

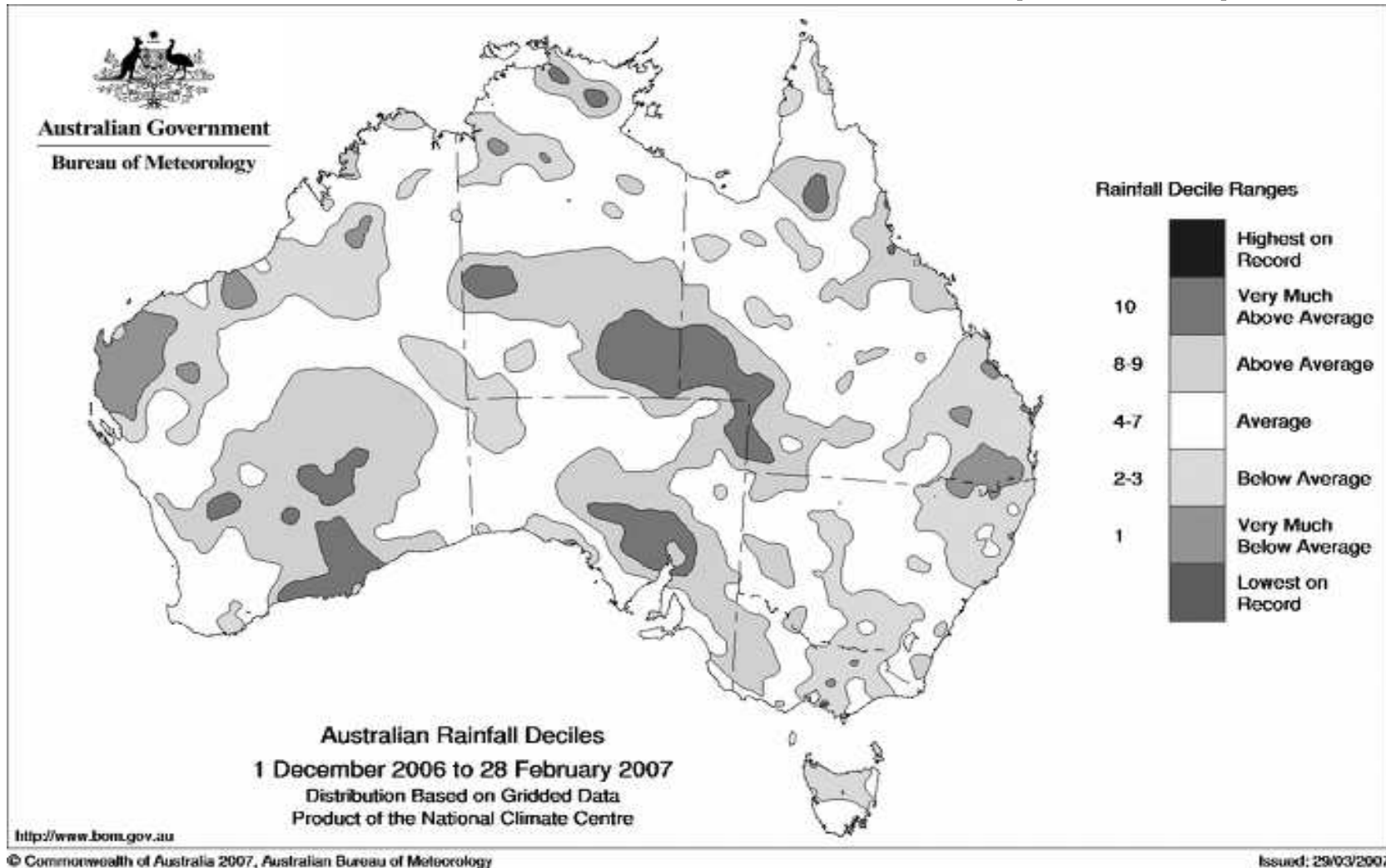


Water Implications

Evolution of the market

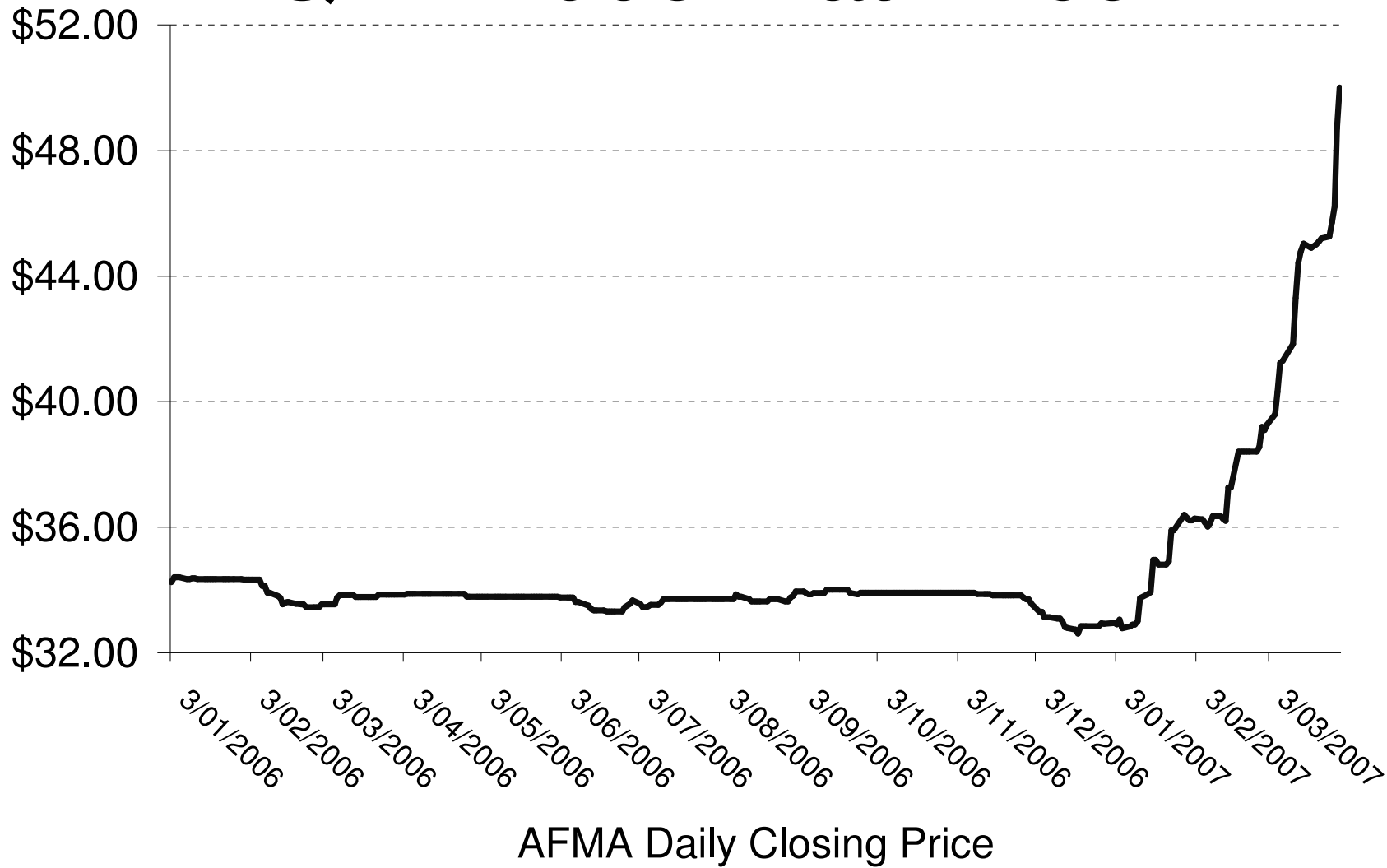
- Lower wholesale energy prices
- Increased market liquidity
- Increased transparency
- More sophisticated market participants
- Reduced cost of hedging (spreads and brokerage)
- QLD Government initiatives
- However, markets are cyclical.....

The Perfect Storm (not!!)

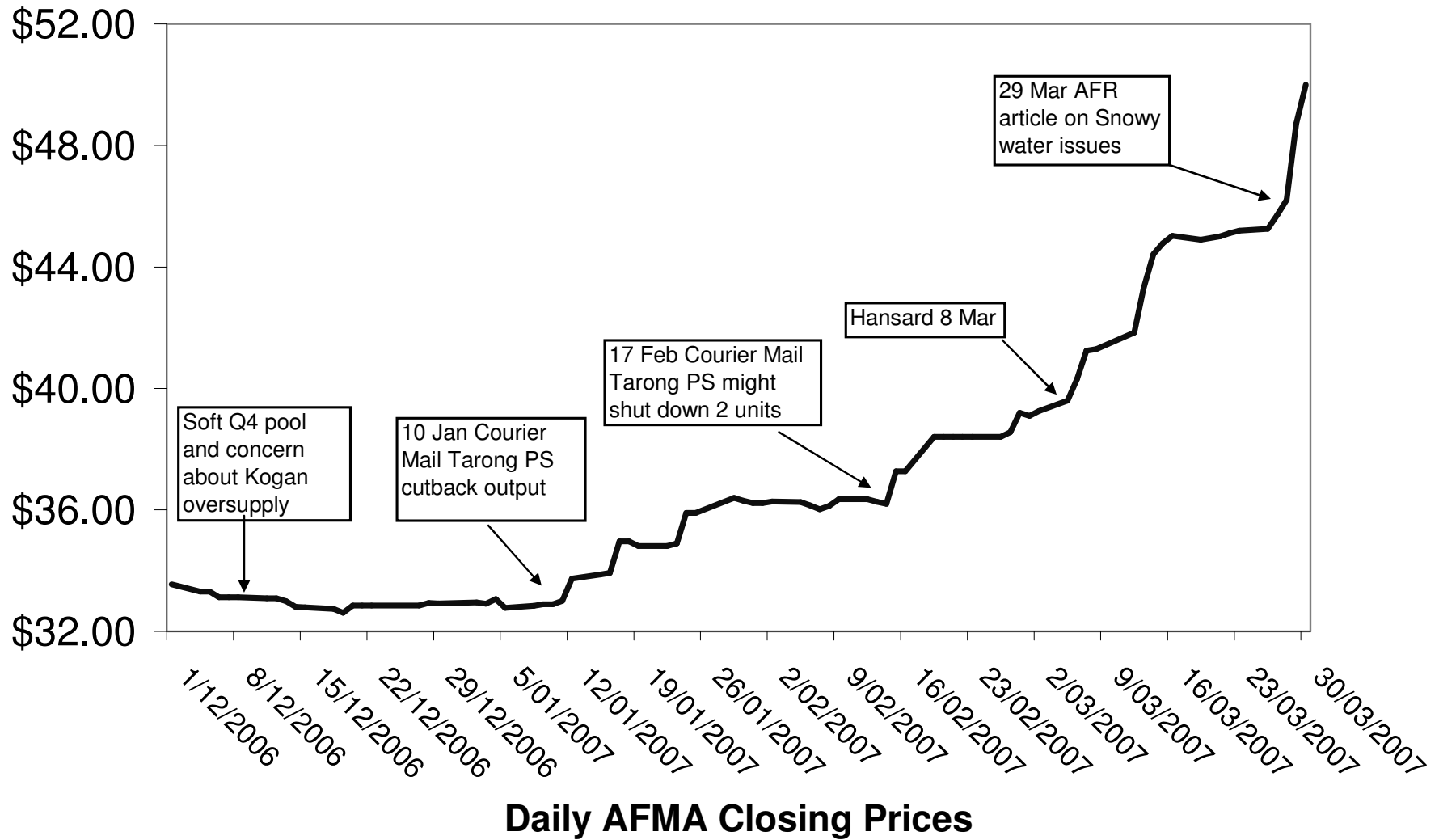


***Til taught by pain, men really know not
what good water is worth."***
by Lord Byron

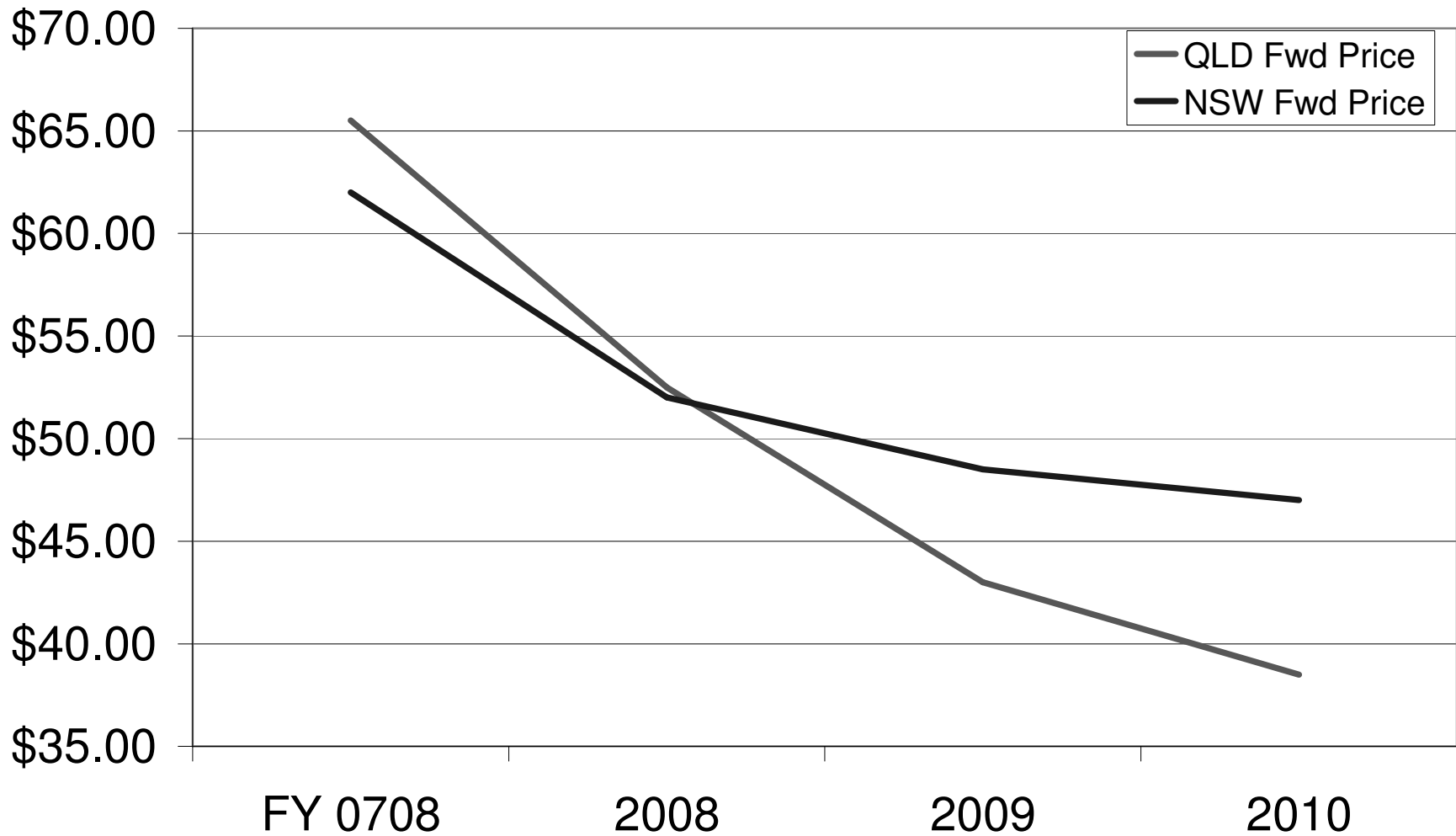
QLD 2008 Flat Price



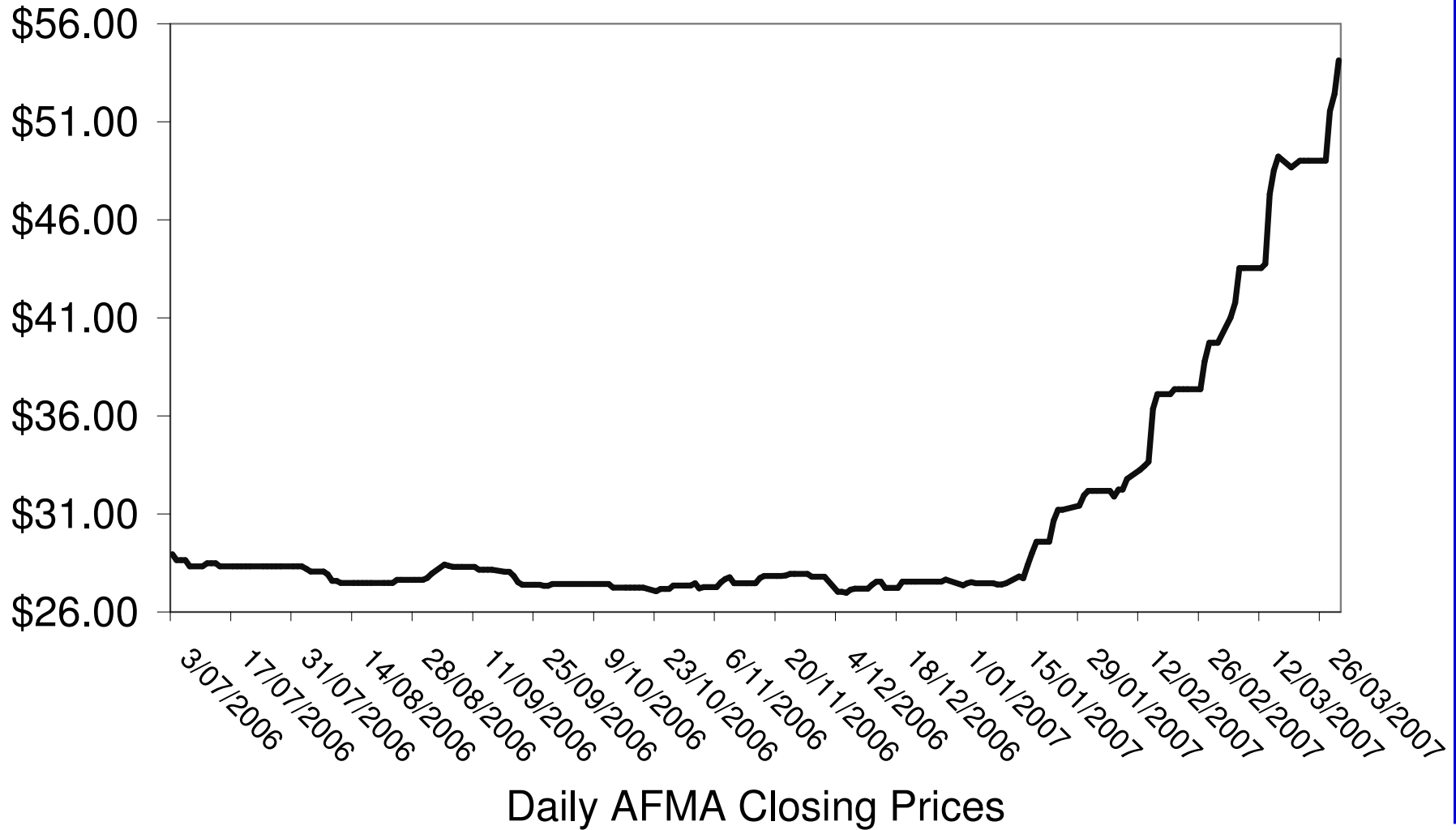
QLD 2008 Zoom



Massive Backwardation



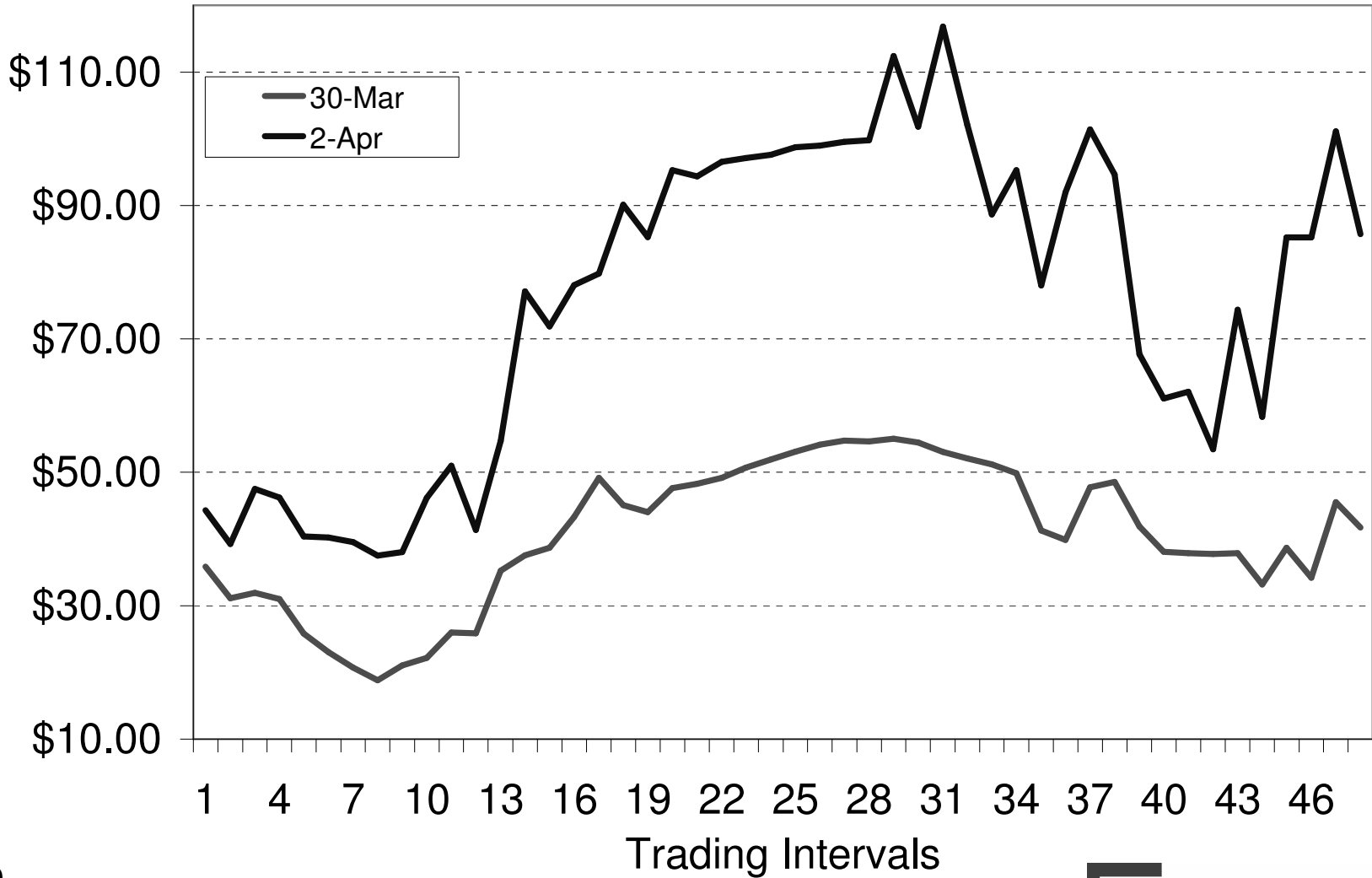
Immediate Impact



Magnitude of the Forward Movements

Contract	5 Jan 07	30 Mar 07	\$ Change	% Change
Q2 07	\$27.45	\$53.00	\$25.55	93%
FY 0708	\$33.52	\$61.65	\$28.13	85%
Cal Yr 08	\$32.87	\$50.00	\$17.13	52%
Cal Yr 09	\$32.70	\$42.00	\$9.30	28%
Cal Yr 10	\$34.00	\$39.00	\$5.00	15%

Movement in Pool Prices

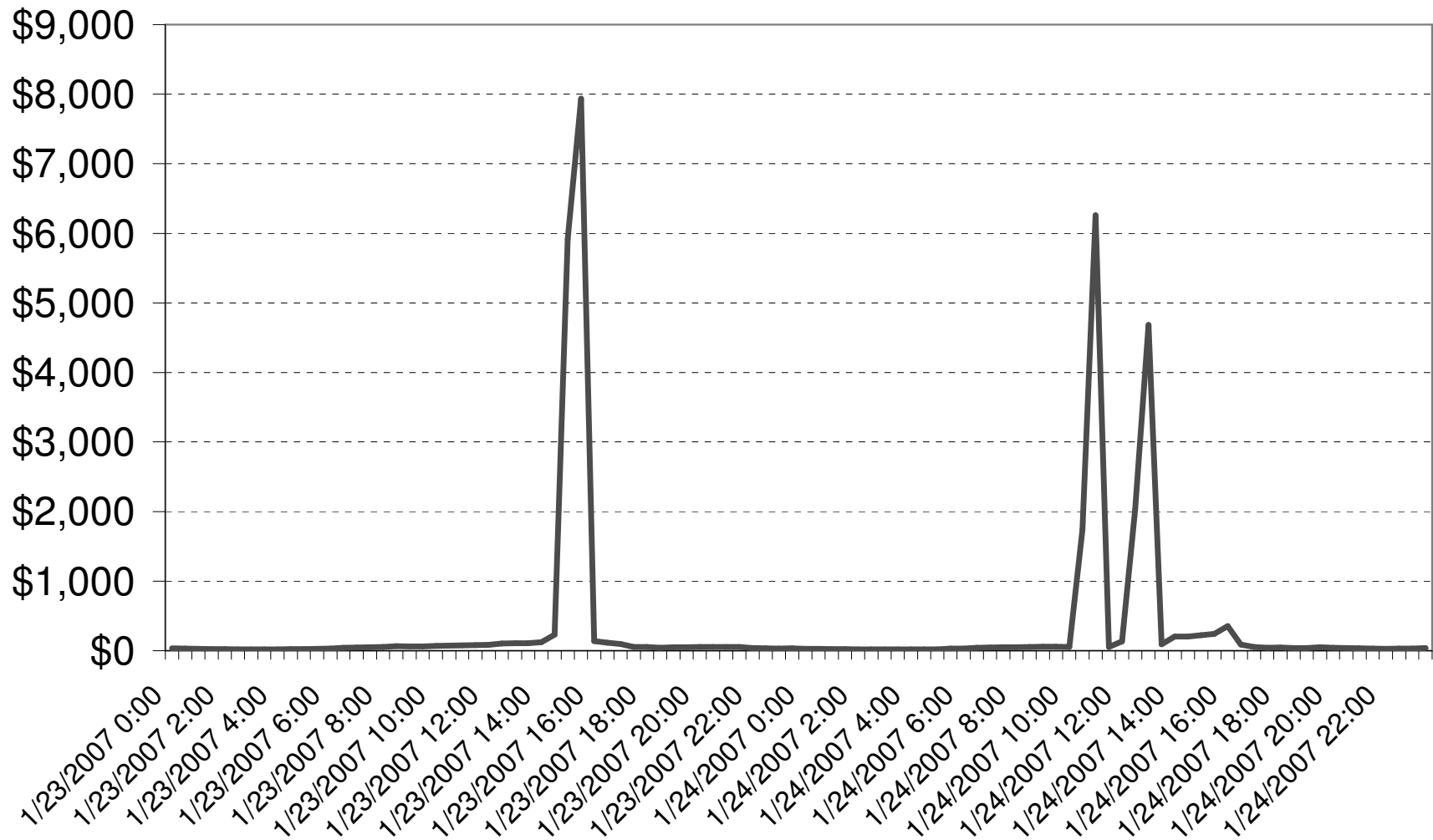


Immediate Implications

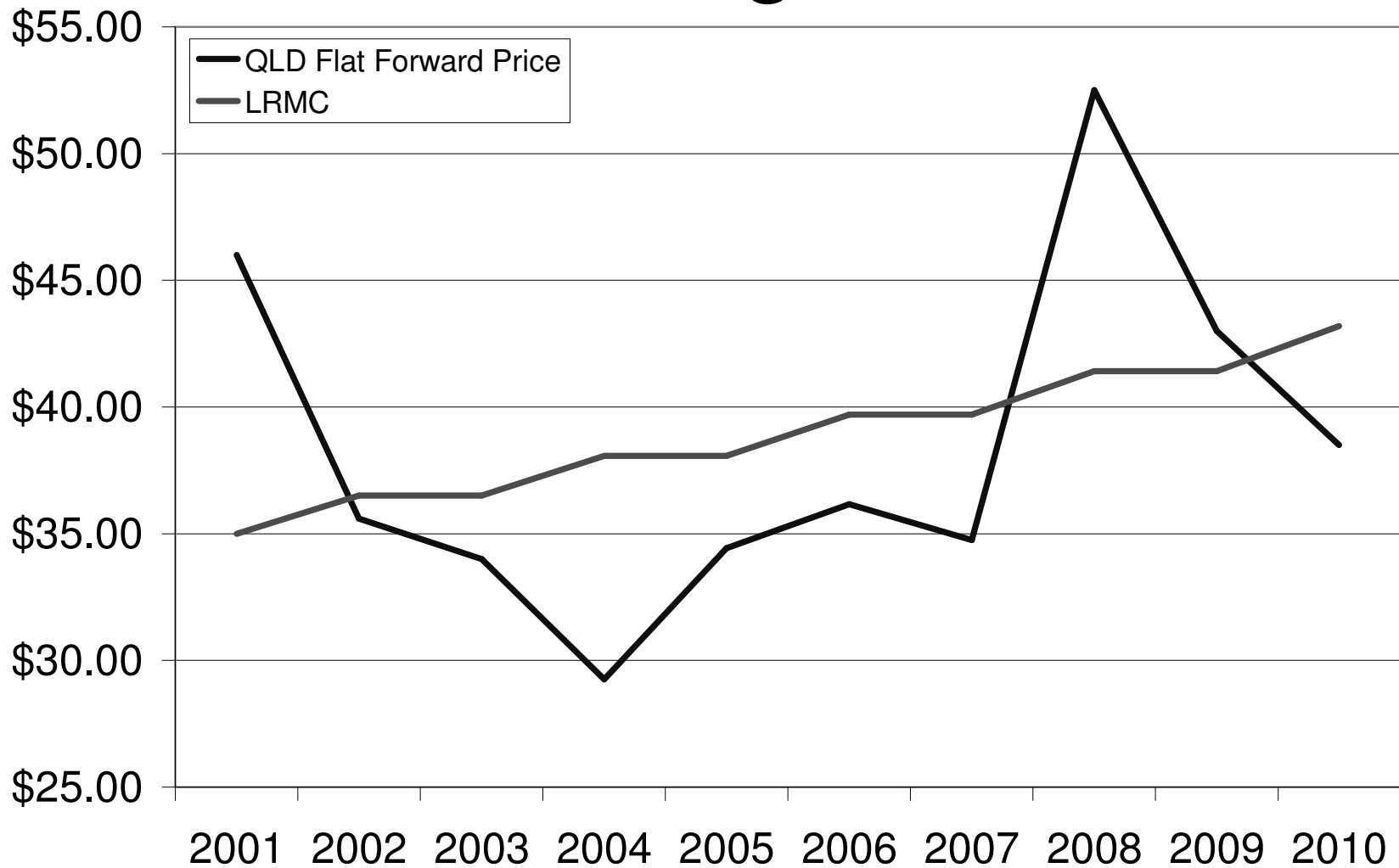
- MTM value of SunRetail and PDA hedge portfolio increased by at least \$1 billion
- Fixed price Retail Contracts protect many
- Every 1000 MW unhedged costs end users \$175m per annum

- Dampen competition
- Risk Management dilemma for end users

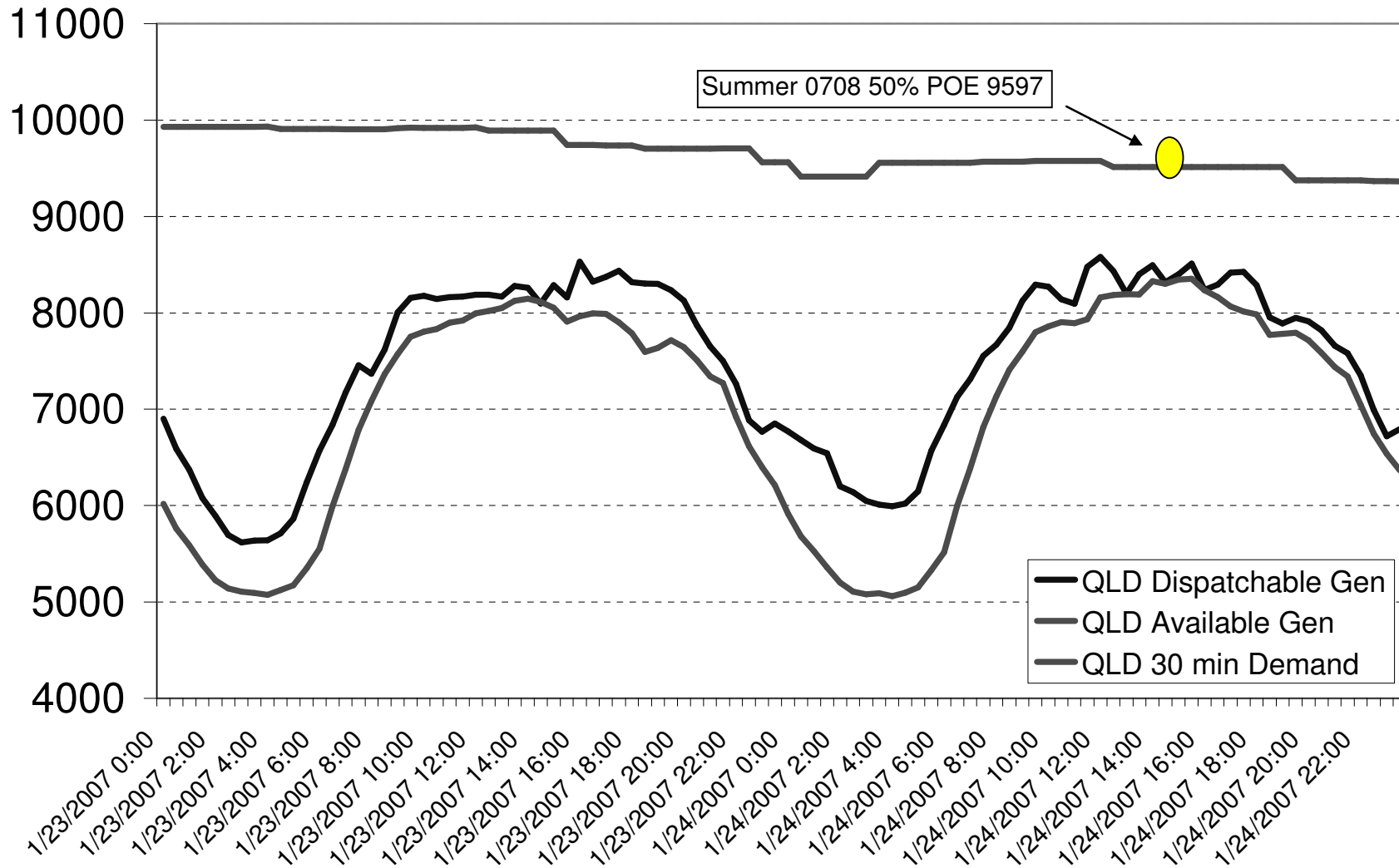
23 & 24 Jan 07 Pool Prices



Don't blame generators



23 & 24 Jan QLD Reserves



The Perfect Storm

- No snow this winter – NEM wide problem
- Kogan Creek unreliable
- Hot and dry summer 0708
- 16 Jan 07 forced outage of 1450 MW QLD units
- Dam level below Wivenhoe Hydro intake

- *WE ARE GETTING DANGEROUSLY CLOSE NOW!!*

Long Term Implications

- Market thinks will last for a few years
 - Learned behaviour
 - Water & water infrastructure costs
- Water restrictions plus electricity prices will close some businesses
- Multiplier effect on economy
- CPI and interest rate implications
- Feasibility of energy intensive projects

Other clouds on the horizon

- Cost of Carbon
- Fuel Prices
- Cost of construction nearly doubled
- Tightness in labour market

Electricity – risk management not procurement