In relation to wholesale electricity, the result for the year was most affected by the consequences of the severe weather events experienced across the National Electricity Market in late January and early February 2011. These events resulted in:

> record electricity demand in New South Wales and South Australia, coupled with extended periods of high and volatile wholesale electricity prices;

> the shut down, ahead of Cyclone Yasi, of the Yabulu Power Station over which AGL has dispatch rights; and

> disruption of gas supplies to, and the imposition of transmission constraints on, the Oakey Power Station over which AGL has dispatch rights.

AGL was exposed to underlying electricity pool prices of up to $12,500 per MW hour during periods of high customer demand. In normal circumstances, electricity pool prices are around $40 per MW hour. The effect was to increase AGL's electricity wholesale costs by $43.7 million.

But for the effects of the unusual summer weather events described above, EPM's performance for the year was otherwise very satisfying in a number of respects. Generation output from hydro assets was up due mainly to the benefits of higher water storage levels at the Eildon and Dartmouth dams. Electricity generation from wind assets was also higher than obtained in the previous year. Effective management of the wholesale electricity portfolio also allowed AGL to benefit from overall lower electricity pool prices that prevailed for most of the year.

The higher generation output from hydro and wind assets increased AGL's eco-markets gross margins.

Merchant Energy	2011 $m	2010 $m
Operating EBITDA	**447.3**	449.8
Operating EBIT		
Energy Portfolio Management	430.1	426.1
Merchant Operations	(114.7)	(103.8)
Energy Services	17.8	17.3
Power Development	56.3	56.9
Sundry Expenses	(11.3)	(10.4)
Total Operating EBIT	**378.2**	386.1

Wholesale gas margins increased mainly as a result of higher residential demand during July, August and September 2010 when temperatures were generally lower than they were the previous year. Effective management of AGL's gas contracts reduced overall gas procurement costs, although this was partly offset by higher gas haulage costs, a tightening in margins from commercial and industrial customers, and costs associated with the newly introduced short-term gas trading market.

Power Development

Power Development generates earnings from the development of wind farms. Development profits are recognised on a percentage of completion basis.

Development profits of $61.0 million were recognised in the year, mainly from the AGL Hallett 4 Wind Farm (which was commissioned and became operational in May 2011) and from the Oaklands Hill Wind Farm. Construction of the Oaklands Hill Wind Farm is expected to be completed in December 2011, which will result in recognition of a further $8.0 million of development profits in FY2012.

On 27 June 2011, AGL announced the sale of the Oaklands Hill Wind Farm. Although the physical asset has been sold, AGL will continue to construct, operate and maintain the facility, and will retain the rights to all electricity output and the resulting renewable energy certificates.

Work continued on construction of the AGL Hallett 5 Wind Farm, and is on schedule for completion in December 2011.

Construction of the Macarthur Wind Farm in western Victoria commenced during the year. When completed in April 2013, it will be the largest wind farm in the southern hemisphere with a generation capacity of 420 MW.

Merchant Operations

Merchant Operations is responsible for managing and maintaining AGL's growing portfolio of wind, water and gas-fired electricity generation plants. AGL's thermal and renewable generation portfolio includes the 1,280 MW gas-fired Torrens Island Power Station in South Australia, the 150 MW gas-fired Somerton Power Station in Victoria, and 796 MW of hydro generation in Victoria and New South Wales. AGL also operates and controls 389 MW of wind generation from the Wattle Point and the AGL Hallett 1, Hallett 2 and Hallett 4 Wind Farms in South Australia. The AGL 132 MW Hallett 4 Wind Farm is a new addition to the portfolio following its commissioning in May this year.

Merchant Operations is largely a cost centre. All generation revenue and variable operating expenditure is included in the results for Energy Portfolio Management. Merchant Operations costs increased this year due mainly to higher labour charges, the effect of additional new plant coming on line, and higher maintenance costs now that warranty periods for some assets constructed several years ago have expired. Depreciation charges for some