

MERREDIN ENERGY GROUP QUARTERLY REPORT DECEMBER 2018

Date 30 January 2019

Rev.	Status	Prepared By	Checked By	Approved	Date
0	For issue	PIMS Management	D Eason	J Delicato	30-Jan-2019

1. Executive Summary

	Dec 18 Quarter (000's)			Year to Date (000's)		
	Actual	Budget	Budget Variance	Actual	Budget	Budget Variance
Revenue	2,839	2,854	15	5,123	5,152	29
Operating Expenses	689	626	63	1,335	1,274	61
EBITDA	2,150	2,228	78	3,788	3,878	90

Financial

- Operating revenue is in line with budget for the December 2018 quarter and YTD
- Operating expenditure for the December 2018 quarter is above budget. Additional O&M costs incurred have been driven repairs to the CAT engine as well requirements to complete transformer and generator testing
- ME Group has been compliant with the Note Trust Deed for the December 2018 quarter

Operational

- Western Power upgraded the Merredin terminal facility during October which resulted in a 4-day consequential outage whilst this work was undertaken
- ERA issued a market non-compliance notice due to incorrect logging of Outages and changes to bids after gate closure. AEMO has also advised that the Resource Plan was non-compliant on one occasion
- The GT units had FSNL tests in October and December. The GT2 unit failed one start due to water in the CAT engine
- The GT2 CAT starter engine was removed and rebuilt due to an internal corrosion issue. GT1 is being assessed for a similar damage mechanism
- Outdoor enclosures for the CO2 fire suppression panels have been received. The process of enclosing this equipment to protect it from the weather and reduce the likelihood of accidental discharge has commenced
- Summer Reserve capacity test planned for November 2018 was postponed to January 2019 due to GT2 Starter motor works

1.1 Performance against Asset Management Agreement KPI's

KPI	Activity	Measure	QTR	YTD	Annual Target	YTD Traffic Light
Manage Operational Risk	Health & Safety	No. of lost time and medical treatment injuries	0	0	0	Green
		Near misses	0	0	25	Green
		Hazards identified	3	6	12	Green
	Legislative Compliance	Infringement notices received	1	1	0	Red
		Fines issued	0	0	0	Green
	Maintenance Plan ¹	Maintenance plan compliance	90%	96%	98%	Red
	Availability ²	GTG1	100.0%	99.9%	95%	Green
GTG2		100.0%	99.7%	90%	Green	
Financial	Capacity Payments	Reserve capacity refunds	0.01%	0.13%	< 2%	Green
	Within Budget	Merredin Energy expenditure	110%	105%	100%	Red
Reporting to Management	Management Accounts	BD10 after month end	100%	100%	100%	Green
Compliance	Financial audit and compliance	Audit and compliance plan completed to plan	100%	100%	100%	Green
Credit Management	Credit Management	Aged debtors > 45 days	-	-	-	Green

Red signifies action being taken to address issues or close watch on progress

¹Some maintenance tasks for this quarter were postponed to allow site operator to focus on the CAT Engine repair project

²GT2 Starter Engine works completed without any Forced Outages – availability was not affected

2. Safety

Safety statistics for December QTR shown in table below

	QTR 2018	YTD	Annual Target	YTD Traffic Light
LTIs	0	0	0	
LTIFR	0	0	0	
MTIs	0	0	0	
Hazards identified	3	6	12	
Incidents reported ¹	0	0	0	

¹ Includes safety and vehicle incidents as well as near misses.

Details of reported Incidents as follows:

- No reported incidents during the quarter

Details of Hazards Reported:

- A water leak and subsequent slip hazard in the RO plant was identified and rectified
- Slip hazards due to oil spills on mesh grating were identified during the CAT Motor project
- The air compressor panels need to be removed for inspection, presenting a manual handling hazard. Hinges may be installed to mitigate this hazard

3. Treasury

3.1 Treasury Analysis

The following treasury analysis is provided as follows:

- Total cash held by the ME Group at 31 December 2018 is \$2.83M

3.2 Delegated Authority

There were no breaches of the Delegated Authority Policy during the December 2018 quarter

3.3 Debt Compliance

ME has been compliant with the Note Trust Deed for the December 2018 quarter. The most recent repayment was made in November 2018.

Fixed Rate Bonds

	Coupon Type	Maturity Date	Coupon	Yield to Maturity	Market Clean Price
Merredin Energy Pty Ltd	Fixed	15-Nov-22	7.50%	6.60%	102.66

Data extracted from FIIG Securities Limited (19 January 2019)

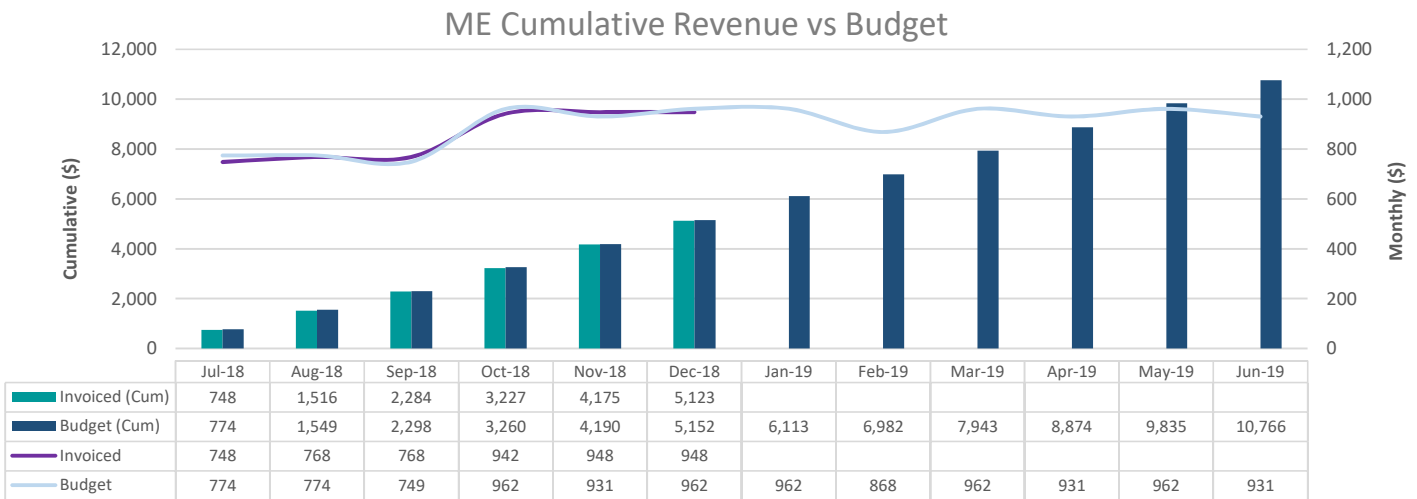
4. Finances

4.1 Revenue

Dec 18 Quarter (000's)			Year to Date (000's)		
Actual	Budget	Budget Variance	Actual	Budget	Budget Variance
2,839	2,854	15	5,123	5,152	29

- Operating revenue remains in line with budget for the December 2018 quarter and YTD
- The RCP was reset on 1 October 2018. The RCP for the remainder of FY2019 is \$138,760.39/MW (previously \$111,752.53/MW)

Figure 1: ME Consolidated Group Cumulative Revenue vs Budget

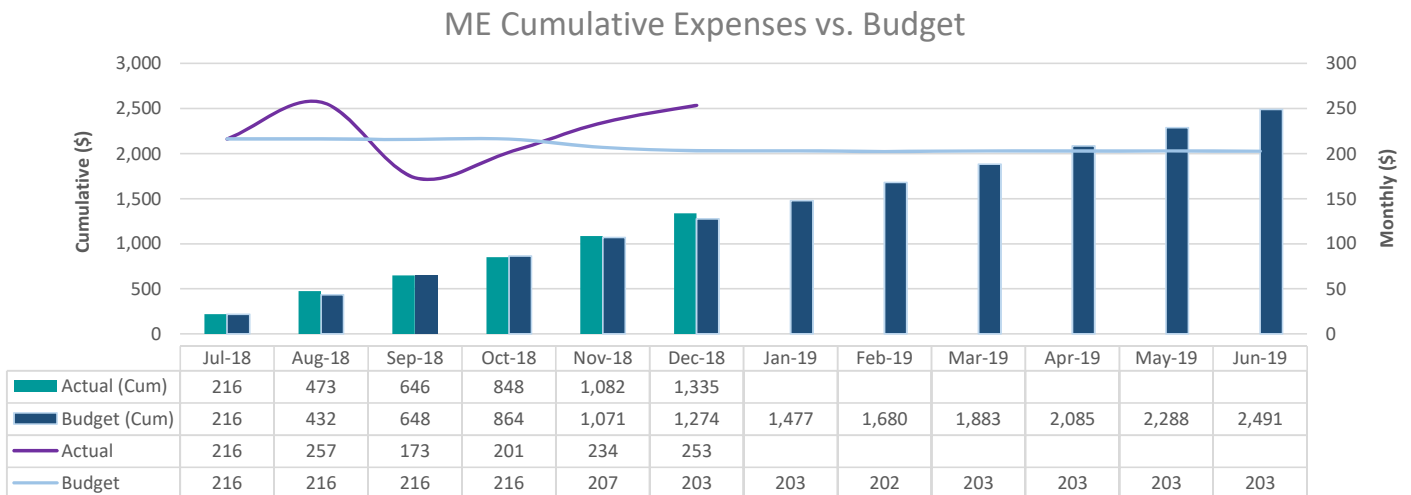


4.2 Expenses

Dec 18 Quarter (000's)			Year to Date (000's)		
Actual	Budget	Budget Variance	Actual	Budget	Budget Variance
689	626	63	1,335	1,274	61

- Overall operating expenditure for the December 2018 quarter is above budget. The increase is largely driven by the replacement of the CAT engine as well as TWPS requirements to complete transformer and generator testing
- Consulting costs are also above budget for the quarter as a result of advisory support provided by GRA Partners and Marsden Jacob Associates in relation to stakeholder engagements and the recommendation of a new reserve capacity pricing model

Figure 2: ME Consolidated Group Cumulative Expenses vs Budget



4.3 EBITDA

Dec 18 Quarter (000's)			Year to Date (000's)		
Actual	Budget	Budget Variance	Actual	Budget	Budget Variance
2,150	2,228	78	3,788	3,878	90

Figure 3: ME Consolidated Group Cumulative EBITDA vs Budget

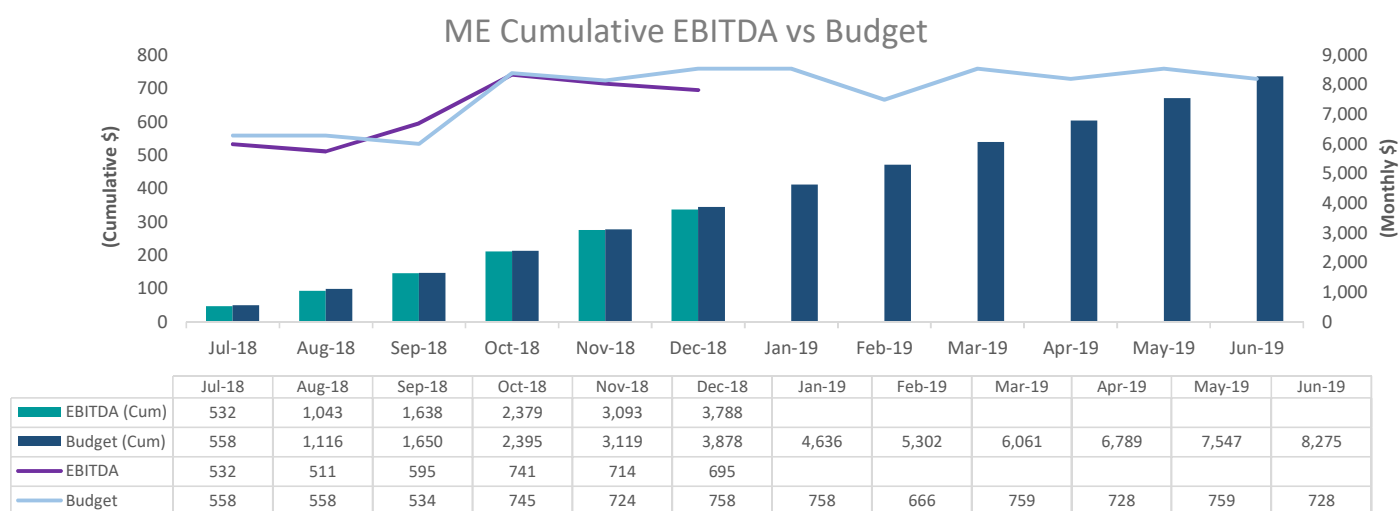
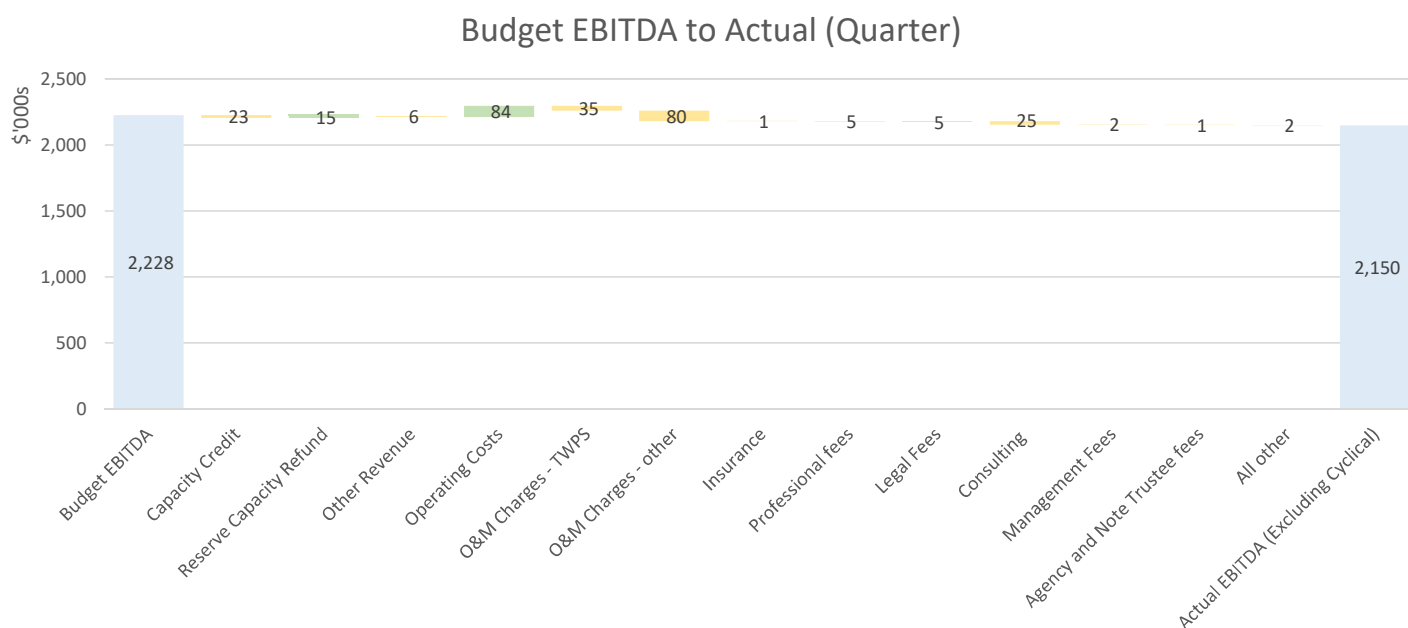


Figure 4: ME Consolidated Group Cumulative EBITDA vs Budget



5. Operational Update

- Western Power were upgrading the Merredin terminal facility during October. Merredin Energy was subject to a 4-day consequential outage while this work was undertaken. TWPS utilised this time to conduct maintenance, reducing Merredin Energy's requirement for planned outages
- The GT2 CAT starter engine was removed and rebuilt due to an internal corrosion issue. This was detected without incurring a Forced Outage. The unit was showing as 'Ready to Start' however doing so would have caused catastrophic damage to the unit. AEMO permitted Merredin Energy to take a series of planned outages to complete the works on GT2 without incurring any Forced Outages. GT1 is being assessed for a similar damage mechanism
- Outdoor enclosures for the CO2 fire suppression panels have been received. TWPS have commenced the process of enclosing this equipment to protect it from the weather and reduce the likelihood of accidental discharge
- The summer Reserve Capacity Test was postponed due to GT2 Starter motor works

5.1 Overhauls

Factored Starts towards the first Combustion Inspection (CI)

	Forecast for Financial Year	Oct	Nov	Dec	YTD	Life to Date	Remaining until CI	Years until CI due
GTG 1	22	1.5	0	0	10.2	368.3	431.7	19.6
GTG 2	22	0	0	3	12.2	260.0	540.0	24.5

6. Projects

- Work has commenced on the Turbine rooms door interlock panels to allow inspection without triggering an outage
- Control system upgrades are nearing completion. One more site visit from GE required to finalise works
- Covers over the Generator rooms are being investigated

7. Asset Management

7.1 General

- A detailed action list has been established and is reviewed fortnightly
- CMMS project complete. ME to conduct Asset Management Workshop with TWPS to refine PMs as necessary

7.2 Health Safety and Environment

- Zero non-conformances

7.3 Maintenance CAPEX

- Covers over the generator enclosures are under investigation to provide protection for this equipment from the elements

8. Other Matters

8.1 Incidents

- No reported incidents for the quarter

8.2 Regulatory

- ERA issued a market non-compliance notice due to incorrect logging of Outages and changes to bids after gate closure. TWPS and CQ Partners were advised of this notification and have amended/updated procedures accordingly. No financial penalty was incurred for these events
- AEMO has also advised that the Resource Plan was non-compliant on one occasion due to a miscommunication between TWPS and CQ Partners. To streamline this process and avoid any further issues, ME has decided to move responsibility for logging outages from the Site Operator to the Energy Trading Team

8.3 Risk

- No additional risks or policy amendments during the quarter

8.4 Staffing Matters

- None to report

APPENDIX A: FINANCIAL REPORT

Merredin Energy Holdings Pty Ltd and controlled entity
Consolidated Income Statement
For the period 01/07/2018 - 31/12/2018

	QUARTER TO DATE					YEAR TO DATE				
	ME	MEH	Consolidated	Consolidated Budget	Over/Under Budget	ME	MEH	Consolidated	Consolidated Budget	Over/Under Budget
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Capacity Credit	2,844,587	-	2,844,587	2,867,968	(23,381)	5,135,514	-	5,135,514	5,177,638	(42,123)
Reserve Capacity Refund	203	-	203	(14,340)	14,543	3,950	-	3,950	(25,888)	29,838
Other Revenue	(6,007)	-	(6,007)	-	(6,007)	(16,330)	-	(16,330)	-	(16,330)
Total Revenue	2,838,783	-	2,838,783	2,853,628	(14,845)	5,123,135	-	5,123,135	5,151,749	(28,615)
Operating Costs	172,889	-	172,889	256,584	(83,696)	406,592	-	406,592	513,169	(106,577)
O&M Charges - TWPS	156,805	-	156,805	121,667	35,138	286,763	-	286,763	249,167	37,596
O&M Charges - other	107,381	-	107,381	27,250	80,131	149,484	-	149,484	54,500	94,984
Insurance	52,224	-	52,224	50,900	1,325	105,202	-	105,202	99,767	5,435
Professional fees	22,167	-	22,167	17,500	4,667	40,558	-	40,558	35,000	5,558
Legal Fees	-	-	-	5,000	(5,000)	-	-	-	10,000	(10,000)
Consulting	39,375	-	39,375	14,000	25,375	83,028	-	83,028	46,000	37,028
Management Fees	71,034	-	71,034	69,353	1,681	140,769	-	140,769	138,705	2,064
Agency and Note Trustee fees	38,320	-	38,320	36,963	1,357	75,482	-	75,482	74,347	1,135
All other	28,838	-	28,838	26,752	2,086	47,479	-	47,479	53,504	(6,025)
Total Expenses	689,033	-	689,033	625,968	63,064	1,335,358	-	1,335,358	1,274,159	61,199
EBITDA Pre Cyclical Costs	2,149,751	-	2,149,751	2,227,660	(77,909)	3,787,777	-	3,787,777	3,877,591	(89,814)
Total Cyclical & Non-Cyclical Costs	-	-	-	68,000.00	(68,000)	-	-	-	68,000.00	(68,000)
EBITDA Post Cyclical Costs	2,149,751	-	2,149,751	2,159,660	(9,909)	3,787,777	-	3,787,777	3,809,591	(21,814)
Other Income and Expenses										
Depreciation and amortisation	751,236	-	751,236	751,840	(604)	1,501,797	-	1,501,797	1,503,680	(1,883)
Interest income	7,115	-	7,115	4,944	2,171	13,446	-	13,446	9,213	4,232
Interest expense	902,853	-	902,853	900,383	2,470	1,817,464	-	1,817,464	1,813,141	4,322
EBT	502,776	-	502,776	512,381	(9,605)	481,962	-	481,962	501,983	(20,021)
Income Tax Expense	-	-	-	-	-	-	-	-	-	-
Deferred Tax Expense	132,539	-	132,539	-	132,539	132,539	-	132,539	-	132,539
Income after tax	370,237	-	370,237	512,381	(142,144)	349,423	-	349,423	501,983	(152,560)

Merredin Energy Holdings Pty Ltd and controlled entity Consolidated Balance Sheets As at 31 December 2018						
	ME	MEH	Elimination	Consolidated	30-Jun-18	
	\$	\$	\$	\$	\$	\$
Cash and cash equivalents	2,828,969	-	-	2,828,969	2,397,470	
Accounts Receivable	-	-	-	-	143,416	
Accrued Income	1,896,392	-	-	1,896,392	1,396,907	
Capitalised Borrowing Costs - Current	1,014,692	-	-	1,014,692	774,095	
AA Borrowing Costs	(537,421)	-	-	(537,421)	(296,824)	
Other Receivables	6,073	-	-	6,073	6,924	
Prepayments	217,113	-	-	217,113	101,039	
Inventory	1,108,961	-	-	1,108,961	1,034,204	
Total current assets	6,534,780	-	-	6,534,780	5,557,230	
Land	204,702	-	-	204,702	204,702	
Plant and Equipment	79,380,350	-	-	79,380,350	79,341,639	
Furniture and Office Equipment	-	-	-	-	660	
Acc Depn - Plant and Equipment	(21,855,327)	-	-	(21,855,327)	(20,353,530)	
Acc Depn - Furniture and Office Equipment	-	-	-	-	(660)	
Capital WIP	-	-	-	-	-	
Capitalised Borrowing Costs - Non Current	1,372,973	-	-	1,372,973	1,613,570	
Bond Deposits on Trusts	130,000	-	-	130,000	130,000	
Investment in Merredin Energy	-	1,000,000	(1,000,000)	-	-	
Goodwill	-	-	561,045	561,045	561,045	
Deferred Tax Asset	(1,138,409)	2,836,666	-	1,698,257	1,830,796	
Total non-current assets	58,094,288	3,836,666	(438,955)	61,491,998	63,328,221	
Total Assets	64,629,068	3,836,666	(438,955)	68,026,778	68,885,451	
Accounts Payable	127,895	-	-	127,895	77,119	
Accrued Expenses	196,423	-	-	196,423	148,070	
Net GST Payable	142,000	-	-	142,000	146,709	
Interest Payable	387,750	-	-	387,750	400,125	
Debt Facility - Current	2,640,000	-	-	2,640,000	2,640,000	
Fuel Tax Credit	(0)	-	-	(0)	(29,859)	
Provision for Income Tax	84,801	145,267	(230,068)	-	-	
Intercompany Loan - MEH	26,107,487	(26,107,487)	-	-	-	
Total current liabilities	29,686,355	(25,962,220)	(230,068)	3,494,068	3,382,163	
Debt Facility - Non Current	38,720,000	-	-	38,720,000	40,040,000	
Total non-current liabilities	38,720,000	-	-	38,720,000	40,040,000	
Total Liabilities	68,406,355	(25,962,220)	(230,068)	42,214,068	43,422,163	
Net assets	(3,777,287)	29,798,885	(208,888)	25,812,711	25,463,288	
Issued Capital - Ordinary Shares	15,000	-	(15,000)	-	-	
Capital Raise	-	31,147,016	-	31,147,016	31,147,016	
Retained Profits	(5,903,922)	(1,348,131)	(193,888)	(7,445,940)	(7,225,680)	
Current Year Earnings	349,423	-	-	349,423	1,541,952	
Transfers to reserves	-	-	-	-	(1,762,212)	
Profit reserve	1,762,212	-	-	1,762,212	1,762,212	
Total Equity	(3,777,287)	29,798,885	(208,888)	25,812,711	25,463,288	

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