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## ASX statement

**23 October 2009**

Attached is a presentation to be made today by Michael Fraser, CEO and Managing Director, at the Australian Financial Review Energy conference.



Paul McWilliams  
Company Secretary



# AGL Energy Limited

## Climate Change Policy settings are critical

Michael Fraser  
CEO and Managing Director



Australian Financial Review Energy Conference

October 2009

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# Agenda

- › Australia's Domestic Energy Markets
- › Climate Change and Transformational Policies
- › Retail Price Controls
- › Conclusions

# Australia's Domestic Energy Markets



# Australia's energy resources

Well positioned with a large diversified resource base

Fuel	Reserves	Export Demand	CO2
Black Coal	8.6% global reserves (213 years current production)	Significant	Medium-High
Brown Coal	500 years at current production	None	High
Gas	1.4% global reserves (68 years current production)	Significant	Low-Medium
Uranium	30% global reserves	Significant	None
Renewable	Significant wind, solar, wave and geothermal reserves	None	None

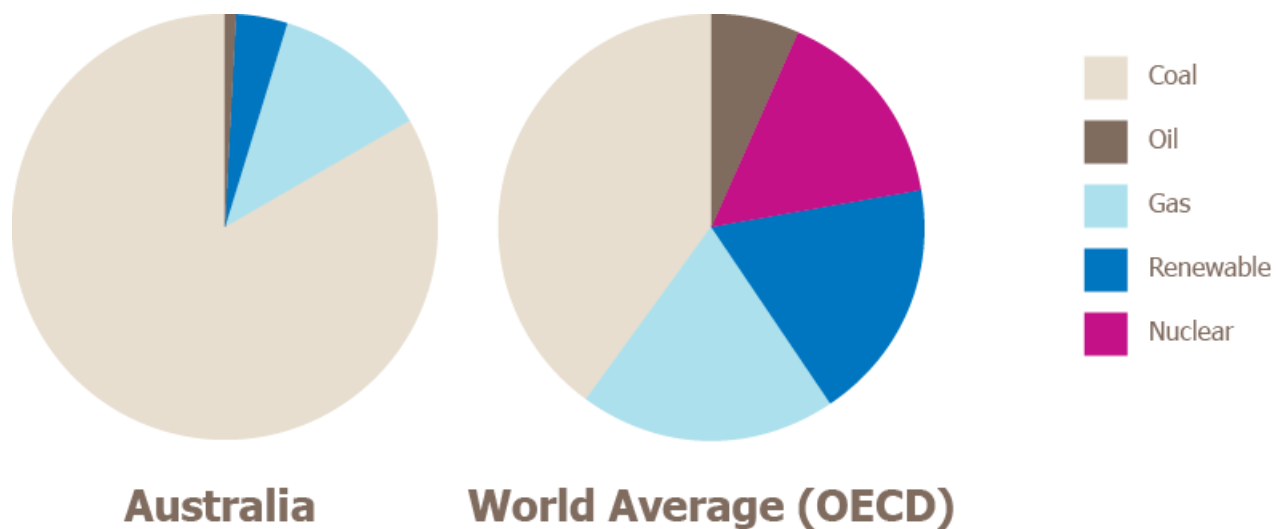
Source: BP (2008)

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# Australian electricity consumption

Domestic electricity is 'long coal' relative to global averages



Source: IEA / ABARE

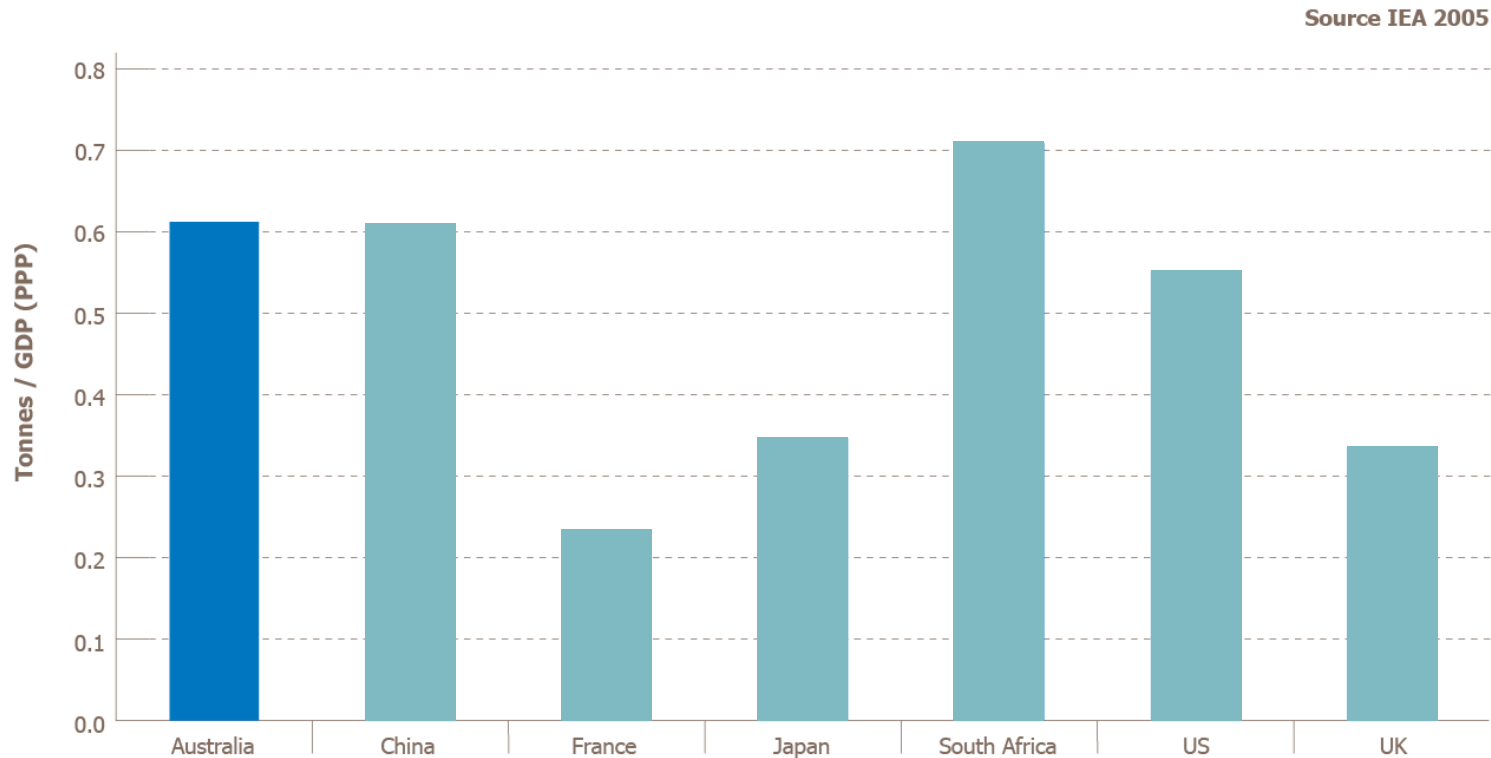
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# Managing Australia's carbon risk

Australia's heavy reliance on coal for energy means our economy is more exposed to a global carbon price

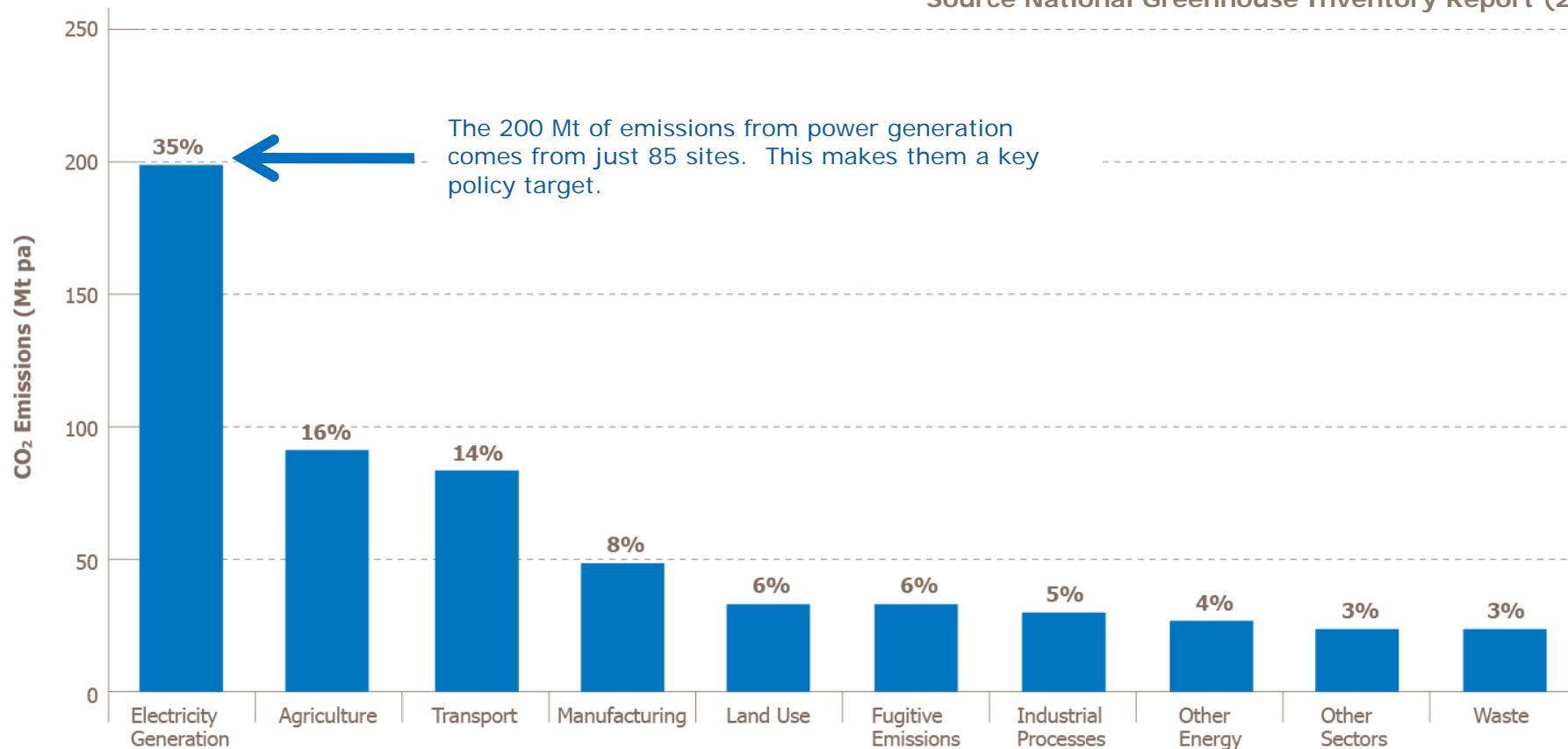


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# Australia's greenhouse gas emissions

Australia's greenhouse gas emissions are mostly produced by the energy sector. The energy sector will be most impacted by climate change policy

Source National Greenhouse Inventory Report (2006)

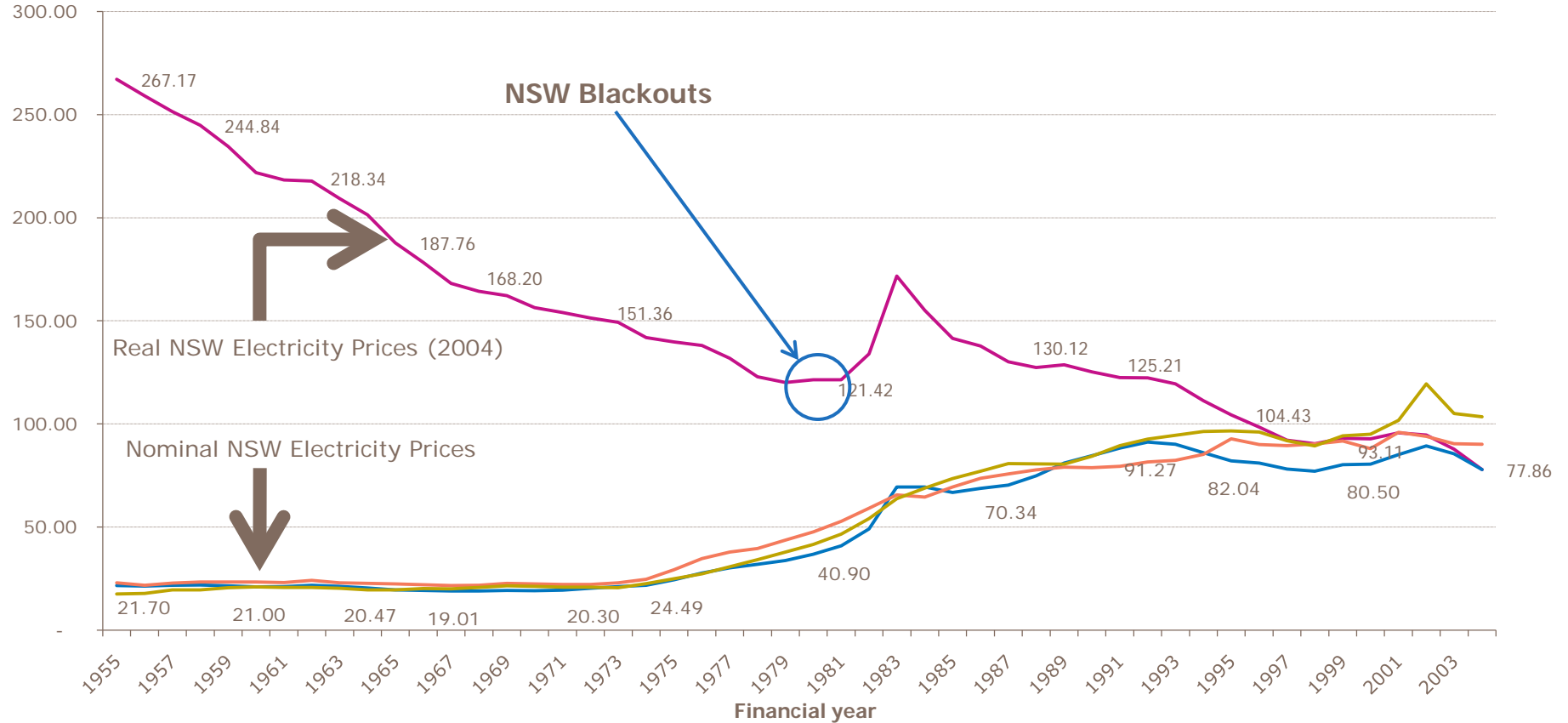


# Prices are low but will inevitably increase

Coal availability, technology and competition reforms have reduced energy prices

Electricity price (\$/MWh)

Avg NSW electricity price (constant 2004 dollars)      Avg NSW electricity price (nominal dollars)  
Avg QLD electricity price (nominal dollars)      Avg VIC electricity price (nominal dollars)



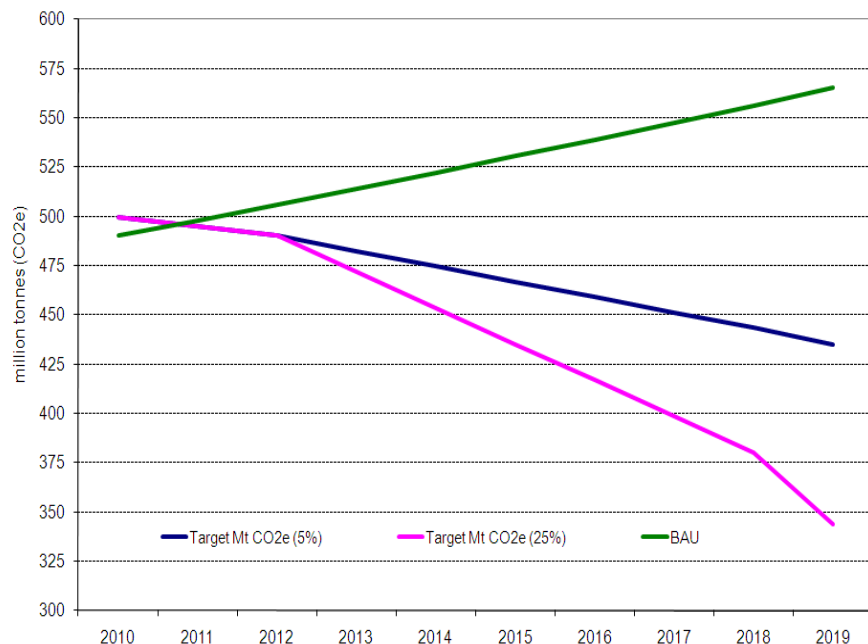
# Climate Change and Transformational Policies



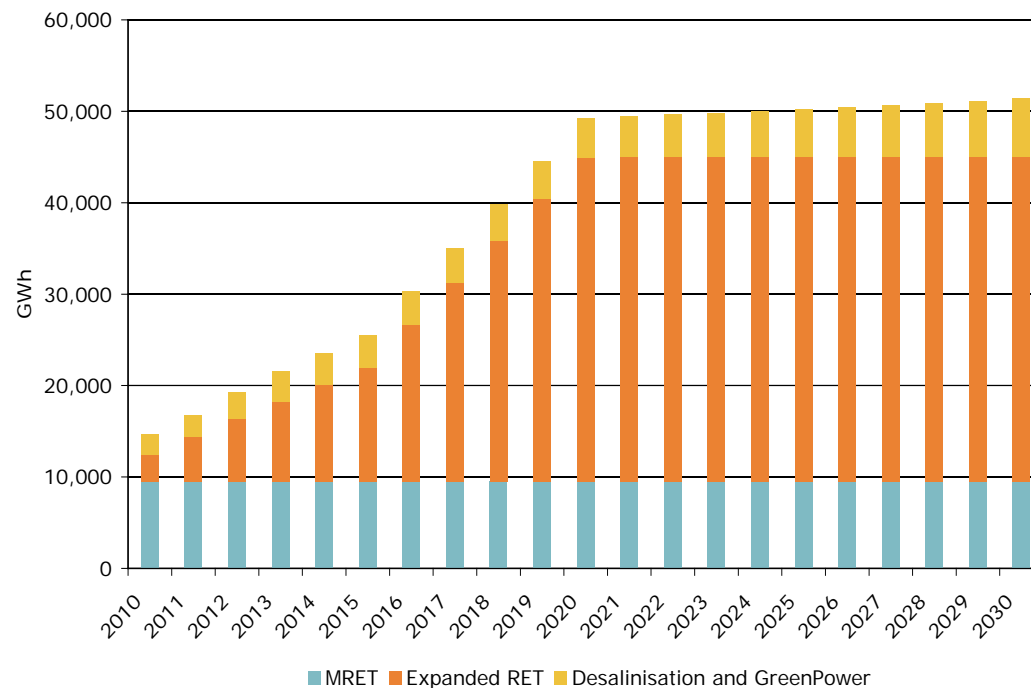
# Climate change will transform energy sector

Emissions trading, Expanded Renewable Energy Target and energy efficiency policies to deliver emission reductions

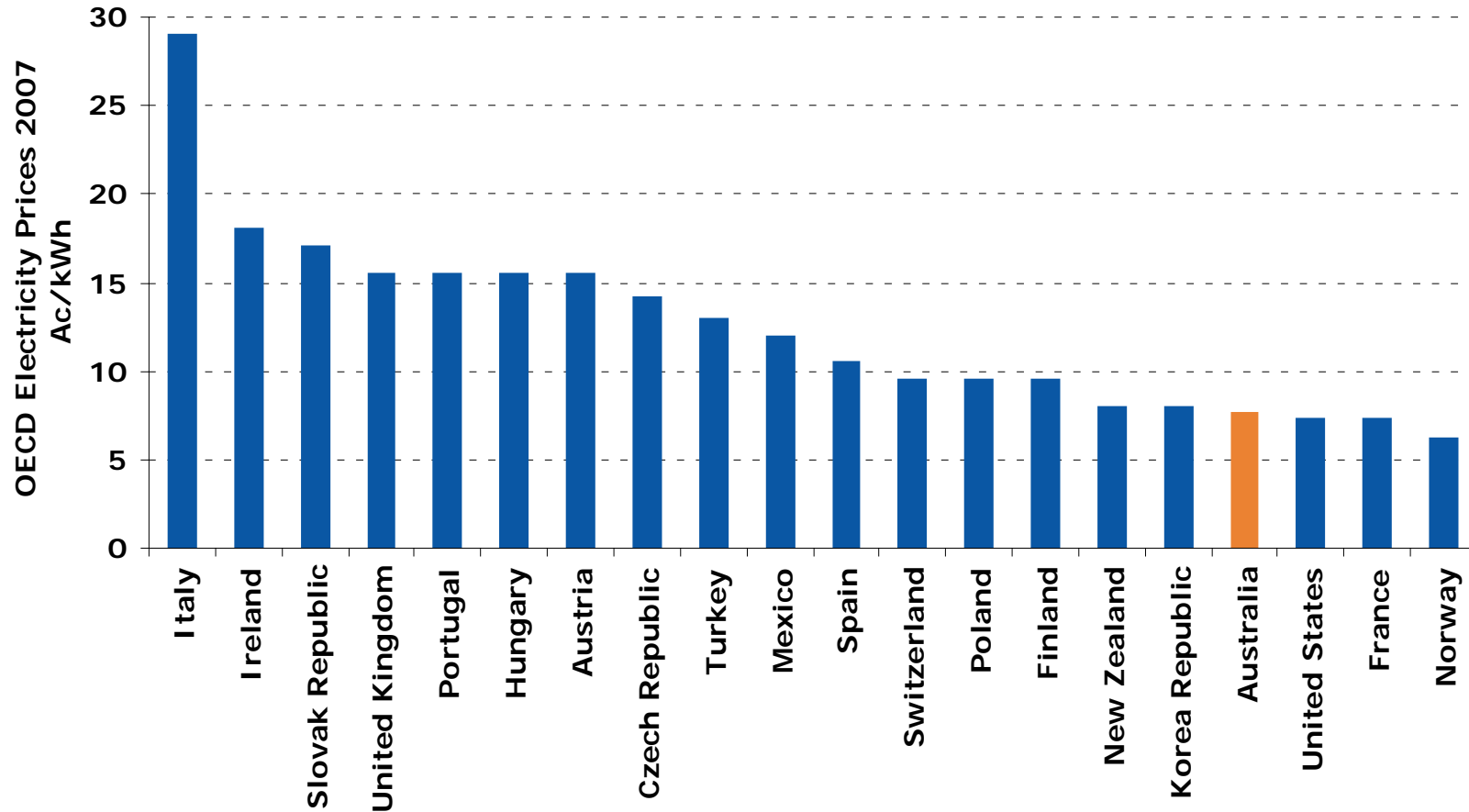
Emissions Targets



Expanded RET



....but prices will increase



Source ABARE

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## ....and the funding challenge is significant

The Australian energy market is heavily geared and many facilities will need to be refinanced in the short-term

Energy sector capital requirement: next five years	
Refinancing – Power generation	\$19 billion
Capital expenditure on existing and new generation assets	\$18 billion
Refinancing – Energy networks	\$29 billion
Capital expenditure on existing and new network assets	\$31 billion
Initial capital required to purchase emission permits	\$9 billion
	<b>\$106 billion</b>

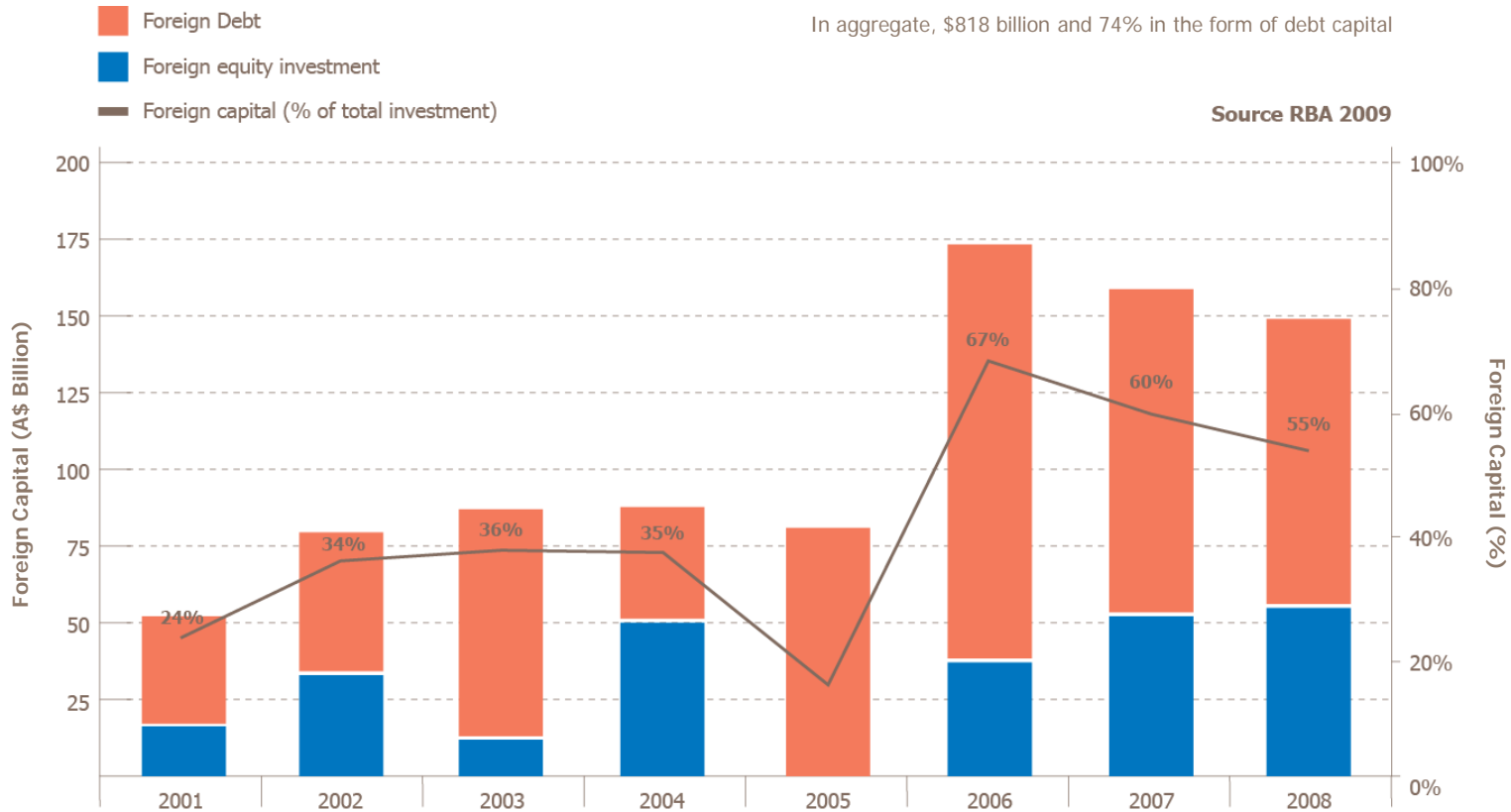
Source: AGL / ESAA (2009)

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# ....and reliant on foreign capital flows

## Australia is increasingly reliant on foreign capital flows



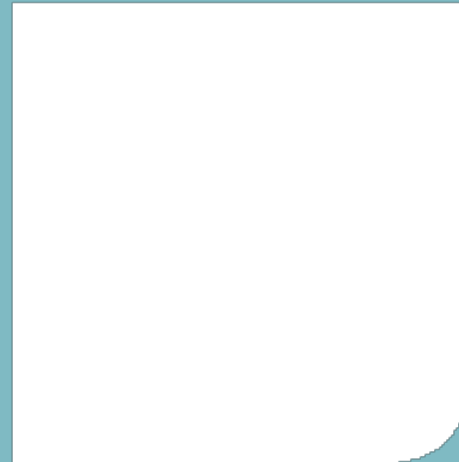
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# Policy settings must ensure a smooth transition

Climate change is a long term issue requiring long term solutions

- › Adequate transitional arrangements for generators and EITE industries
- › Meaningful but appropriate emission reduction targets
- › Assistance to low income households
- › Retail price controls should be removed
- › While price controls remain, it is critical regulators pass through all costs to ensure smooth transition and security of supply is maintained

# Retail Price Controls



# Retail Price Controls

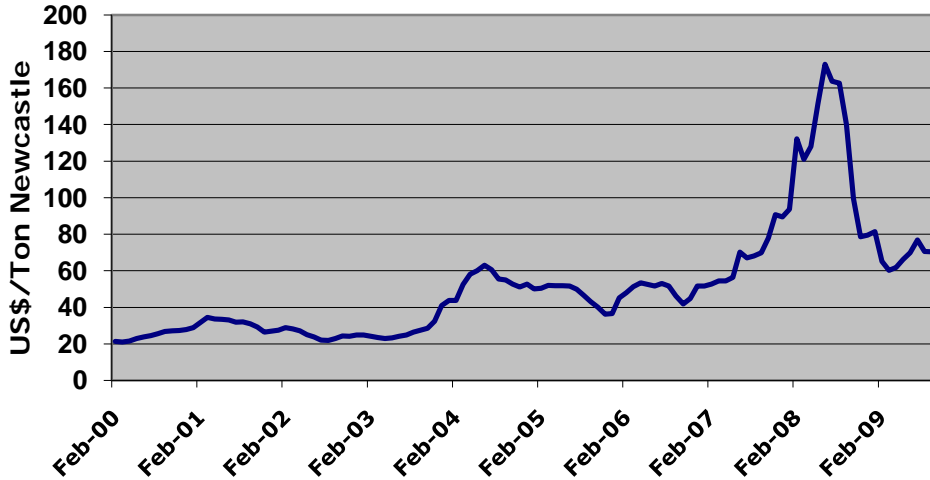
Ensuring all climate change related costs are passed through to end consumers is critical to achieving Climate Policy Objectives

- › Price signals will drive energy efficiency
- › The wrong price settings will stifle new investment, compromise climate policy objectives and risk security of supply
- › Removal of price controls the most effective means of determining an efficient retail price
- › Robust, competitive markets will deliver climate policy objectives at efficient prices
- › Regulators are being asked to perform what will become an extremely difficult task

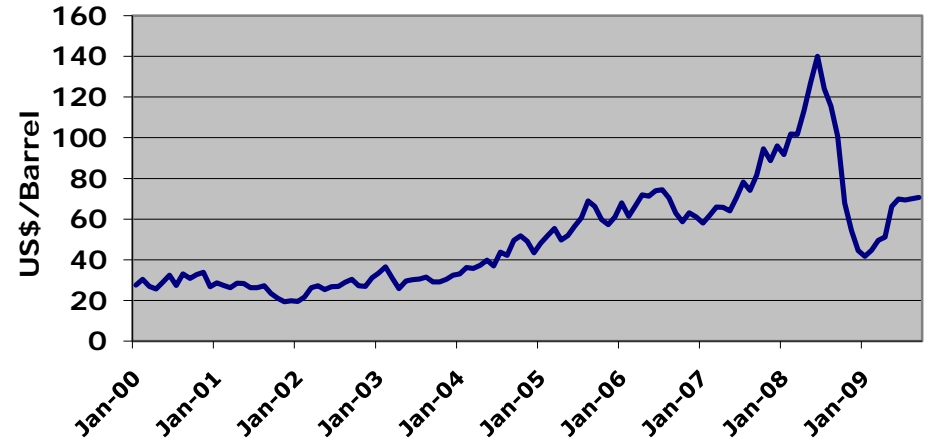
# Future prices impacted by numerous variables

Core variables are changing substantially. Key input costs increasingly linked to international prices

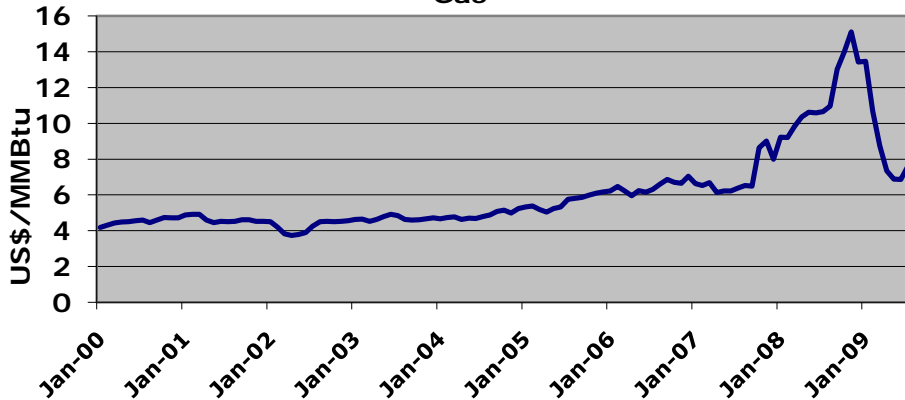
### Coal - Newcastle



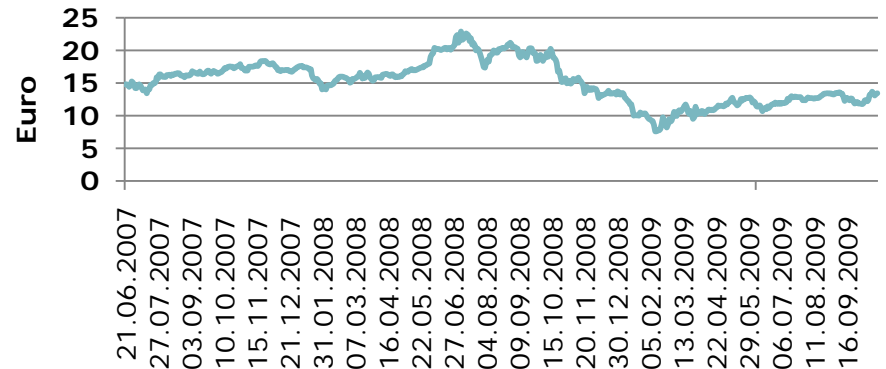
### Crude Oil



### Gas

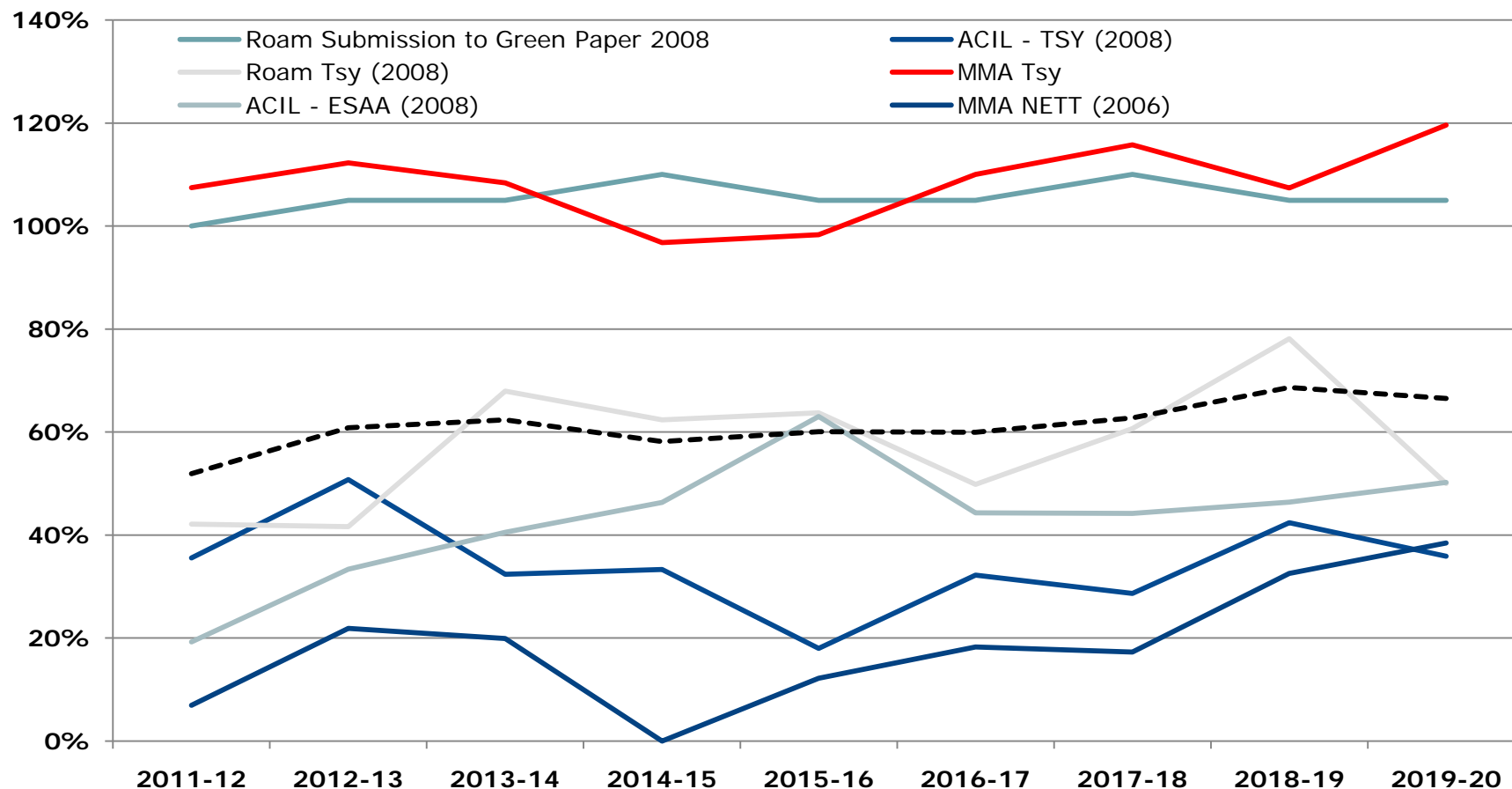


### CER Price 2007-2009



# Future prices impacted by numerous variables

Estimated pass through of carbon prices varies substantially across modelling studies



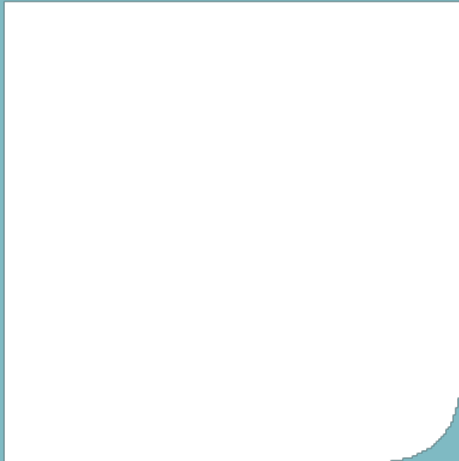
# Australia leads the world in competitive energy markets

## Levels of competition support removal of price controls

Category	Rank	Market
Hot	1	Victoria (Australia)
	2	South Australia (Australia)
	3	Great Britain
	4	Wallonia (Belgium)
Warm Active	5	New South Wales (Australia)
	6	Texas
	7	Queensland (Australia)
	8	Norway
	9	New Zealand
	10	Sweden
Active	11	Alberta (Canada)
	12	Netherlands
	13	Flanders (Belgium)
	14	Finland
	15	Germany
Cool Active	16	Denmark
	17	New York
	18	Spain
	19	Italy
	20	Slovenia
	21	Austria
	22	Ireland

Source "World Energy Retail Market Ranking Fourth Edition Vaasa ETT, October 2008

# Conclusions



# Conclusions

- › Climate change policies will transform the Australian energy sector
- › Significant investment is required over the next decade
- › The investment task is substantial
  - » \$106 billion in financing and refinancing across the supply chain
  - » \$37 billion in power generation
  - » Heavy reliance on foreign capital
- › Policy settings must ensure a smooth transition
- › Removing retail price controls one of the most important issues

# Further information

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