



## **AGL acquires further 1,280MW of clean-burn, gas-fired generation**

29 January, 2007

AGL Energy Limited (AGL) today announced it had entered agreements to purchase the 1,280 megawatt (MW) Torrens Island gas fired power station from TRUenergy for \$417m including all development, gas storage and transportation rights.

The acquisition will add to AGL's rapidly growing upstream interests in generation and gas assets bringing its total generation capacity to approximately 3,170MW (~4,600MW including 100 percent of Joint Venture interests), and more importantly will add to AGL's increasing physical position of low carbon emission electricity generation portfolio.

Also as part of the transaction, AGL has entered into an agreement to sell its 180MW gas fired peaking plant at Hallett for a sum of \$117m resulting in a net payment by AGL for Torrens Island power station of \$300m.

AGL Managing Director Paul Anthony said "this transaction substantially adds to AGL's growing fleet of low carbon emission generating plants and accelerates AGL's four corner strategy by rapidly developing our integration of physical electricity generating capacity with our deep and loyal electric ity customer base".

"Developing means to physically manage the price risk of a large retail base is a key financial risk mitigant, and this acquisition represents a significant leap forward in our strategic intent.

"Deepening our position in vital peaking and intermediate capacity plant like Torrens Island will afford AGL the direct and physical means to lower cost of goods sold and allow AGL to reduce its exposure to high cost hedge products due to the enhanced portfolio benefits of the acquisition."

Mr Anthony added that the overall economics of the acquisition were strongly financially attractive with an internal rate of return (IRR) in excess of 10% and net present value (NPV) approaching \$100m. While mildly earnings per share (EPS) decretive in financial year 2008; thereafter it will become strongly EPS accretive. The acquisition is currently anticipated to be funded from existing debt facilities.

"The transaction further demonstrates new AGL's ability to work strategically with its counterparties, even its fiercest competitors, to drive solutions that satisfy the economic drivers of both parties," Mr Anthony added.

"In this case AGL satisfies a much needed requirement to meet its growing peak and intermediate load, whilst TRUenergy acquires a right-size peaking plant for its rapidly growing demand base together with further development opportunities to enhance generating capacity in the future."

Mr Anthony said the benefits delivered to AGL by owning and operating Torrens Island would enable the company to better manage its leading retail and industrial & commercial customer positions in both gas and electricity across the entire Eastern Seaboard market of Australia.

"AGL will continue to invest in generation assets across the National Electricity Market (NEM) through organic and acquisitive growth, providing the company with opportunities to further minimise its exposure to price risks and delivering access to additional profit pools."

Mr Anthony said AGL would examine existing opportunities to further expand Torrens Island's generation capacity including a biodiesel project which TRUenergy had been developing in a joint venture with another party. The project is examining the viability of constructing a bio -diesel production and distribution facility on land adjacent to the existing storage facility at TIPSB.

As is normal for transactions of this nature AGL is applying for clearance from the ACCC. AGL also believes that this transaction will fit well and further enhance the ability of a combined entity to mitigate against commodity price traps should the proposed AGL/Origin merger proceed.

#### **Transaction Highlights & Summary**

- AGL to acquire Torrens Island (South Australia) integrated power facility for \$417m (\$300m net) together with associated Gas Sales Agreement and Haulage contract
- TRUenergy to acquire AGL's existing Hallett (South Australia) peaking power station and associated development rights for \$117m
- Transaction enhances AGL's natural hedge between retail electricity load and generation portfolio together with increased flexibility in managing its gas requirements
- Delivers gas storage capabilities via WUGS, Port Campbell facility in Victoria enabling enhanced AGL portfolio flexibility between TIPS fuel requirements and AGL's South Australian and Victorian gas requirements
- Builds on AGL's increasingly environmentally friendly and clean burn generation portfolio
- Captures an attractive return on invest with NPV approaching \$100m and IRR in excess of 10%
- Financial close scheduled for 1 July, 2007

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## **ASSET DESCRIPTION**

Torrens Island Power Station (TIPS) is located on Torrens Island, which is approximately 15 kilometres north-west of the Adelaide, South Australia central business district.

The power station consists of two blocks of generating units, TIPS A and TIPS B, with a total of eight (8) natural gas fired boilers and condensing steam turbines, yielding a total nameplate capacity of 1,280 MW.

TIPS is currently utilised for both peaking and intermediate duty and has an annual capacity factor of between 20% - 30%.

Natural gas is the primary fuel source although TIPS A and TIPS B can be dual-fired with both natural gas and fuel oil. Since the installation of the second natural gas supply (SEAGas) TIPS has not tended to burn oil for generation purposes other than for testing the oil firing system.

AGL Energy will acquire 100% of the TRUenergy subsidiary companies that currently own and operate TIPS pursuant to a 100 year lease from the South Australian Government, which expires June, 2100.

## **PLANT DETAILS**

### **TIPS A**

- Conventional boiler and condensing steam turbine plant
- 4 x 120 MW units
- Annual average gas throughput of ~ 3PJ

### **TIPS B**

- Conventional boiler and condensing steam turbine plant
- 4 x 200 MW units
- Annual average gas throughput of ~ 22PJ

## **GAS SALES (FUEL) AGREEMENT & HAULAGE AGREEMENT**

As part of the transaction AGL acquires a 10 year, ~300PJ Gas Sales Agreement (GSA) expiring in 2017, together with the associated SEAGas pipeline haulage contract, which expires in 2019. The combination of the GSA and Haulage contract terms, which include flexibility around delivery point, Maximum Daily and Hourly Quantities (MDQ & MHQ), and Take-or-Pay conditions (ToP), will deliver AGL material portfolio optionality in terms of supplying TIPS ongoing fuel requirements, AGL's existing South Australian retail and C&I customer base as well as exploring new business opportunities.

Augmenting both the GSA and Haulage agreement will be a Gas Swap agreement between AGL and TRUenergy which provides additional gas portfolio flexibility in operating TIPS as well as across both AGL's South Australian and Victorian retail and wholesale gas requirements.

## **GAS STORAGE FACILITY**

AGL will also enter into a Gas Storage agreement with TRUenergy for a combination of firm and non-firm capacity at the WUGS facility at Port Campbell, Victoria with the agreement through until 2017. The facility will deliver additional interruptible gas supply as required as well as providing optionality between the AGL generation and gas market portfolios.

## **STAFFING**

TIPS operates with a total staff compliment of approximately 170, many of whom have a long employment history at the station including the majority of the key management team. All staff will come across to AGL on transaction completion.

## DEVELOPMENT OPPORTUNITIES

A number of potential expansion opportunities have previously been identified at TIPS - AGL will further assess these opportunities and progress where strategically and financially appropriate.

- Repowering TIPSA or TIPSB units: this could involve construction of a new gas turbine and a heat recovery steam generator which could provide steam to power an existing TIPS unit steam turbine in combined cycle mode.
- Combined Cycle Gas Turbine (CCGT): the potential for the development of a 380MW CCGT plant on the TIPS site
- Open Cycle Gas Turbines (OCGT): the potential for the development of an OCGT plant (2 x 160MW units)
- Biodiesel: potential to lease surplus fuel tanks to a party proposing to construct a biodiesel production and distribution facility on land adjacent to the tanks. The development could deliver AGL revenue from leasing land, capacity and throughput charges for use of the fuel tanks and for the provision of heat and steam, electricity and water to the proposed Biodiesel plant.

TIPS is already investigating a significant upgrade of its controls and instrumentation systems for the TIPSB generating units which are anticipated to deliver increased levels of plant operating efficiency and fuel efficiency. Indicative CAPEX is estimated at ~\$40m and it is currently anticipated this project could be commissioned in 2009/2010.

## OPERATIONAL FINANCIAL METRICS

Indicative, total CAPEX over calendar years 2008 to 2012 ~\$48m

Indicative, total OPEX over calendar years 2008 to 2012 ~\$165m

## AGL FINANCIAL IMPACT & FUNDING

The transaction financial close date is scheduled for 1 July 2007 (ie commencement of AGL's 2008 financial year). AGL will provide 2008 financial year earnings guidance in conjunction with announcement of its 2007 full year financial results in August. 2008 financial year guidance will be inclusive of the TIPS transaction. Whilst on a stand alone basis mildly decreative in financial year 2008 predominantly resulting from existing hedge positions, the TIPS transaction is on average 3.9cps accretive (per annum) over the financial years 2008-2012 inclusive. These metrics do not include the potential value uplift from any external merchant product sales.

AGL maintains its existing, medium term (3-5 year) forecast EPS growth of approximately 15% per annum with a targeted 60% dividend payout ratio, fully franked.

AGL has recently finalised its funding facilities following the demerger in October 2006. The net TIPS funding requirement of approximately \$300m is currently intended to be met from these existing debt facilities. Full details will be provided in conjunction with AGL's 2007 interim result currently scheduled for announcement on 22 February, 2007

