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AGL purchases output and dispatch rights from Queensland's Oakey Power Station

AGL Energy Limited (AGL) will purchase the entire output and dispatch rights from Queensland's 282 megawatt gas and diesel-fired Oakey Power Station until 2014, in a deal worth approximately $165 million (present value), for an initial outlay of $5 million.

AGL Managing Director Paul Anthony said: "This is a very creative deal - AGL has, in effect, purchased a power station for the next seven years for an initial payment of $5 million.

"We are able to avoid the significant capital outlay required to build a similar power plant, in return for annual capacity payments of about $30 million per year. AGL is forecasting an indicative total Queensland load of 70 TWhrs over the 7 year term of this agreement. This deal is anticipated to deliver an approximate 10% discount to the equivalent cost of buying derivative cover for that portion of the Queensland load."

AGL will be responsible for the supply of fuel to the peaking plant, located west of Toowoomba, and will have full discretionary dispatch rights and benefits from any revenue it produces from the wholesale market or derivative trading as well as any Gas Electricity Certificates produced both current and in future until December 2014.

Mr Anthony said the agreement with the Queensland Government's Enertrade would help enhance AGL's strategic position in the newly competitive Queensland energy market.

"This complements our recent acquisitions of Queensland Gas Company, Sun Gas and Powerdirect in the region, provides physical risk mitigation to power prices and arbitrage opportunities between the fuel types of gas and diesel," he said.

"This transaction has allowed the company to take advantage of a physical power plant to meet our market needs without the initial capital outlay. AGL's cash flow over the term of the deal will be better than would have been the case had it been required to fund the purchase or construction of a power station with a similar debt amortisation profile.

"This agreement further bolsters our 'four corners' strategy of securing upstream gas and electricity generation linked to our downstream markets."

Mr Anthony said the agreement would deliver AGL a very cost-effective hedge against price rises for the next seven years, at a cost below the market price of comparable risk management instruments, delivering a net present value benefit of about $15 million and will be EPS accretive.

"Together with our existing portfolio of generating plant this initiative will bring the generation under our control to almost 3,600 MW," he said.

"And for a $5 million initial outlay, we mitigate our price exposure and provide a valuable buffer while we develop our own plans to build physical generation capacity to support a growing demand base in this region."

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About AGL

AGL is one of Australia's leading integrated energy companies. Drawing on 170 years of experience, it includes retail and merchant energy businesses, power generation assets and an upstream gas portfolio. AGL has Australia's largest retail energy and dual fuel customer base supplying around 4.1 million customer accounts. This includes customers supplied with gas and electricity through AGL's joint venture partnerships, ActewAGL and AlintaAGL. AGL has a diverse power generation portfolio including base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources including hydro, wind, landfill gas and biogas. One of Australia's largest renewable energy producers, AGL is looking to further expand this position by exploring a suite of low emission and renewable energy generation development opportunities.