Energy price sensitivity

The following table details the sensitivity to a 10% increase or decrease in the forward prices for electricity. A sensitivity of 10% has been used as this is considered reasonably possible, based on historical data relating to the level of volatility in electricity prices.

At the end of the reporting period, if the forward prices for electricity had been 10% higher or lower and all other variables were held constant, the consolidated entity's profit after tax and other comprehensive income equity would have been affected as follows:

	Profit after tax Increase/(decrease)		Other comprehensive income Increase/(decrease)	
	2012 $m	2011 $m	2012 $m	2011 $m
Electricity forward price +10%	**6.6**	100.9	**80.4**	73.2
Electricity forward price –10%	**(10.7)**	(100.8)	**(78.4)**	(73.2)

The movement in profit after tax is mainly attributable to an increase/decrease in the fair value of certain energy derivative instruments which are economic hedges but do not satisfy the requirements for hedge accounting. The movement in other comprehensive income is due to an increase/decrease in the fair value of energy hedging instruments designated as cash flow hedges.

(h) Other price risks

The consolidated entity's exposure to equity price risk is minimal. Equity price risk arises from an equity investment in an ASX listed entity and which is classified in the statement of financial position as available-for-sale financial assets. The investment is held for strategic rather than trading purposes.

The price risk for the listed investment is immaterial in terms of the possible impact on profit or loss or other comprehensive income and as such a sensitivity analysis has not been completed.

(i) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. Credit risk arises from the consolidated entity's financial assets, which comprise cash and cash equivalents, trade and other receivables, loans to associates and derivative financial instruments.

The consolidated entity manages its exposure to credit risk using credit risk management policies which provide credit exposure limits and contract maturity limits based on the credit-worthiness of counterparties. The consolidated entity's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread among approved counterparties.

Trade and other receivables consist of over 3.4 million residential, small business and large commercial and industrial customers, in New South Wales, Victoria, South Australia and Queensland. Ongoing credit evaluation is performed on the financial condition of customers and, where appropriate, an allowance for doubtful debts is raised. The consolidated entity does not have any significant credit risk exposure to any single customer or any group of customers. For further details regarding trade and other receivables, refer to Note 13.

Credit risk arising from transactions in money market instruments, foreign exchange derivative contracts and interest rate derivatives contracts with financial institutions is managed by Corporate Treasury in accordance with the Board-approved Treasury Policy. The consolidated entity limits its exposure to credit risk by investing surplus funds and entering into derivative financial instruments only with approved financial institutions that have a credit rating of at least A from Standard & Poor's and within credit limits assigned to each financial institution.

Credit risk arising from the use of derivative financial instruments to manage energy price risk is managed by Merchant Energy in accordance with the Board-approved Wholesale Energy Risk Management Policy. Derivative counterparties are limited to high creditworthy financial institutions and other organisations in the energy industry. Derivative counterparties are assigned approved credit limits and contract maturity limits based on independent credit ratings from Standard & Poor's, Fitch or Moody's where available, or otherwise by internal assessment and credit scoring based on published financial statements and market information for each counterparty.

As there are a limited number of energy organisations to enable management of energy price risk, there is limited scope for managing credit risk through diversification of counterparties. Any request for credit exposure limits or contract maturity limits above those assigned for a counterparty must be referred to the Board for approval. The credit worthiness of counterparties is closely monitored over the life of the transaction. Credit exposure and maturity exposure by individual counterparty are continuously monitored and reported on regularly.

The consolidated entity also utilises International Swaps and Derivative Association (ISDA) agreements with derivative counterparties in order to limit exposure to credit risk through the netting of amounts receivable from and amounts payable to individual counterparties.

At the end of the reporting period, there was a significant concentration of credit risk with certain counterparties in relation to electricity derivatives undertaken in accordance with the consolidated entity's hedging and risk management activities.

The carrying amount of the financial assets recognised in the financial statements, which is net of impairment losses, represents the maximum exposure to credit risk.

The consolidated entity does not hold any collateral or other credit enhancements to cover this credit risk.