



## The Evolving AGL

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UBS 6<sup>th</sup> Australasian Utilities Conference

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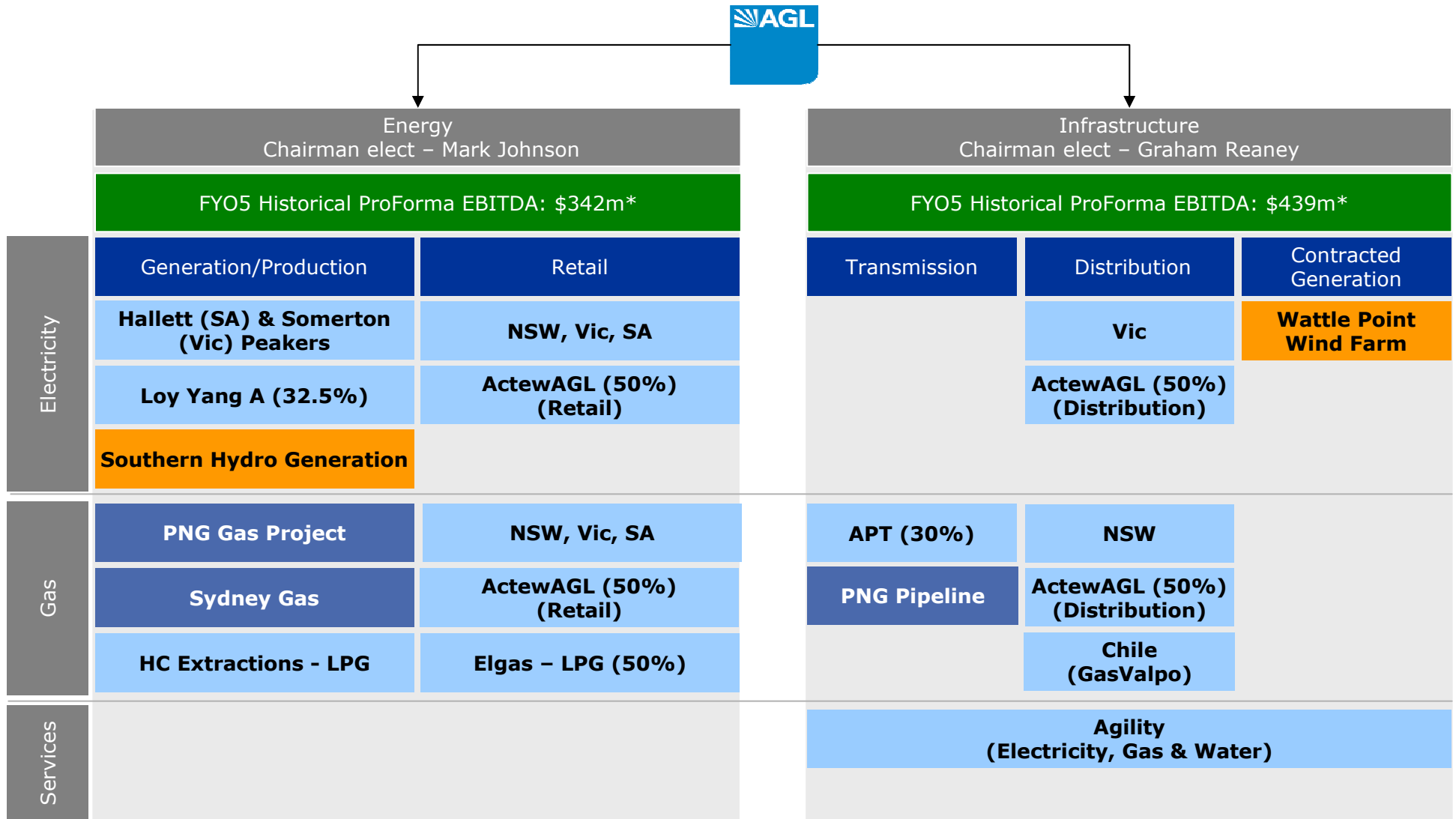
- Demerger Overview
- Vertically Integrated Energy Company
  - ◆ Power Generation Strategy - 2004
  - ◆ Power Generation Portfolio - the journey so far
  - ◆ Integrated portfolio benefits
- Summary
- Appendices

# Two New Major Australian Companies



- Demerger of AGL to create two new focused companies
  - ◆ Energy:
    - One of Australia's largest energy companies
    - Leading position in South Eastern Australia retail markets
    - A growing portfolio of generation and gas assets
    - Substantial funding capacity to execute growth opportunities
  - ◆ Infrastructure:
    - Quality gas and electricity distribution assets
    - Internal management expertise
    - Identified growth opportunities: PNG Pipeline & Agility business
    - Competitive capital structure supporting future growth opportunities
  - ◆ No cross shareholdings between companies
  
- Both companies to have clear and focused investment propositions
  - ◆ Energy: strong EPS accretion supporting future business growth with competitive fully franked dividends
  - ◆ Infrastructure: predictable, growing cash flows supporting fully franked dividends

# Proposed Structure Post Demerger



- Creates long-term shareholder value
  - ◆ Separate businesses provide greater transparency of business operations and financial performance
- Focus on core business activities and strategies
  - ◆ Strategic and operational decisions specifically focus on characteristics relevant to each business
- Clear investment choice
  - ◆ Energy focus on higher EPS/TSR growth with fully franked dividends
  - ◆ Infrastructure focus on cash flow growth to support fully franked dividends
- Improved growth opportunities
  - ◆ Allows both businesses to develop and acquire existing and new assets based on value drivers most relevant to each
  - ◆ PNG pipeline can be owned on Infrastructure balance sheet
- Capital structure
  - ◆ Energy will have substantial acquisition capacity at BBB+ credit rating
  - ◆ Infrastructure will have low cost of capital and strong cash flow to facilitate asset acquisition capacity at BBB credit rating

## POWER GENERATION STRATEGY

- ① **Positions of Vertical Integration where appropriate:**
  - Peaking Generation integrated with retail business
    - Somerton, Hallett
    - Acquisition /Expansion/ Greenfields
  
- ② **Power Generation Investments:**
  - Earnings & portfolio diversification
    - Loy Yang A Investment
  
- ③ **Renewable Generation**
  - AGL interests:
    - Investments in landfill gas extraction, biomass
    - PPA for wind farms in SA & Vic
  - Further opportunities:
    - Wind farm developments
    - Biomass



## Thermal

- Somerton 150MW gas fired peaking power station (2002)
- Hallett 180MW gas fired peaking power station (2002)
  - ◆ Approved expansion of 250-260MW



## Renewable

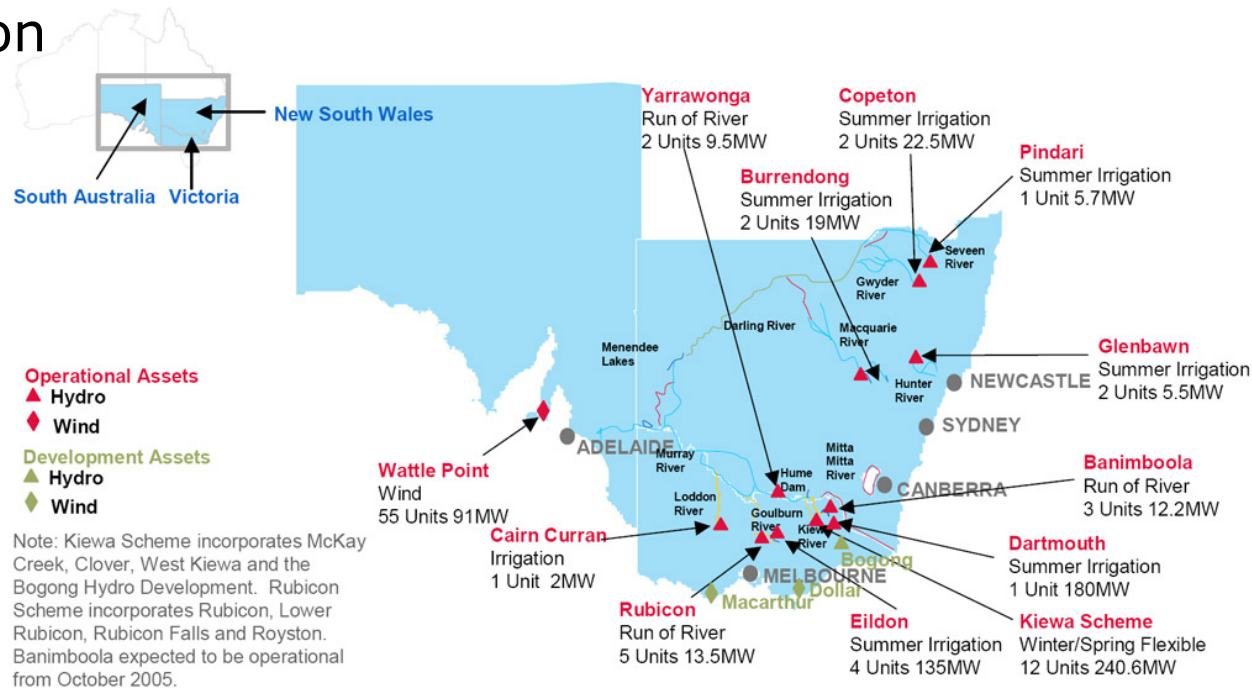
- progressing 90-135MW Hallett wind farm
  - ◆ Adjacent to existing facilities/infrastructure
  - ◆ Site characterised by strong wind speeds



- 'Watershed' acquisition enabling vertical integration within the industry (Apr 2004)
- 32.5% interest in 2200MW base load generator
- Lowest cost base load generator in Victoria
- Successful refinancing of \$2.1 billion senior bank debt facilities (Nov 2005)
  - ◆ Extends maturity profile complimenting long-term nature of assets
  - ◆ Credit margins reduced, existing favourable covenants maintained
  - ◆ No additional equity required



- 11 hydro and 1 wind generation power plants
  - ◆ ~645MW of 'fast start' hydro generation capacity across southern NEM
  - ◆ Total capacity of ~736MW
- Provides material improvement to portfolio's carbon intensity
- Fuel diversity enables better revenue optimisation and risk mitigation



# Southern Hydro - Growth Opportunities



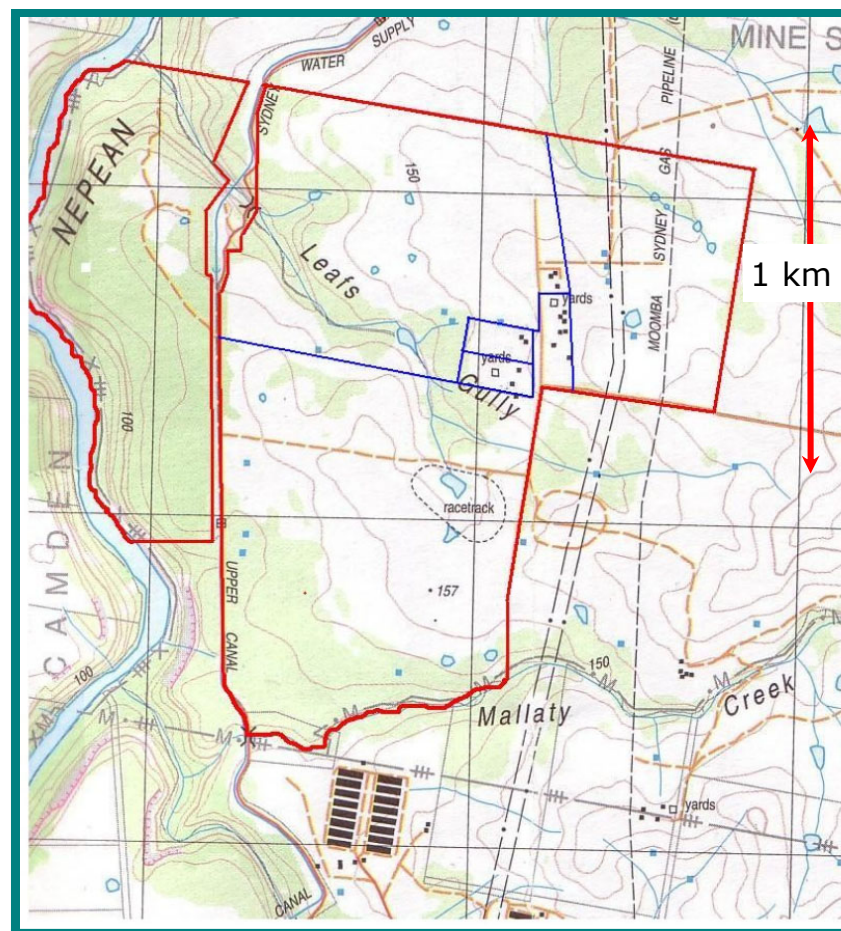
- Bogong (hydro)
  - ◆ Addition of new station to Kiewa hydro scheme
  - ◆ Australia's last major hydro development opportunity
  - ◆ 130MW
- West Kiewa (hydro)
  - ◆ Upgrade to existing station
  - ◆ 12MW
- Eildon (hydro)
  - ◆ Raising of Eildon scheme regulation pond
- Dollar (proposed wind farm) 79MW
- Macarthur (proposed wind farm) 345MW



- Proposed 370MW base load power station at Townsville
  - ◆ High efficiency, combined cycle gas turbine
  - ◆ Significant environmental benefits over traditional coal fired power generation
- Construction cost of ~\$350m
  - ◆ Planned commencement 2009 coinciding with arrival of PNG gas into Townsville
- Queensland Australia's fastest growing energy market
  - ◆ Electricity consumption growth in Nth Queensland forecast at ~2.8% over next ten years
- Queensland FRC (gas & electricity) to commence in 2007



- Option over 280 hectare sight at Leaf's Gully
  - ◆ Between Appin and Campbelltown
  - ◆ Zoning 'rural' – power station a consent use, site has ample buffer zones
- Proposed power station
  - ◆ Developed in several stages
  - ◆ First stage ~\$180m, 300MW gas fired peaking plant scheduled for 2009
  - ◆ Potential additional capacity enhancements of 500MW
- Excellent infrastructure on site
  - ◆ Transgrid 330kV Kemps Creek-Avon line
  - ◆ Integral Energy 66kV line
  - ◆ Eastern Gas Pipeline
  - ◆ Moomba to Sydney Pipeline
  - ◆ Sydney water supply canal
  - ◆ Sydney water 1.5m main



# Power Generation Portfolio - Today



- **Townsville, proposed 370MW power station**



- **52.7MW Southern Hydro assets**
- **Leafs Gully proposed power station (Stage 1: 300MW)**



- **180MW Hallett Power Station (Approved expansion 250-250MW)**
- **Progressing 90-135MW Hallett Wind Farm**
- **91MW Wattle Point Wind Farm (Southern Hydro)**

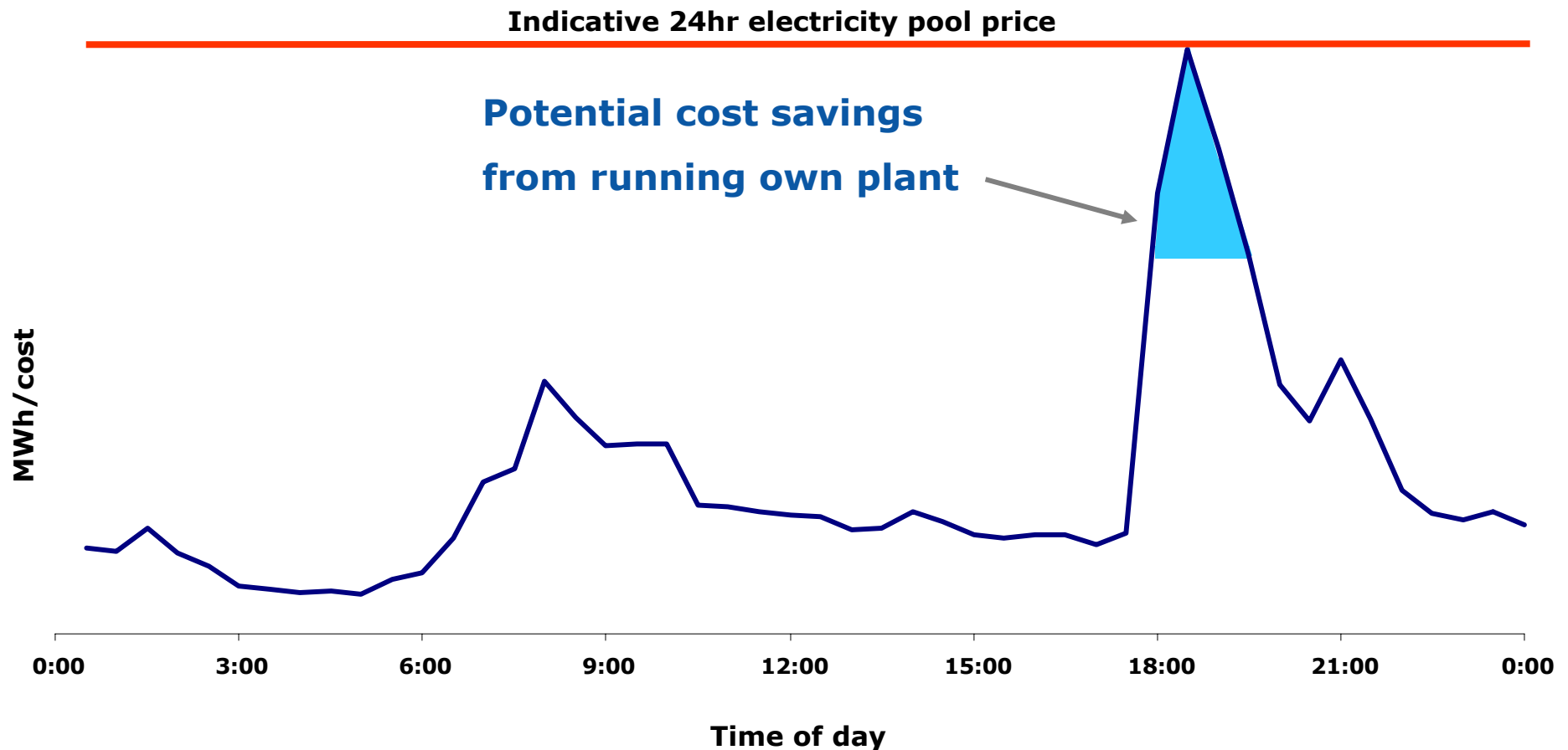


- **32.5% share in 2200MW Loy Yang Power Station**
- **150MW Somerton Power Station**
- **598MW Southern Hydro assets**

# Managing Wholesale Electricity Cost



- Reducing exposure to high demand electricity pricing periods lowers AGL's cost of energy and increases margins
- 30% of AGL's load (peak) represents 45% of electricity COGS



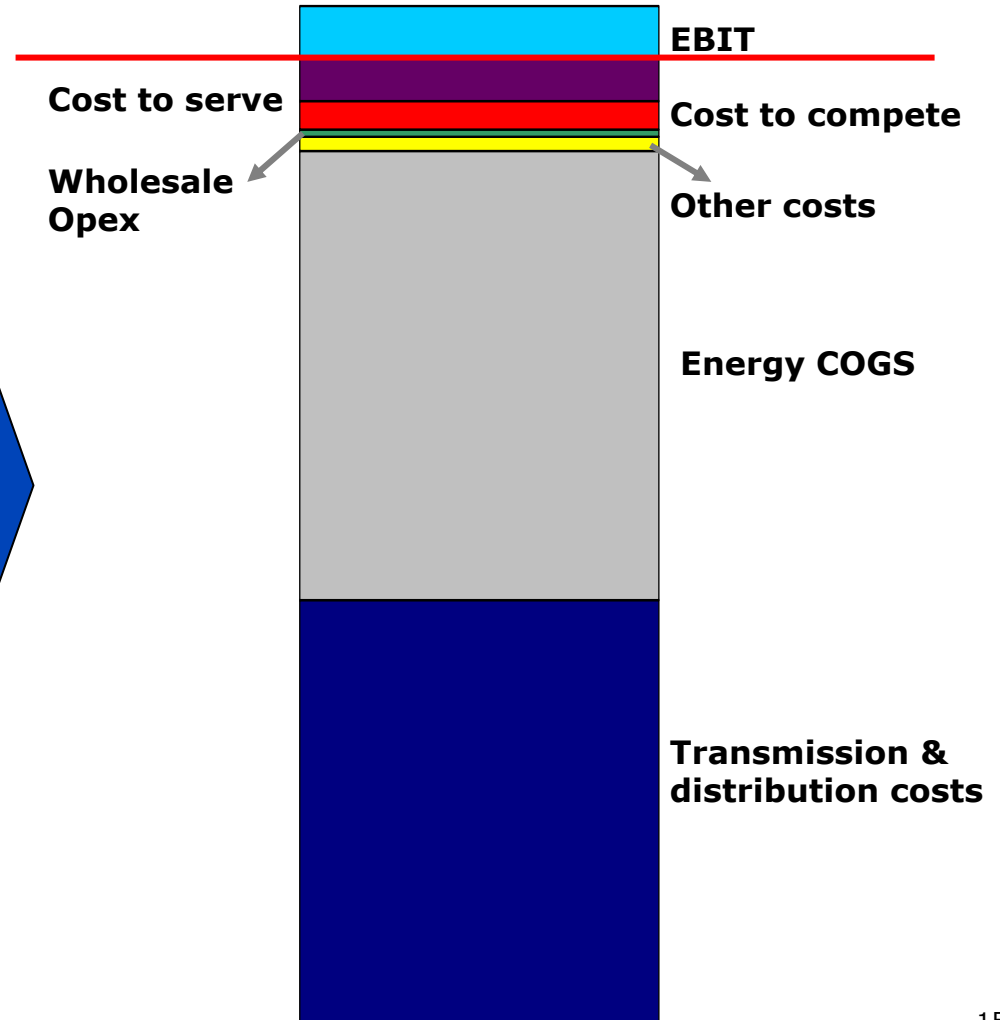
# Improved cost efficiency drives higher EBIT



## Gas & Electricity Sales



## Indicative Costs & EBIT

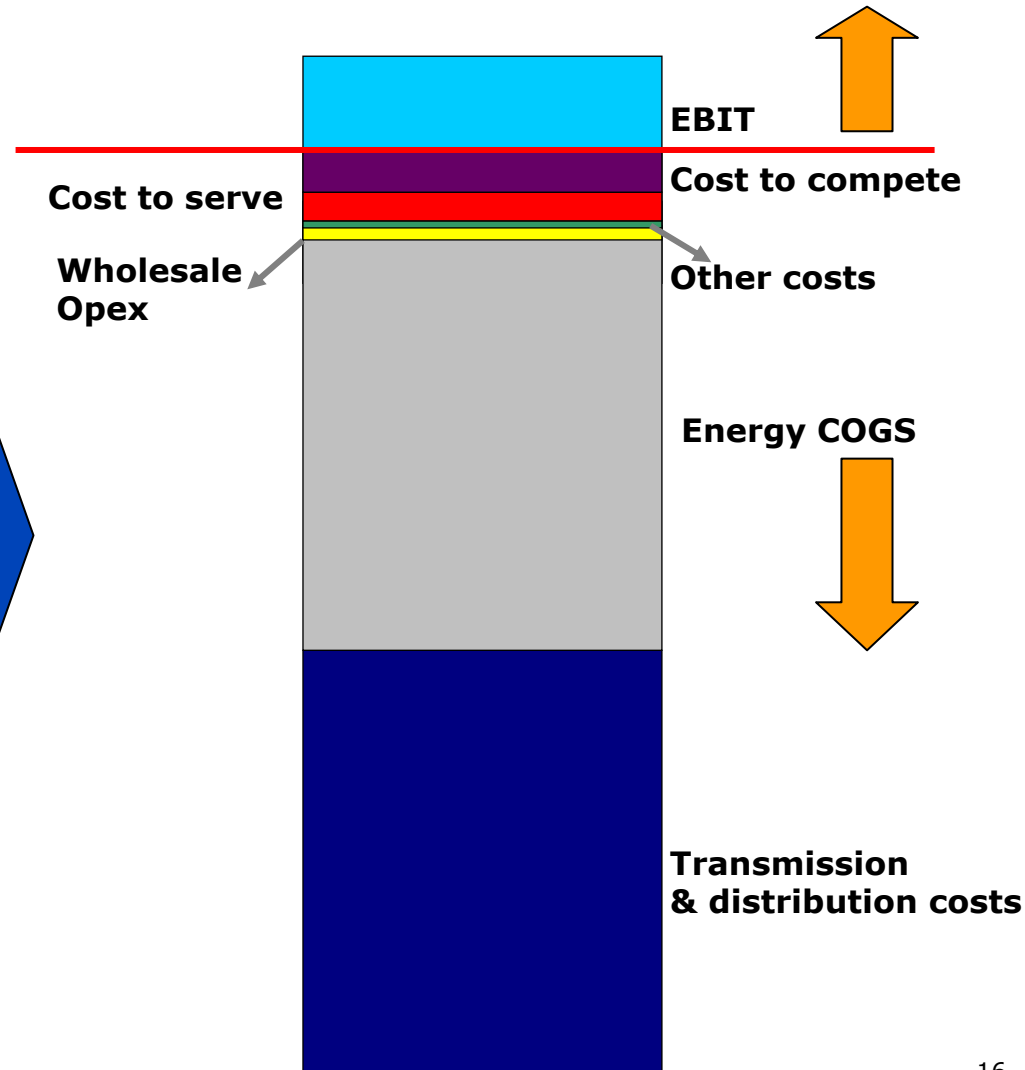


# Improved cost efficiency drives higher EBIT

## Gas & Electricity Sales



## Indicative Costs & EBIT



- The AGL power generation strategy delivers a range of benefits to the vertically integrated energy company model:
  - ◆ Earnings diversification
  - ◆ Fuel diversity
    - Gas, hydro, coal and renewables
  - ◆ Portfolio benefits
    - Displaces off peak contracts
    - Displaces cap contracts during peak demand periods
    - Improves negotiation effectiveness
    - Enables portfolio optimisation and risk arbitrage
  - ◆ Renewable and zero emission generation types reduce portfolio carbon intensity and assist in meeting REC requirements
  
- Combined, the AGL power generation and upstream gas portfolios deliver the vertically integrated energy company:
  - ◆ A strong pipeline of growth opportunities unsurpassed in the Australian market
  - ◆ Viable, stand alone business for the demerged energy company
  - ◆ A 'no compromise' corporate structure and outlook



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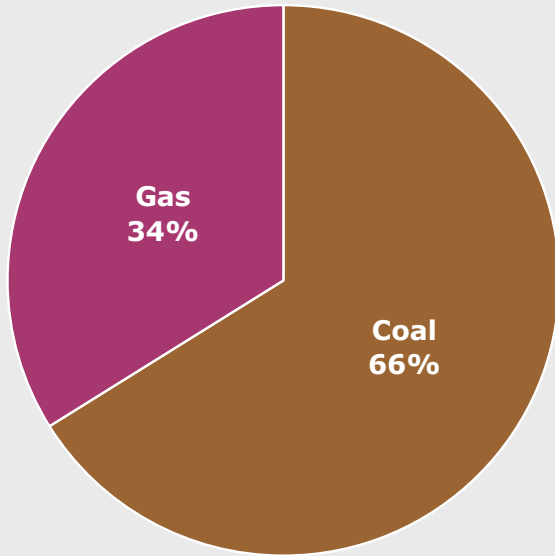


## Appendices

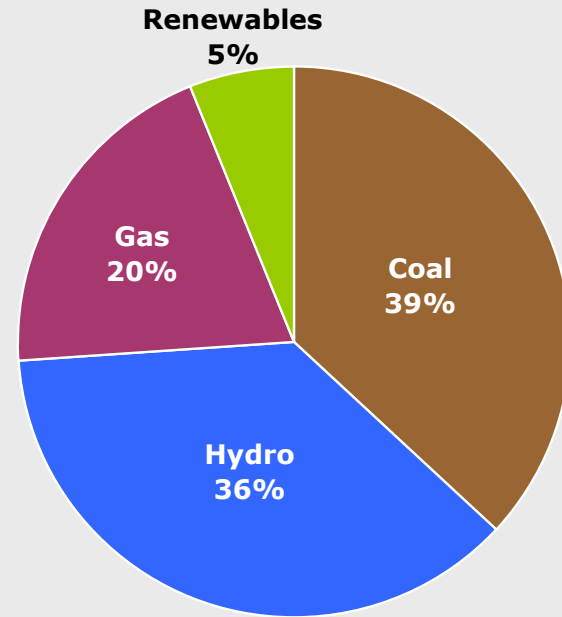
# A More Balanced Portfolio Fuel Mix



**Generation Portfolio Mix  
2004**



**Generation Portfolio Mix  
2005**



## ➤ Sydney Gas JV

- ◆ \$42.25m, 50% interest in coal seam production leases and exploration licences
- ◆ 10 year 14.5PJ gas sale agreement
- ◆ Competitively priced gas into NSW
- ◆ Further supports gas-fired power generation opportunities

## ➤ PNG gas agreements

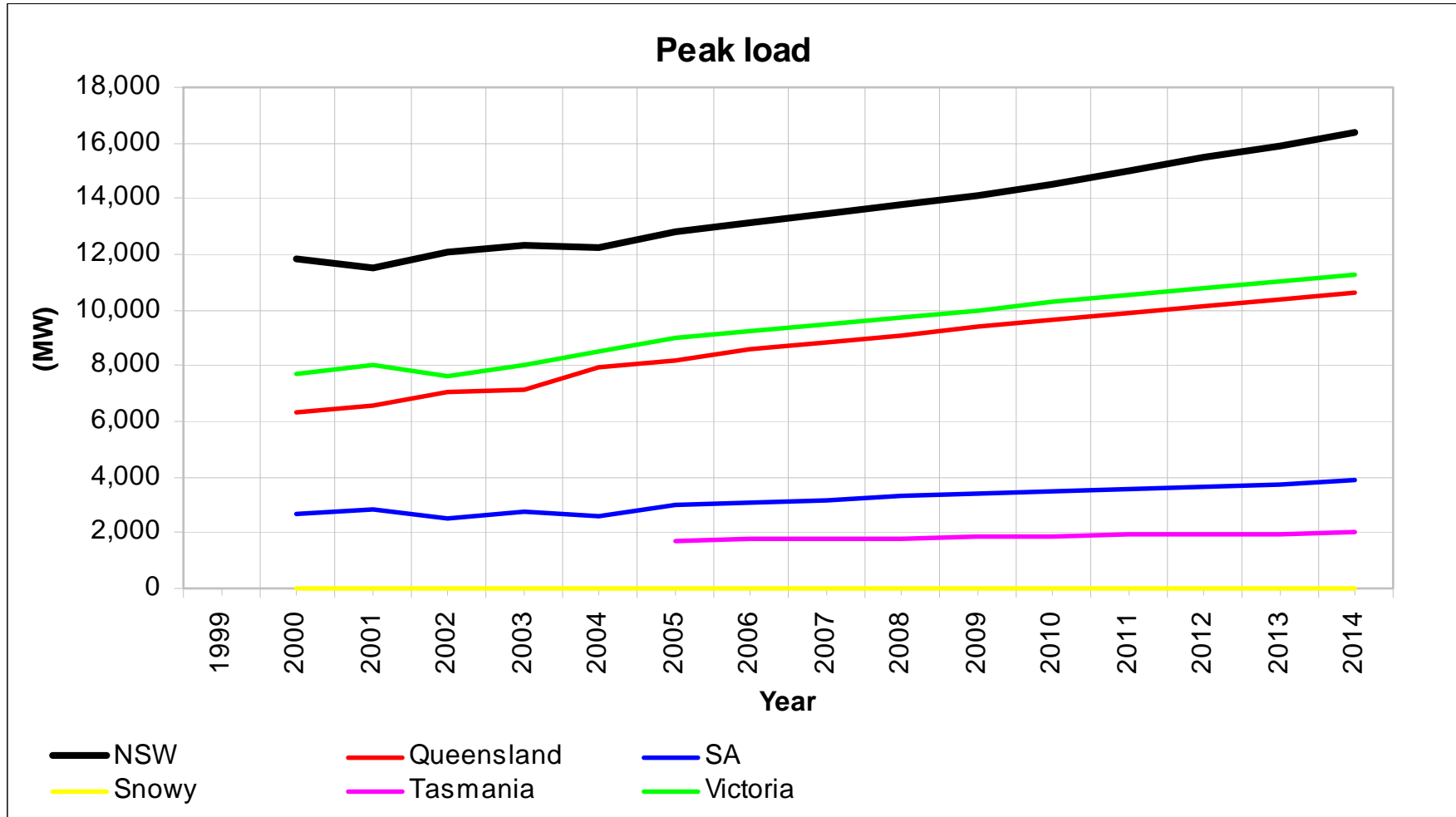
- ◆ \$400m, 10% equity interest in PNG gas project with Oil Search
- ◆ \$4.5bn, 1500 PJ gas supply agreement over 20 years
- ◆ Long term, competitive and flexible wholesale gas supplies
- ◆ Equity investment in upstream PNG project at attractive entry price
- ◆ Further supports PNG Pipeline project



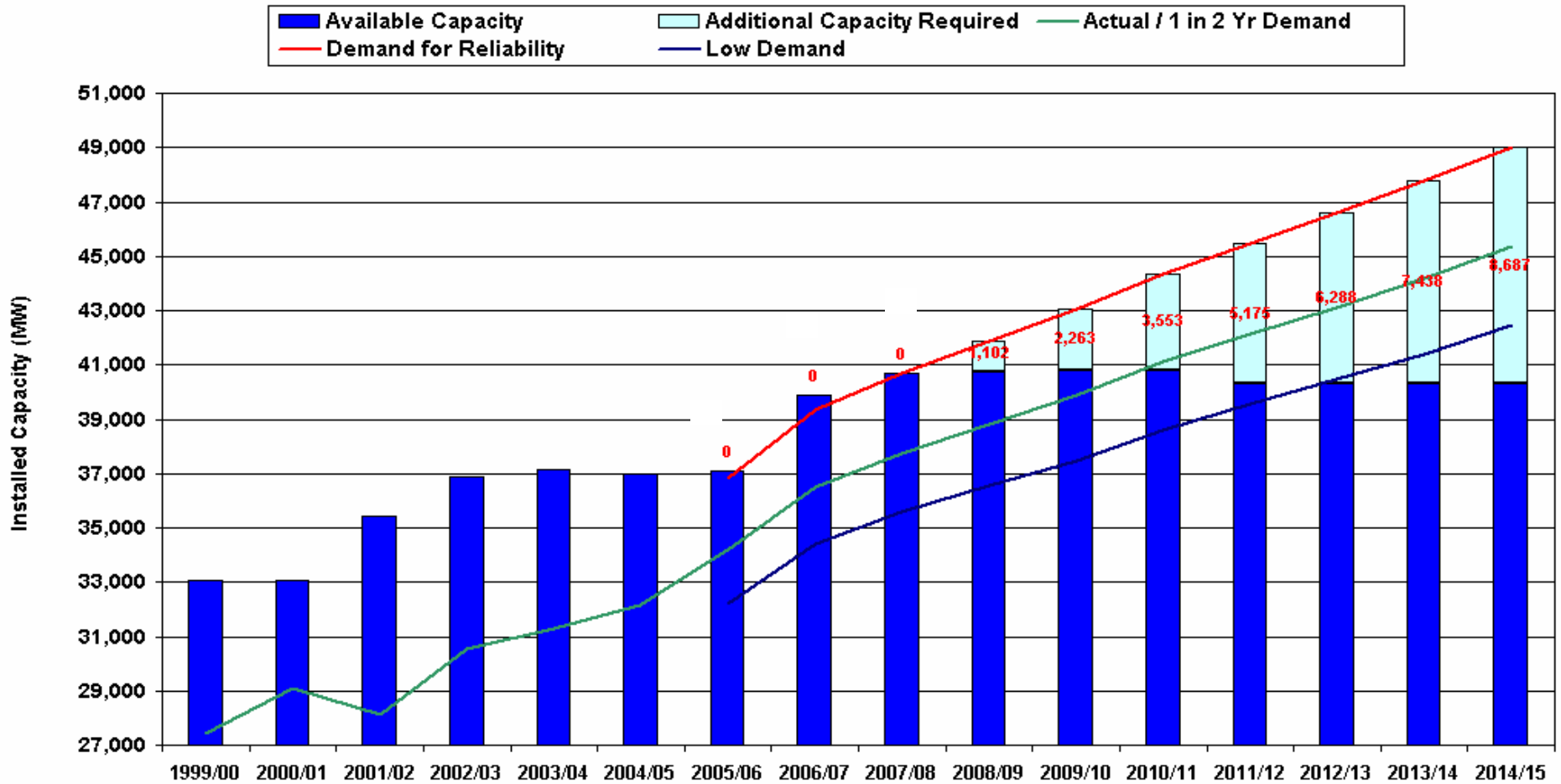
# Ongoing Peak Load Growth



## National Electricity Market - peak load growth by state



# Ongoing Total Load Growth (Demand & Supply NEM)



Source: NEMMCO July 2005

**A full range of information on AGL including annual reports, presentations and financial results is available from our website:  
[www.agl.com.au](http://www.agl.com.au)**

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