity to proportionately contribute towards the generation of an additional 9500 GWh of renewable energy annually by 2010 (PC 2005b). From 1 April 2001, all energy wholesalers have had to purchase increasing amounts of electricity generated from renewable sources.

4 Australian Energy Market Agreement 2004 (amended 2006).

Most electricity generation GTEs are pursuing investment opportunities, including wind and solar power, to meet this target and also to satisfy consumer demand for 'green' energy.

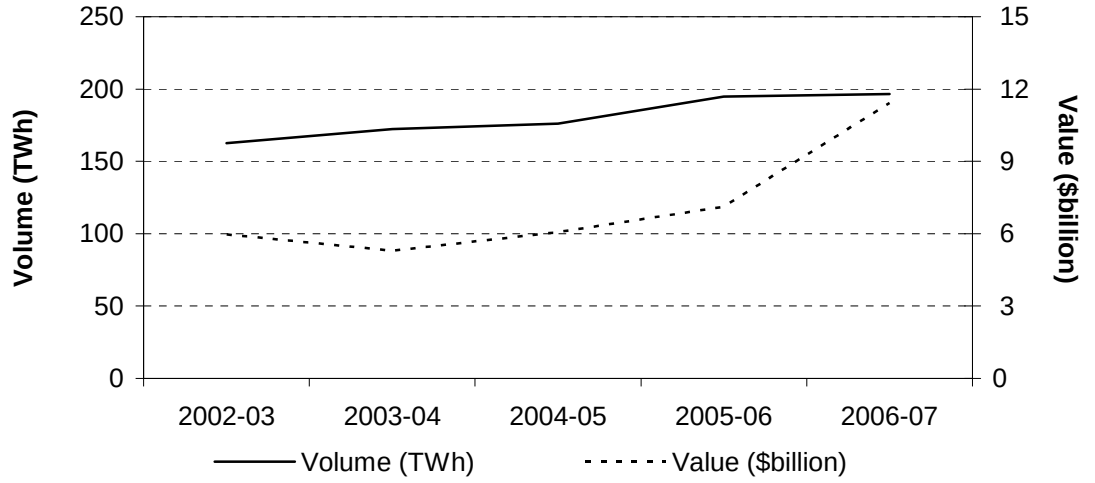
Greenhouse gas regulation is currently administered on a state and territory basis, with cap and trade emission schemes in place in New South Wales and the ACT. However, the Australian Government has committed to a national emissions trading scheme, which is scheduled to commence in 2010. A Green Paper on the scheme design was released in mid-July 2008.

Production and demand

Consumption of electricity was fairly stable in 2006-07, with about 197 000 GWh of electricity passing through the NEM (figure 5.3). Although this represents less than a 1.0 per cent increase on 2005-06, the value of the electricity traded increased by 60.2 per cent in 2006-07. This reflects the average spot price of electricity, which increased from $37 per MWh in 2005-06 to $54 per MWh in 2006-07 (NEMMCO 2006, 2007). Prima facie, the higher spot price suggests generating capacity is not meeting increasing electricity demand.

Electricity demand now has two peaks — summer and winter. In the past three years, warmer summers led to increased demand. The winter of June 2007 also resulted in record electricity demand (AER 2007).

Figure 5.3 **National Electricity Market electricity volume and value[a]**



a Volume data represents volume of electricity sent out of the National Electricity Market.

Source: NEMMCO (2007).

The ability of the NEM to meet this demand is dependent on the supply conditions faced by generation and transmission GTEs. For example, drought conditions in 2006-07 reduced the generation capacity of some GTEs, in particular hydo-generators such as Snowy Hydro Limited (Snowy Hydro) and the Hydro-Electric Corporation (HEC). Supply can also be affected by network outages, such as the severing of the transmission connection between Victoria and Snowy Hydro that occurred during the Victorian bushfires in January 2007.

As a result of the supply constraints and increased demand, the number of price spikes increased in 2006-07, and some of the highest spot prices in the history of the NEM where recorded (AER 2007). Spot prices were particularly high at the end of 2006-07, because of additional outages of generators and networks.

Impact on financial performance

Many electricity GTEs use forward contracts in order to hedge against the volatility of future spot prices. These forward contracts allow GTEs to contract a price for a specified volume of electricity, a number of months or years in advance.[5]

Under accounting standard AASB139, these forward contracts are classified as derivative financial instruments. AASB139 requires that all derivative financial instruments be reported in the financial statements at their fair value, as at the reporting date. In the case of electricity forward contracts (which are traded in relatively small numbers), the fair value is calculated using an estimated price of the forward contract, which is partly based on prevailing, highly volatile spot prices. Consequently, forward prices are also highly volatile.

Forward prices achieved historically high levels in June 2007, reflecting prevailing high spot prices. Consequently, the forward contracts held by some GTEs were subject to significant revaluations.

These derivative revaluations were detrimental to the financial positions of some electricity GTEs — in particular generation GTEs. For example, equity in Macquarie Generation (Macquarie) was -$57.4 million, after the valuation of its derivative assets and liabilities at 30 June 2007 (chapter 1). In its annual report, Macquarie stated that this effect was temporary, and that had the valuation of its forward contracts occurred on 17 August 2007, its equity would have been valued at $600 million.

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5 The forward contracts are not for the physical purchase or sale of electricity. They are settled by a net cash payment, which depends on the contracted price and the spot price at the time of settlement.

Overall, the requirement to report at fair value, combined with movements in electricity spot and forward prices, has resulted in significant volatility in the reported financial performance of some GTEs. However, the new framework for analysis of performance established for this report minimises the impact of temporary fair market valuation volatility on the financial performance of GTEs (chapter 1).

5.3 Profitability

Profitability indicators provide information on how GTEs are using the assets vested in them by owner-governments to generate earnings.

The monitored electricity GTEs recorded a profit before tax of $5.6 billion in 2006-07. ENERGEX and Ergon Energy (Ergon) together accounted for more than half of the sector profit before tax in 2006-07 (29.7 per cent and 22.6 per cent respectively). However, ENERGEX and Ergon's results were largely attributable to the sale of retail subsidiaries that generated income of $1.4 billion and $1.0 billion respectively.

Excluding the WA electricity GTEs, profits increased by $2.8 billion (105 per cent) in real terms from 2005-06.[6] If the sale of ENERGEX and Ergon's retail subsidiaries were excluded, the increase in sector profit before tax (excluding WA GTES) would have been $435 million (16.2 per cent).

All but three GTEs achieved a positive profit before tax in 2006-07, the same number (but not all the same GTEs) as in 2005-06. Verve Energy, Tarong Energy (Tarong) and PWC all made losses, with Verve Energy being the only one of these to have also made a loss in 2005-06. Verve Energy attributes its loss to limited gas availability and price limitations inherent in its vesting contract with Synergy. PWC and Tarong attributed their losses to asset impairment and drought conditions respectively.

Cost recovery is a measure of a GTE's ability to generate adequate revenue to meet expenses. A cost recovery ratio below 100 per cent suggests that a GTE was unable to meet its operating costs even before the cost of servicing debt is taken into account (chapter 1).

6 Verve Energy, Western Power, Synergy and Horizon Power are excluded because 2005-06 financial data are for the period 1 April 2006 to 30 June 2006 only. Therefore profit before tax for 2005-06 and 2006-07 are not directly comparable. The four WA GTEs have been excluded from the 2005-06 calculations of cost recovery, return on assets, return on equity and interest cover.

All but three of the electricity GTEs recorded a cost recovery ratio greater than 100 per cent in 2006-07, indicating that they were able to fully recover their operating costs from operating revenue (figure 5.4). The highest cost recovery ratio was HEC (221 per cent), with both Powerlink and TransGrid also recording cost recovery ratios of over 190 per cent. Overall, the sector cost recovery ratio was 123 per cent in 2006-07. Excluding the WA GTEs, this represents an increase of 2.4 percentage points.

The increased profit in 2006-07 was reflected in an improvement in the overall sector return on assets, to 11.5 per cent in 2006-07. All but two of the electricity GTEs reported positive returns (up to 26.4 per cent) in 2006-07 (figure 5.5). PWC and Tarong recorded returns of -6.3 per cent and -0.1 per cent respectively, following from their operating losses.

The sector rate of return on assets of 11.5 per cent in 2006-07 was greater than the risk-free rate of return.[7] The median rate of return on assets for the monitored electricity GTEs was 8.3 per cent, and therefore also exceeded the risk-free rate. Ninteen of the 23 electricity GTEs achieved a return on assets equal to or greater than 5.8 per cent in 2006-07.

The NSW Independent Pricing and Regulatory Tribunal (IPART) suggested that a nominal return before tax of 8.6 per cent on assets would be an appropriate benchmark for electricity retail GTEs (IPART 2007). Similarly, the Queensland Competition Authority (QCA) has recommended after-tax returns of 8.5 per cent for its distribution GTEs (QCA 2005). However, IPART recommended a before tax rate of return of 7 per cent for its distribution GTEs in its 2004 determination (IPART 2004).

The majority of electricity GTEs, as well as the sector as a whole, are achieving returns broadly commensurate with the IPART and QCA benchmarks. For example, ten out of 23 electricity GTEs achieved a return on assets in excess of 8.5 per cent in 2006-07.[8] A further five GTEs achieved a rate of return over 7 per cent.[9]

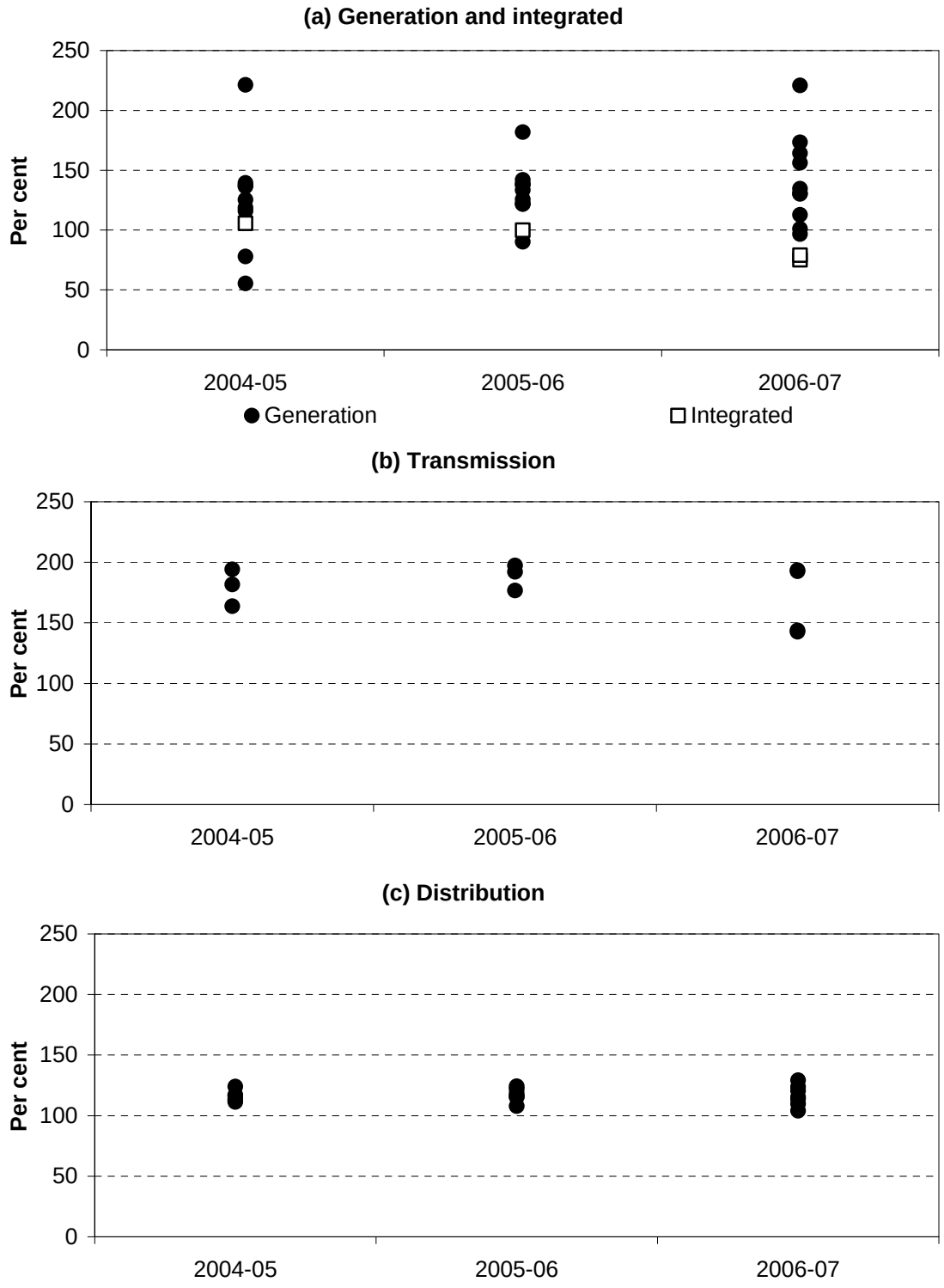
Return on equity is a measure of a GTE's operating earnings before interest and after tax expressed as a proportion of equity remaining in the business. The sector

7 The risk-free rate of return used is the 2006-07 interest rate on 10-year Australian Government bonds of 5.8 per cent (RBA 2008).

8 All except Synergy and Snowy Hydro were either NSW or Queensland GTEs.

9 Including Delta Electricity, EnergyAustralia, Horizon Power, Powerlink, and TransGrid.

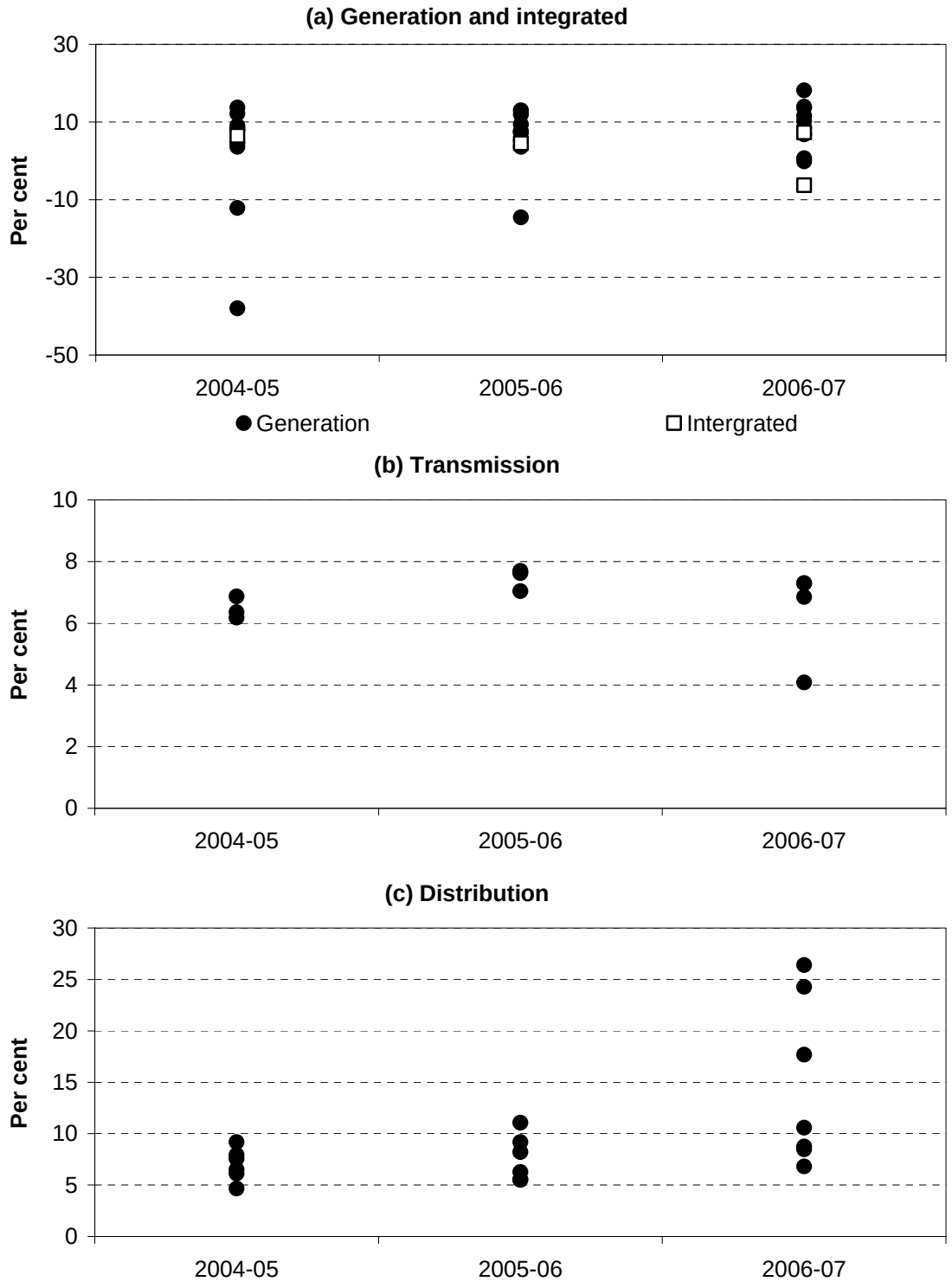
Figure 5.4 **Cost recovery — electricity GTEs[a]**



a Each data point represents the cost recovery ratio for a government trading enterprise in that financial year. Cost recovery is the ratio of revenue from operations to expenses from operations (chapter 1).

Source: Productivity Commission estimates.

Figure 5.5 **Return on assets — electricity GTEs[a]**



a Each data point represents return on assets for a government trading enterprise in that financial year. Return on assets is the ratio of earnings before interest and tax to average operating assets (chapter 1). Average operating assets is the average of the value of operating assets at the beginning and end of each financial year. Where an average could not be calculated, the value of operating assets at the end of the financial year was used.

Source: Productivity Commission estimates.

return on equity was 16.1 per cent in 2006-07. Excluding the WA GTEs, return on equity increased by 2.8 percentage points, reflecting the improved sector profitability.

5.4 Financial management

Financial management indicators provide information about the capital structure of GTEs and their ability to meet the cost of servicing debt and other liabilities as they fall due.

Governments have occasionally restructured their electricity GTEs. This has generally involved the transfer of both assets and liabilities to State and Territory Governments, and the contribution or withdrawal of equity. In 2006-07, Eraring made a $184 million return of equity payment to the NSW Government. In contrast, Horizon Power received an $11.0 million equity contribution from the WA Government.

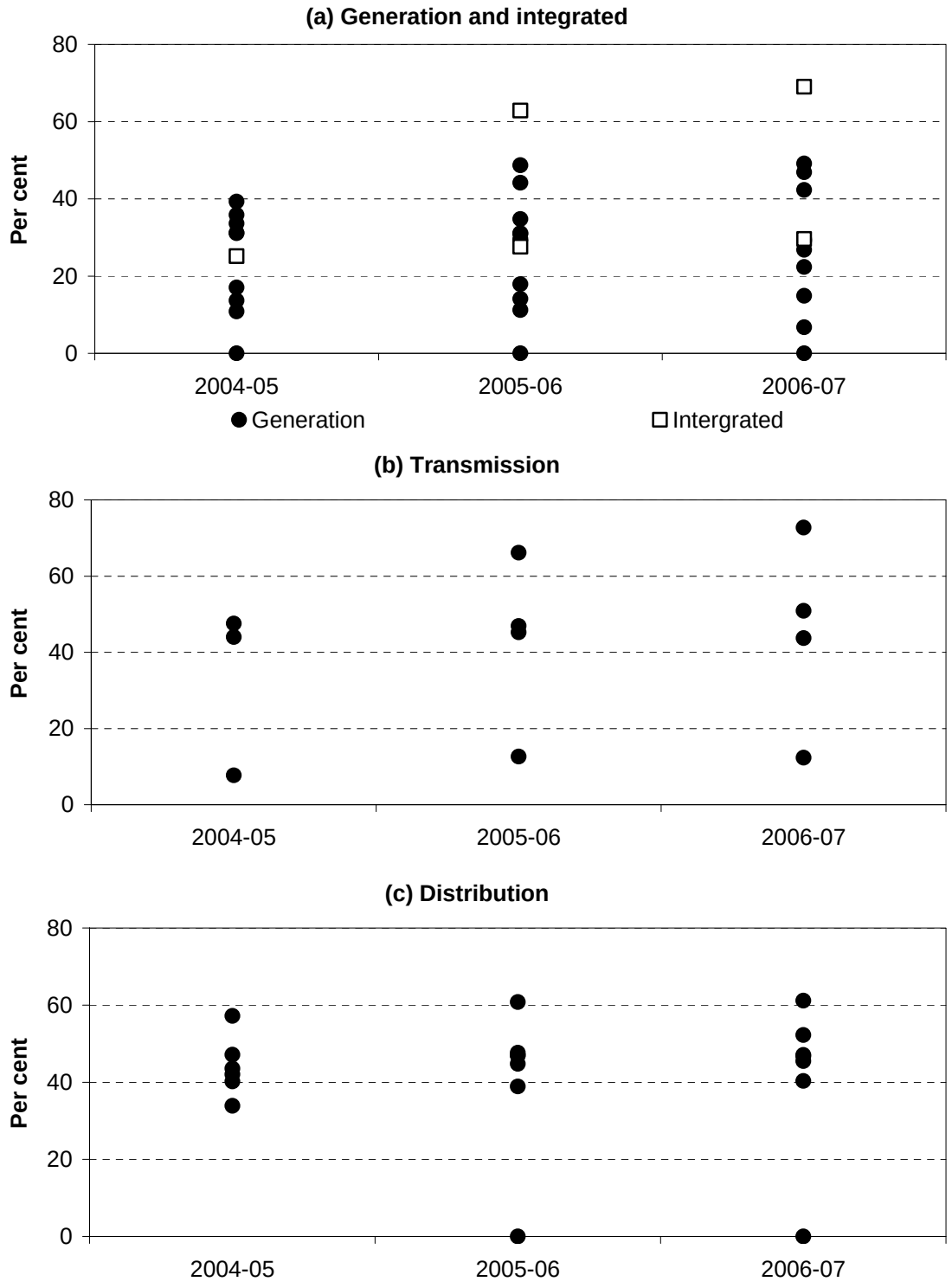
There is considerable diversity in the capital structure of electricity GTEs, as measured by debt to assets (figure 5.6). Two electricity GTEs (Enertrade in Queensland and Synergy in Western Australia) operated debt free in 2006-07, while five had debt to assets of over 50 per cent. The majority of electricity GTEs (12 of 23) had debt to assets of between 25 per cent and 50 per cent in 2006-07.

The proportion of debt in the electricity sector's capital structure decreased from 2005-06 to 2006-07, with sector debt to assets falling from 43.5 per cent to 42.2 per cent. In contrast, the median debt to assets of the monitored electricity GTEs increased from 38.9 per cent in 2005-06 to 42.3 per cent in 2006-07. These results are partly attributable to asset growth in a few GTEs in 2006-07. In particular, Delta Electricity, HEC, Integral Energy and Transend Networks all experienced declines in their debt to assets despite increases in their level of debt.

Sixteen GTEs increased their debt in real terms in 2006-07, by between $3.3 million and $497 million. A few electricity GTEs have moved against this trend by reducing their debt and, in turn, their debt to assets. For example, Snowy Hydro reduced its debt by 15.0 per cent in real terms in 2006-07, which led to a fall in its debt to assets from 48.7 per cent to 42.3 per cent.

Of those with debt, 11 electricity GTEs had an interest cover greater than three times in 2006-07. Only two GTEs (PWC and Tarong) did not obtain a positive interest cover. The sector interest cover increased to 4.3 times in 2006-07. This indicates that the margin insulating electricity GTEs from increases in interest rates or falling revenue has increased in the past year, strengthening their ability to service debt out of current earnings.

Figure 5.6 **Debt to total assets — electricity GTEs[a]**



a Each data point represents debt to assets for a government trading enterprise in that financial year. Debt is defined to include all interest-bearing liabilities (chapter 1).

Source: Productivity Commission estimates.

5.5 Transactions with government

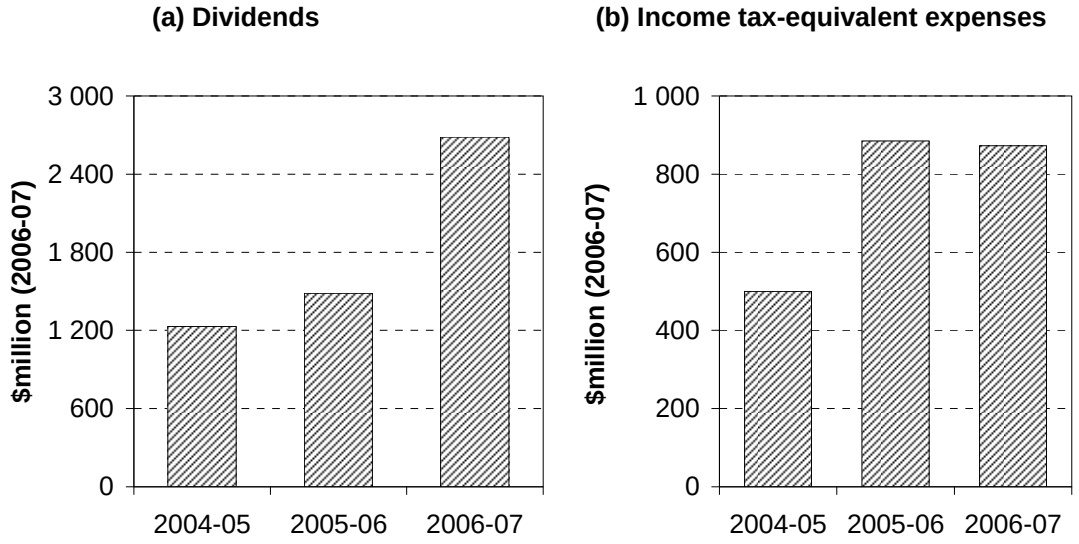
Governments have increased the commercial focus of GTEs and facilitated competitive neutrality by exposing them to incentives and regulations similar to those faced by private-sector businesses. For a more detailed discussion of competitive neutrality principles, see chapter 2.

Requirements to pay dividends, income tax-equivalent regimes and debt guarantee fees are examples of how governments have imposed the principles of competitive neutrality on their electricity GTEs.

Electricity GTEs make income tax-equivalent and dividend payments to their owner-governments. Aggregate dividends increased by 80.7 per cent in real terms to $2.7 billion in 2006-07, in line with the growth in sector profit (figure 5.7a). The total dividends declared by GTEs varied between states in 2006-07 — New South Wales ($818 million), Queensland ($1.7 billion), Western Australia ($32.5 million), and Tasmania ($49.6 million). PWC in the Northern Territory did not declare a dividend in 2006-07.

Between 2005-06 and 2006-07, income tax-equivalent expenses for the sector as a whole decreased by 1.4 per cent in real terms to $872 million (figure 5.7b), in contrast with the substantial increase in the sector's overall profitability.

Figure 5.7 **Dividends and income tax-equivalent expenses — electricity GTEs[a]**



a The values of dividends and income tax-equivalent expenses are reported in 2006-07 dollars using the ABS implicit price deflator — gross fixed capital formation for public corporations (chapter 1).

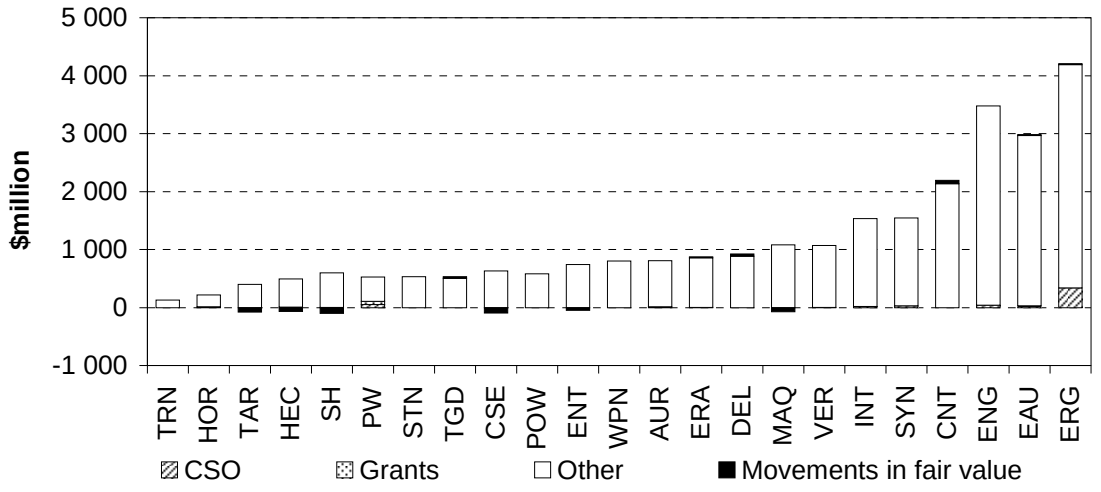
Source: Productivity Commission estimates.

As part of the reform process, governments have agreed to identify, cost and fund the CSOs that they impose on electricity GTEs. CSO funding is received for the provision of rebates, concessions, and the uneconomic supply of electricity to some customers.

Ten of the monitored electricity GTEs received CSO funding in 2006-07. Generally, GTEs involved in distribution and retail are subject to these CSOs. However, there are some examples of CSOs being placed on generation GTEs. Disclosed CSO payments to electricity GTEs amounted to $543 million in 2006-07, a real decrease of 17.1 per cent ($112 million) from 2005-06.

A small number of electricity GTEs received government grants (figure 5.8). The largest recipient was PWC. It received $50.3 million in 2006-07, for the provision of Indigenous Essential Services. This amount represented 9.5 per cent of PWC's revenue in 2006-07.

Figure 5.8 **Income sources — electricity GTEs, 2006-07**



Source: Productivity Commission estimates.

ELECTRICITY

Table 5.2 **Whole of sector performance indicators, 2004-05 to 2006-07[a]**

		Pre-AIFRS[b,c]			*AIFRS*[b]
Indicators	*Units*	*2004-05*	*2004-05*	*2005-06*[d]	*2006-07*
Size					
Total assets	$m	50 274	50 189	62 088	76 922
Total income	$m	17 476	17 391	20 012	26 412
Profitability					
Profit before tax	$m	2 279	1 517	2 474	5 599
Operating profit margin	%	19.3	14.9	18.9	18.4
Cost recovery	%	123.9	117.5	123.2	122.6
Return on assets	%	7.0	5.7	7.4	11.5
Return on total equity	%	11.6	11.2	13.6	16.1
Return on operating equity[e]	%	10.4	9.2	11.2	12.4
Financial management					
Debt to equity	%	71.4	77.3	86.6	89.2
Debt to assets	%	36.7	37.5	43.5	42.2
Total liabilities to equity	%	123.8	164.1	179.8	260.8
Operating liabilities to equity[f]	%	94.9	106.2	119.8	127.5
Interest cover	times	3.0	2.3	3.0	4.3
Current ratio	%	69.3	61.5	71.7	93.2
Leverage ratio	%	194.9	206.2	219.8	227.5
Payments to and from government					
Dividends	$m	1 112	1 112	1 366	2 685
Dividend to equity ratio	%	4.4	4.8	5.7	9.5
Dividend payout ratio	%	42.8	52.2	50.9	76.5
Income tax expense	$'000	756 873	451 804	813 051	872 496
Grants revenue ratio	%	0.0	0.3	0.3	0.2
CSO funding	$'000	462 263	462 263	601 522	542 682

a Figures are nominal values. **b** Electricity GTEs commenced reporting under Australian-equivalent International Financial Reporting Standards (AIFRS) on 30 June 2006. The implications of the transition to AIFRS were discussed in the *Financial Performance of Government Trading Enterprises 2000-01 to 2004-05* report. Data for 2004-05 are reported on an AIFRS and pre-AIFRS basis to illustrate the effect of the transition for electricity GTEs. **c** Data for years prior to 2004-05 are available in previous *Financial Performance of Government Trading Enterprises* reports. These data were based on the Government Financial Statistics framework and are not directly comparable with the data reported in this table, which are based on GTE annual reports. **d** On 1 April 2006, the former Western Power Corporation was disaggregated into four independent corporations (Verve Energy, Western Power, Synergy and Horizon Power). Data on revenue and expenditure for the new corporations in 2005-06 are available only for the period 1 April 2006 to 30 June 2006. As a result, these entities were excluded from the calculation of dividend and grants ratios, interest cover and all profitability indicators except profit before tax for 2005-06. They were included in the calculation of total assets and all financial management indicators except interest cover. **e** Refers to 'return on equity based on operating assets and liabilities'. **f** Refers to 'operating liabilities to equity based on operating assets and liabilities'.