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POWER

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ASX Release

9 October 2007

OUTLOOK FOR THE NATIONAL ELECTRICTY MARKET

Please find attached a presentation based on an academic paper published in the July 2007 Electricity Journal titled "The outlook for the economic and environmental performance of Australia's National Electricity Market in 2030" co-authored by BBP CEO, Dr Paul Simshauser.

ENDS

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About Babcock & Brown Power

Babcock & Brown Power (ASX:BBP) is a power generation business, with assets diversified by geographic location, fuel source, customers, contract types and operating mode. Its aim is to grow returns to its securityholders through optimisation of its existing power generation business and the addition of further generation assets and associated businesses via a combination of new construction and strategic acquisitions.

The portfolio has interests in thirteen operating power stations representing over 3,300 MW[1] of installed generation capacity and five power stations under construction. BBP has interests in a number of other associated power assets the largest being a 67% stake in the WA retail assets of AlintaAGL. Babcock & Brown has been developing, operating and acquiring the generation portfolio over a period of 10 years.

Portfolio Summary

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[1] Some assets have minority shareholders.

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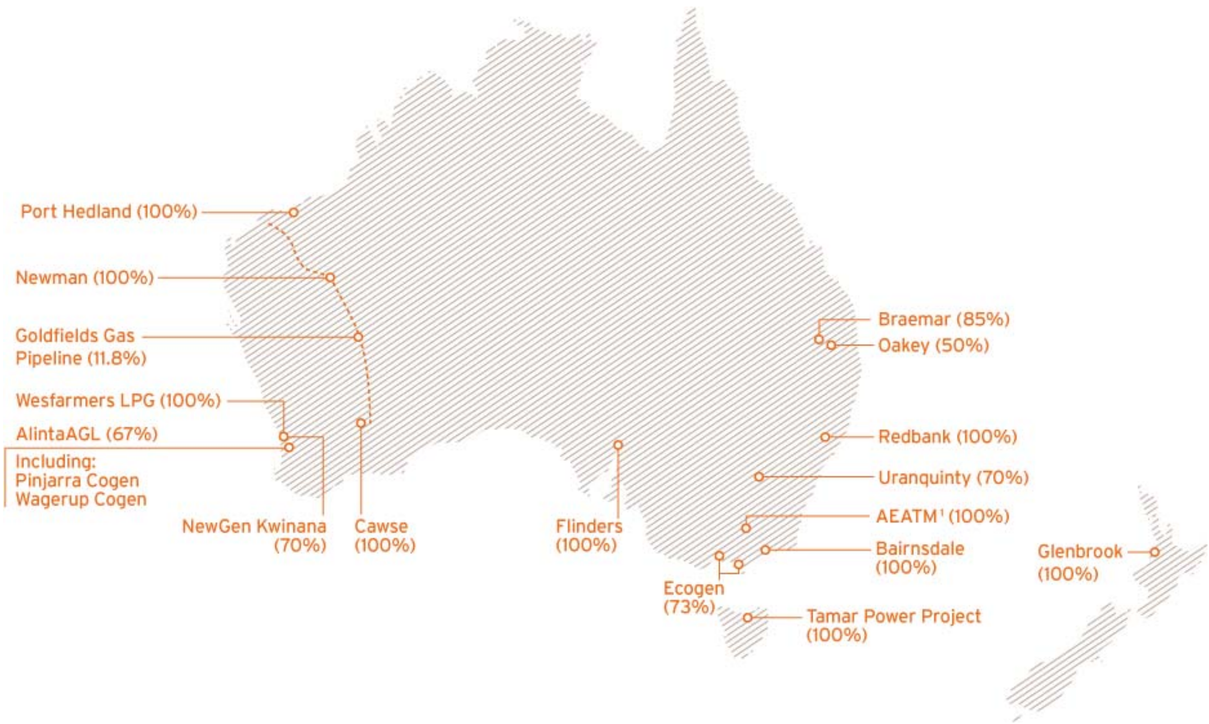

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The outlook for the economic and environmental performance of the National Electricity Market in 2030

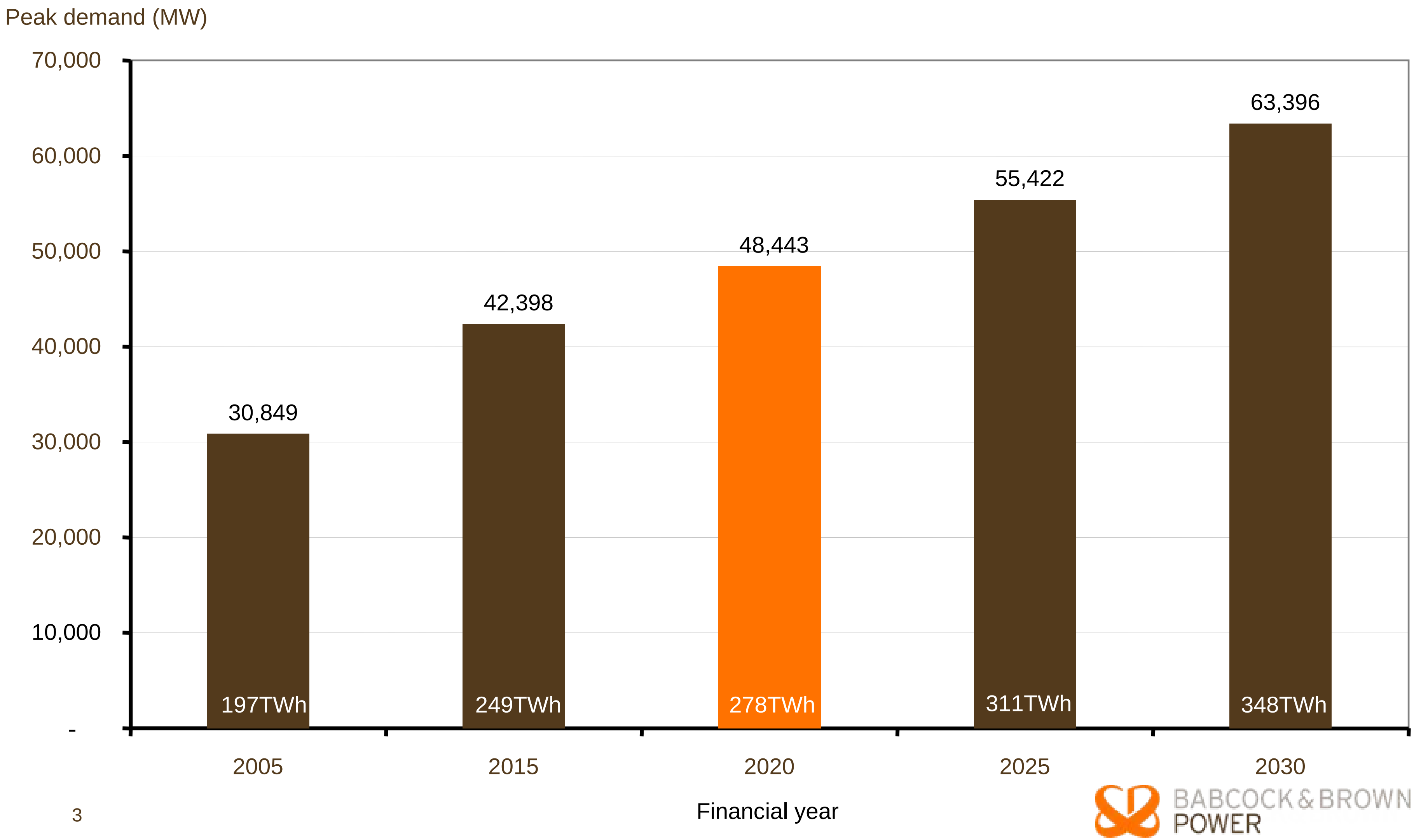
Paul Simshauser, CEO

October 2007

INTRODUCTION

- Research undertaken in 2005/06 and focuses on NEM system cost ($/MWh) and aggregate CO_2 emissions (Mt) between now and 2030. Base year is 2005, then 5 yr snapshots from 2015 - 2030
- There are 5 primary scenarios:
  - The base case
  - The gas scenario
  - The IGCC scenario
  - The renewables scenario
  - The nuclear scenario
- Current NEM emissions: 169Mt as at 2002
- Australian ESI = 35% of national emissions, from less than 100 sites

LOAD FORECAST ASSUMED IN THE STUDY (with demand elasticity of -0.14)



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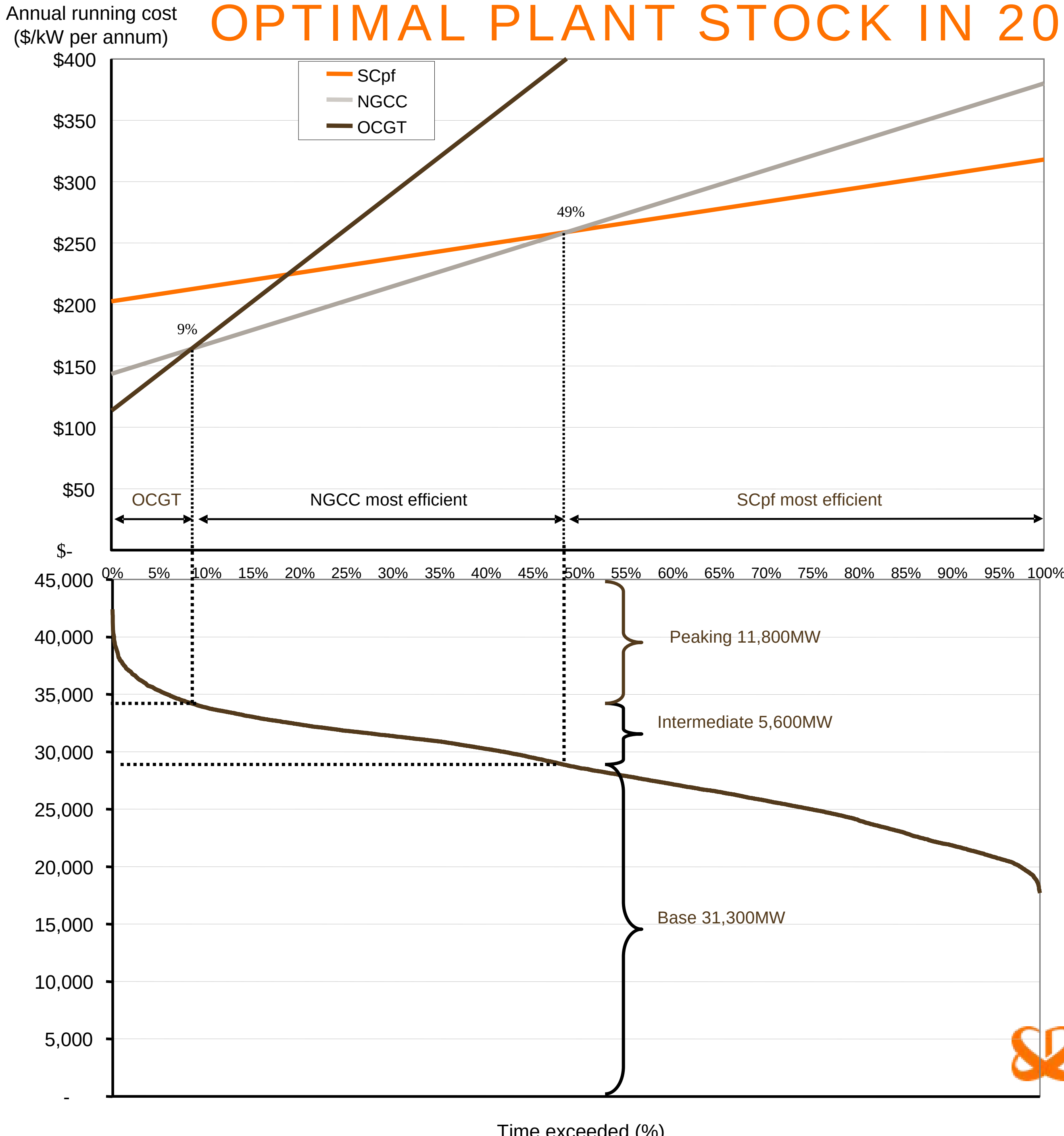
LOTS OF NEW CAPACITY IS REQUIRED

- We need to make assumptions about the entry costs of plant, that is, the long run marginal cost of generation capacity
- Key assumptions are as follows:

Technology	Capital ($/kW)	Unit Size (MW)	Useful Life (Yrs)	Heat Rate (kJ/MWh)	Fuel Cost ($/GJ)	CO2 Emissions t C02/MWh
Efficient technology mix						
Supercritical pulverised fuel (SCpf)	1,500	450	40	9,200	1.00	0.80
Natural gas combined cycle (NGCC)	1,000	370	30	7,000	3.00	0.40
Open cycle gas turbine (OCGT)	700	150	20	11,500	4.50	0.60
Other technology options						
Brown coal SCpf	2,000	500	40	13,800	0.30	1.20
Renewables (i.e wind, biomass etc)	2,100	-	20	n/a	0.00	0.00
IGCC+CCS	3,500	450	30	10,000	1.00	0.15
Nuclear	3,000	1000	20	11,000	0.60	0.00

OPTIMAL PLANT STOCK IN 2015



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OPTIMAL PLANT STOCK 2015

Plant	Actual 2005 (MW)	Optimal 2015 (MW)	Shortfall (MW)
Baseload	27,700	31,300	-3,600
Intermediate	2.000	5,600	-3,600
Peak	7,900	11,800	-3,900
Total	37,600	48,700	-11,100

The system is short 11,100MW, at forecast cost of $12.6 billion… but that pales into insignificance when you look at 2030…

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OPTIMAL PLANT STOCK 2030

Plant	Actual 2005 (MW)	Retirements (MW)	Optimal 2015 (MW)	Shortfall (MW)
Baseload	27,700	10,400	44,000	26,700
Intermediate	2.000	600	8,600	7,200
Peak	7,900	800	20,400	13,300
Total	37,600	11,800	73,000	47,200

To fill this gap, $46.5 billion. And total assets amount to $86 billion. The generation sector costs $18.5 billion pa to operate…

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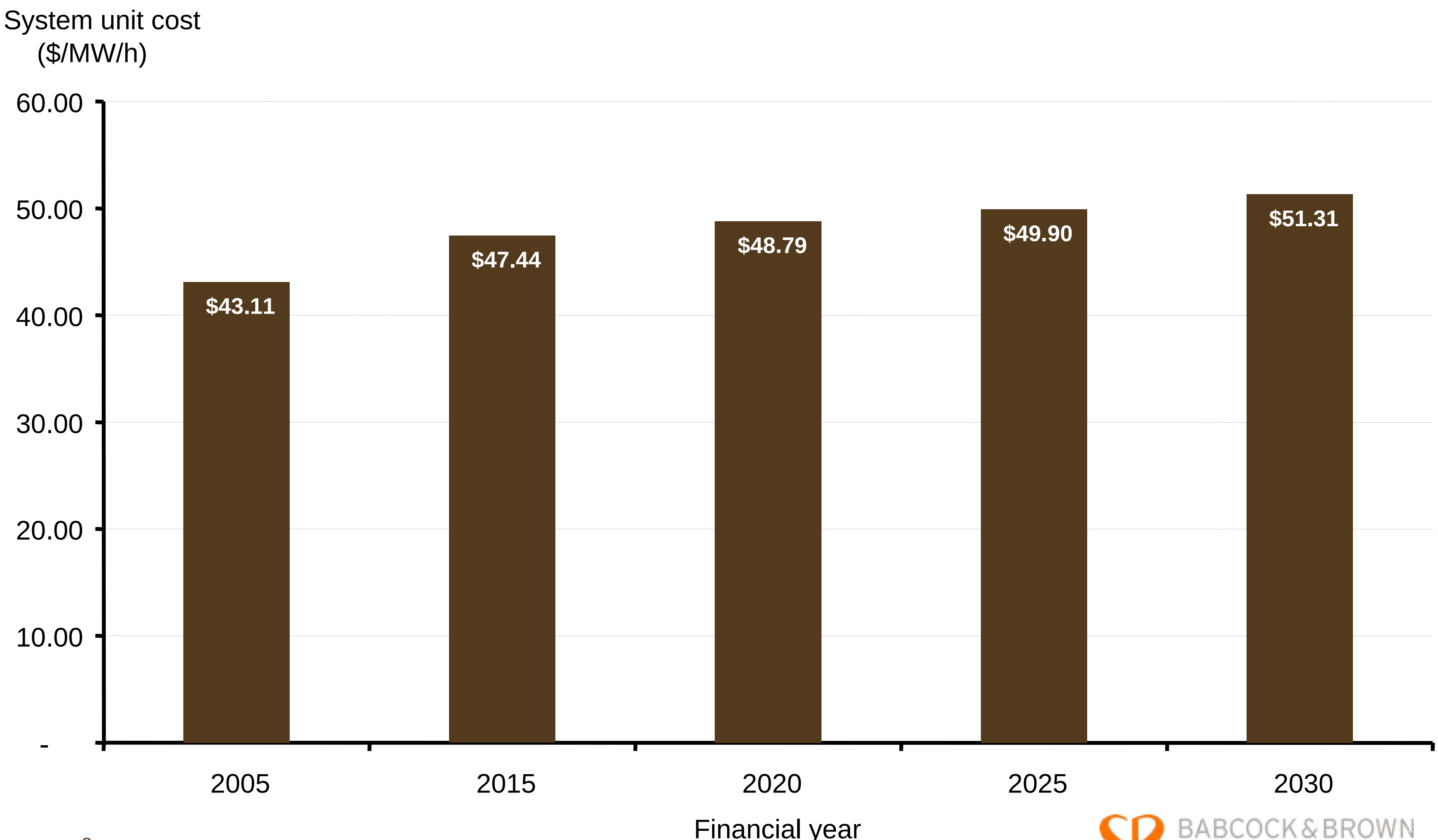
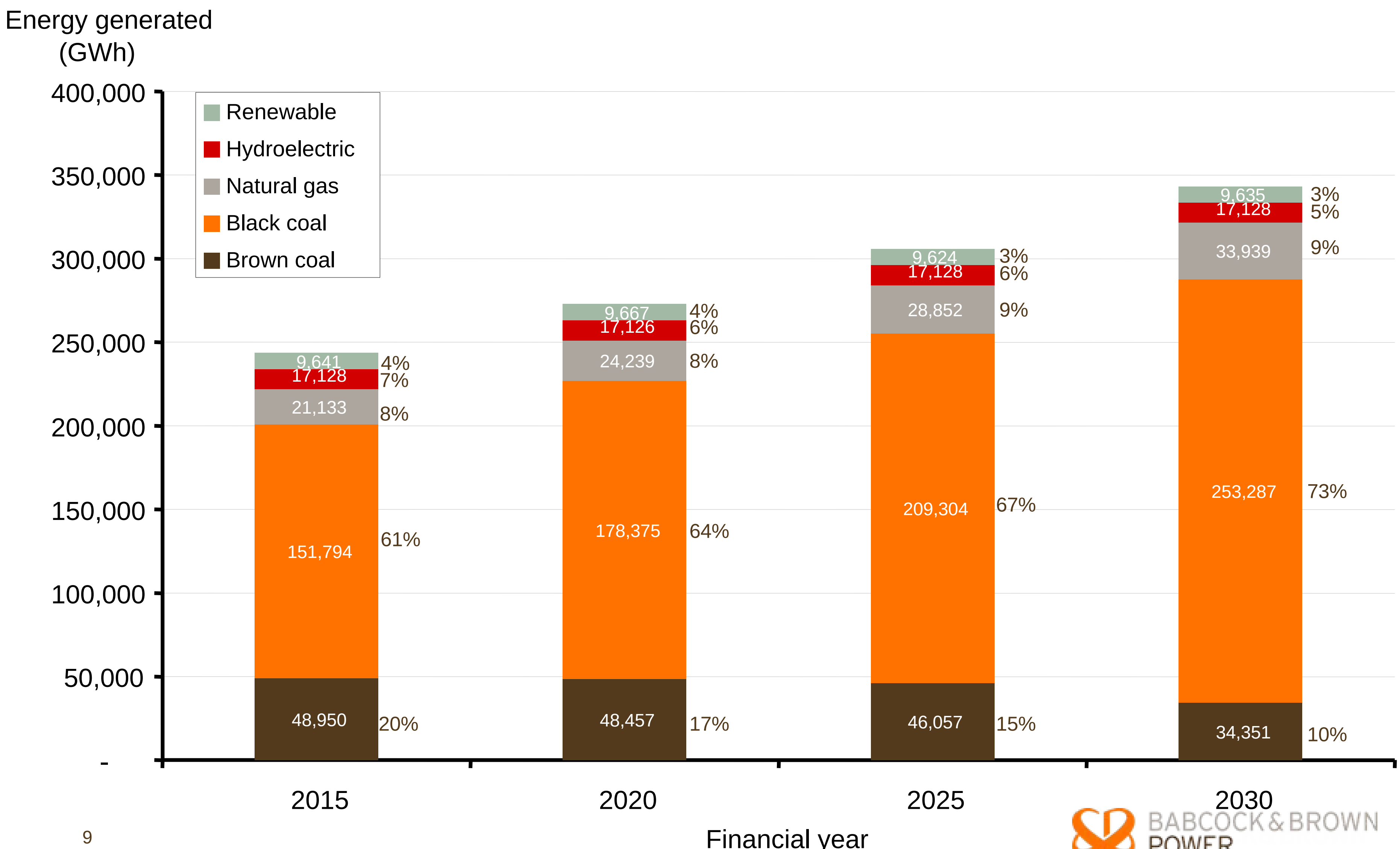
UNIT COST IN THE BASE CASE



FUEL MIX IN THE BASE CASE



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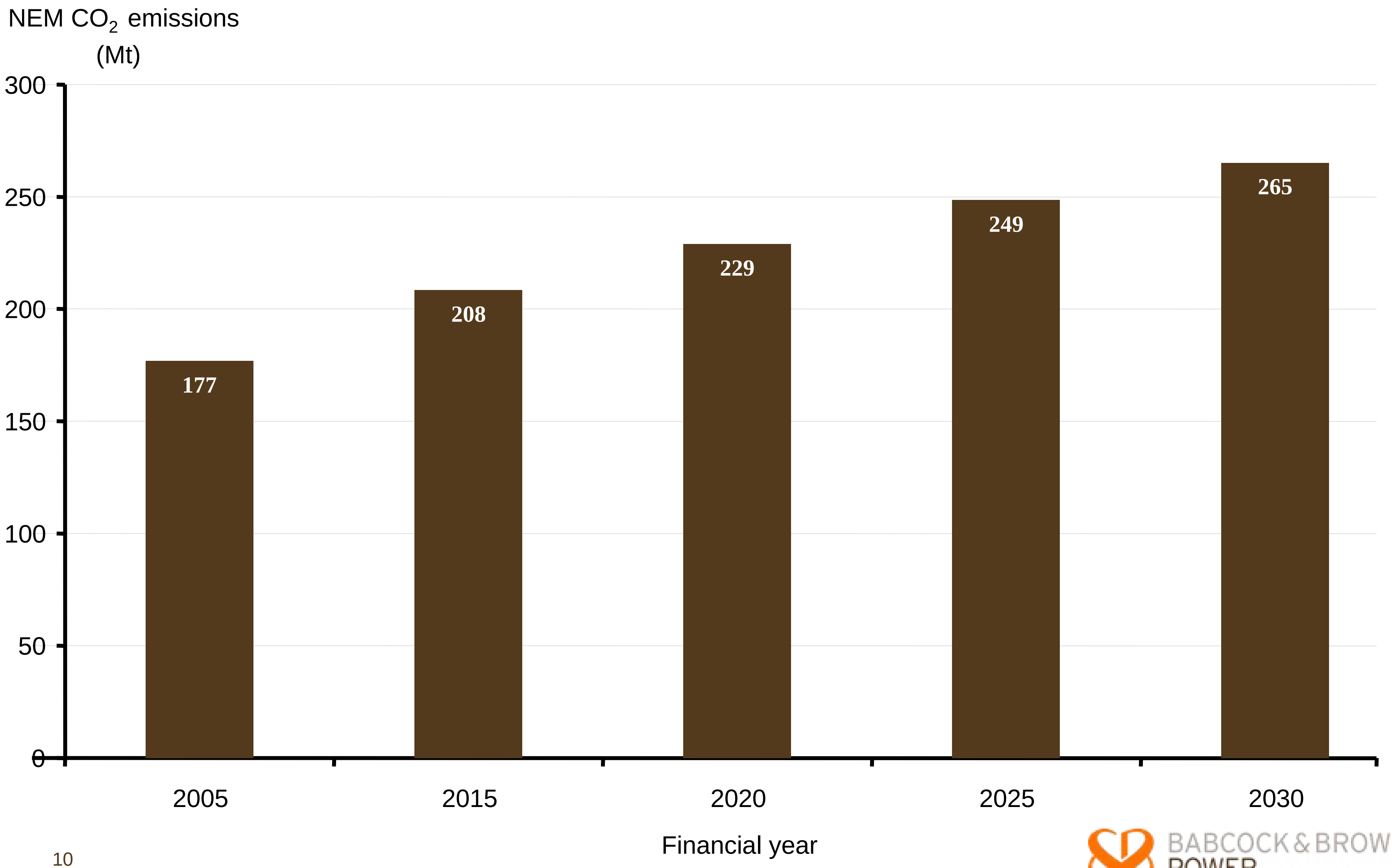
CO_2 EMISSIONS – BASE CASE



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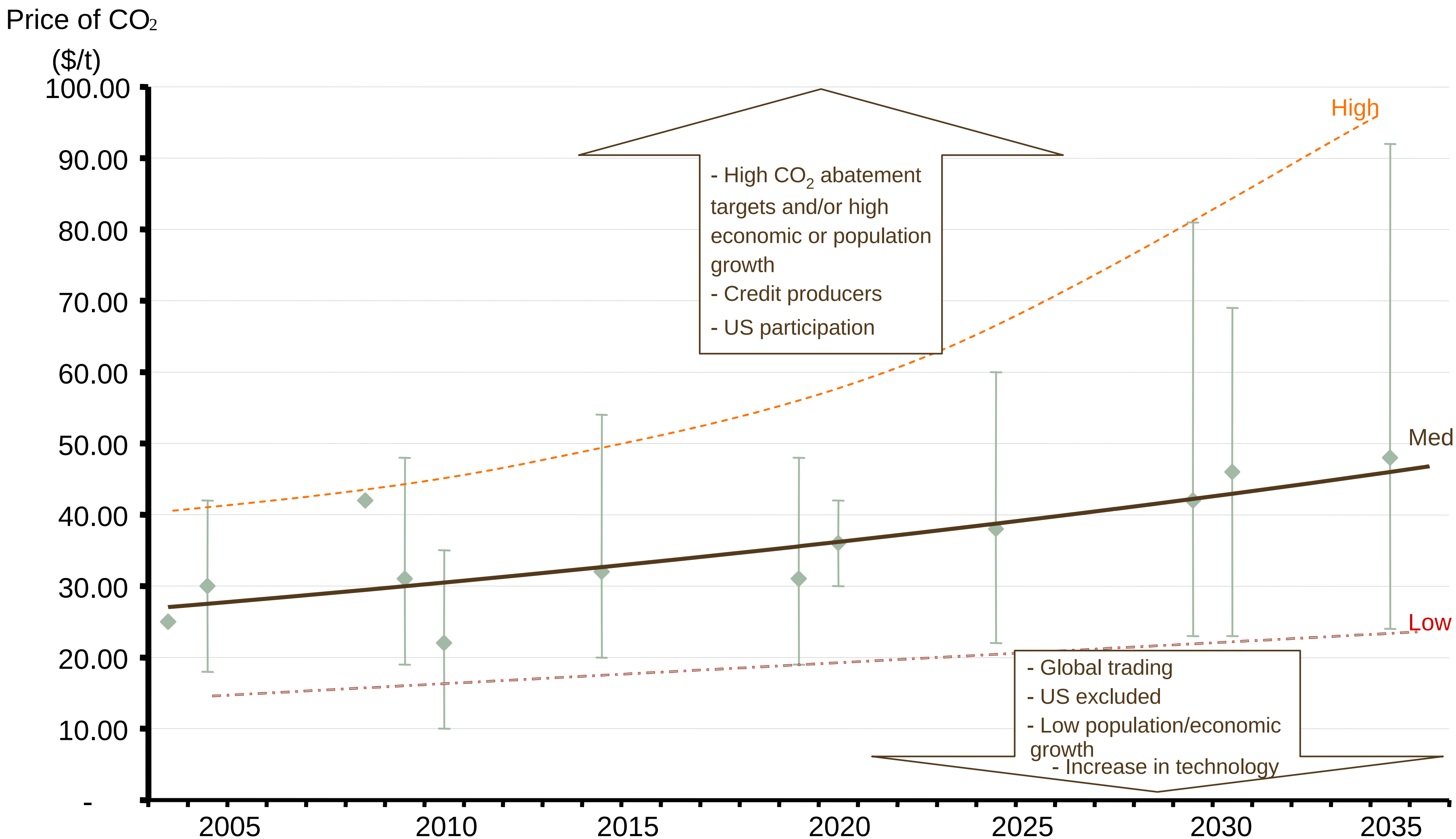
BUT THIS CAN'T HAPPEN BECAUSE CO_2 WILL HAVE A COST IN THE FUTURE…



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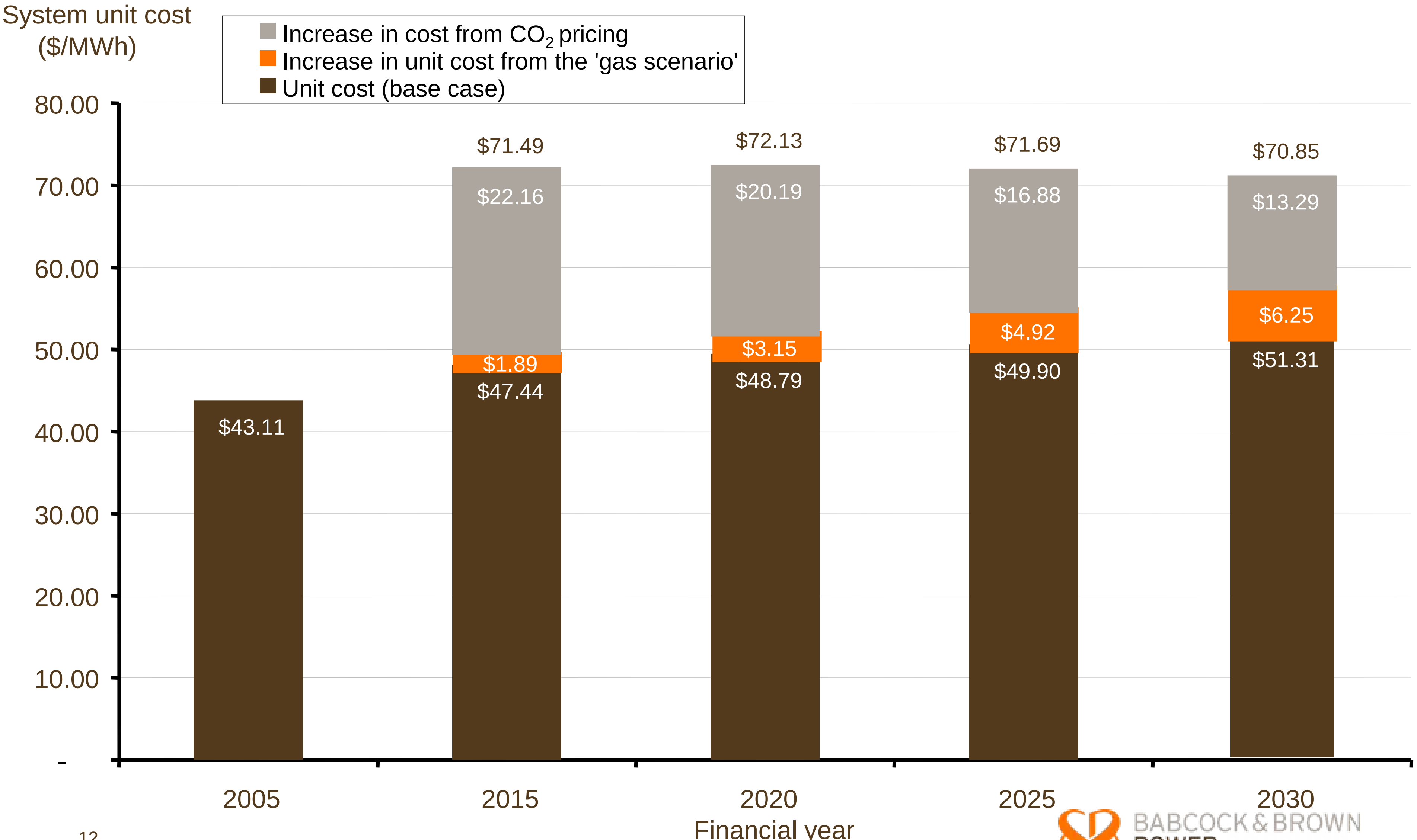
AT $3.00/GJ, GAS CAN WORK



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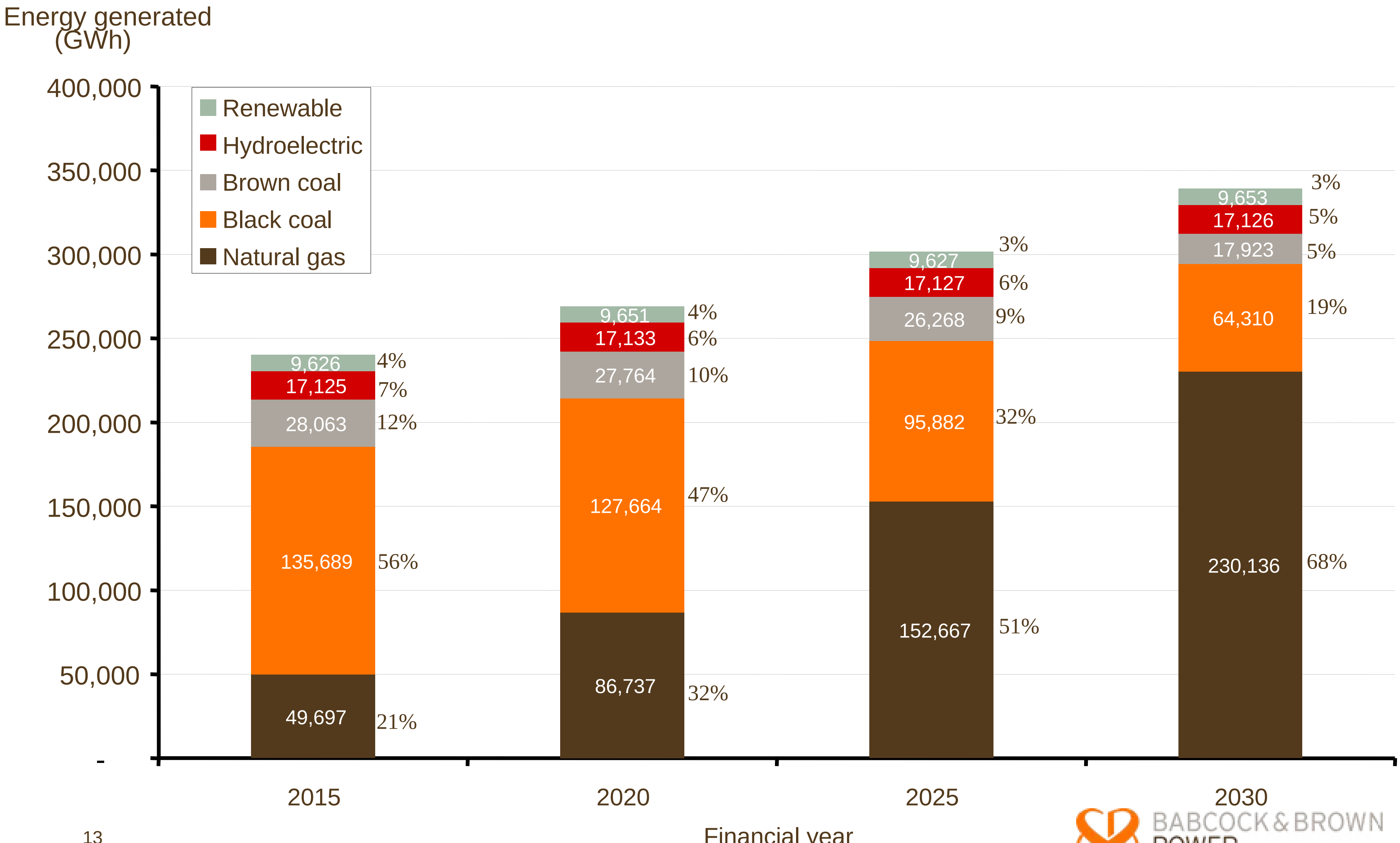
BUT THIS NEEDS A LOT OF GAS, ABOUT 1,600PJ PA BY 2030 (we currently use just 520PJ in all applications, & 109PJ in generation)



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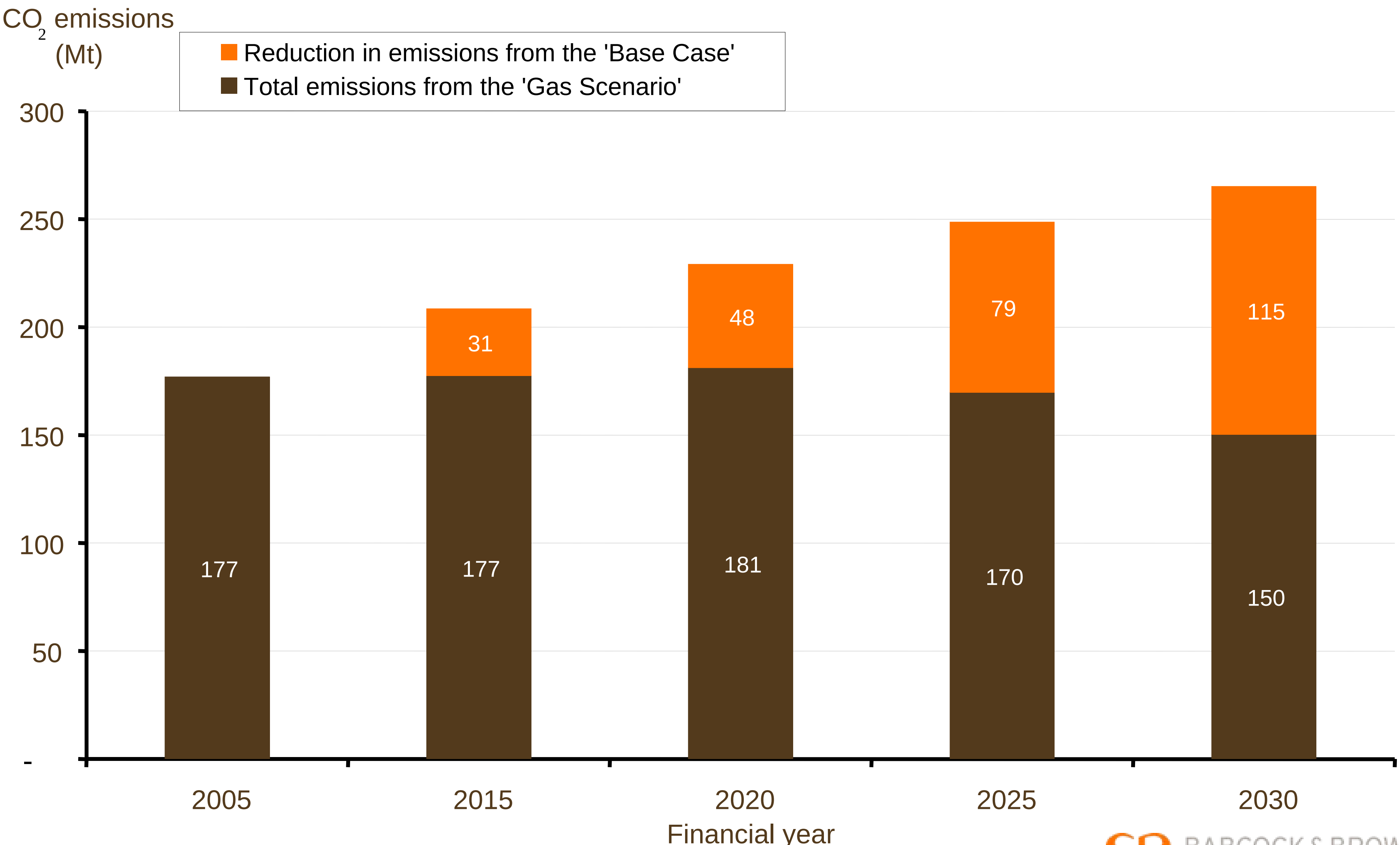
CO_2 EMISSIONS FALL…



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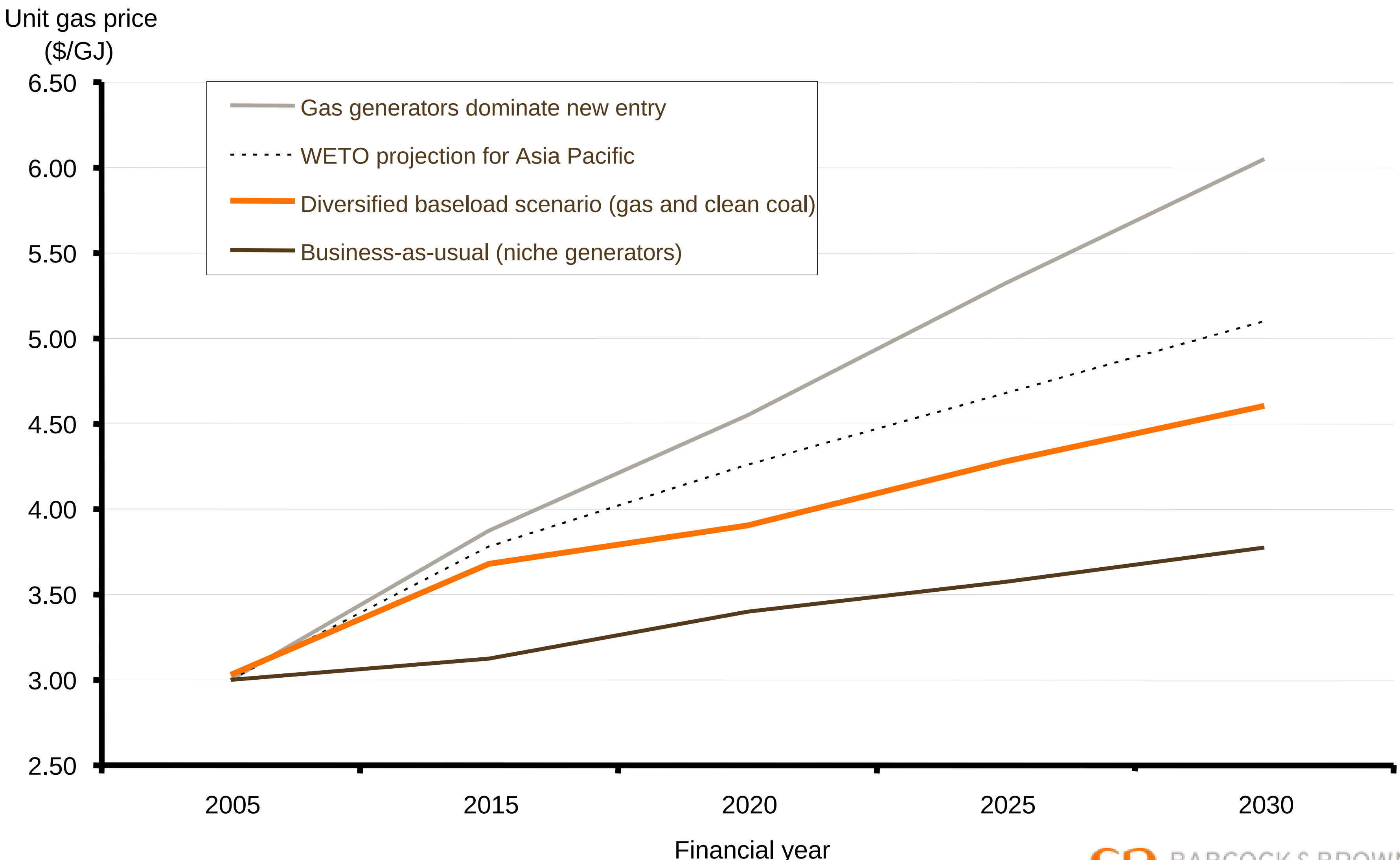
AND SO GAS PRICES WILL NOT REMAIN AT $3.00/GJ



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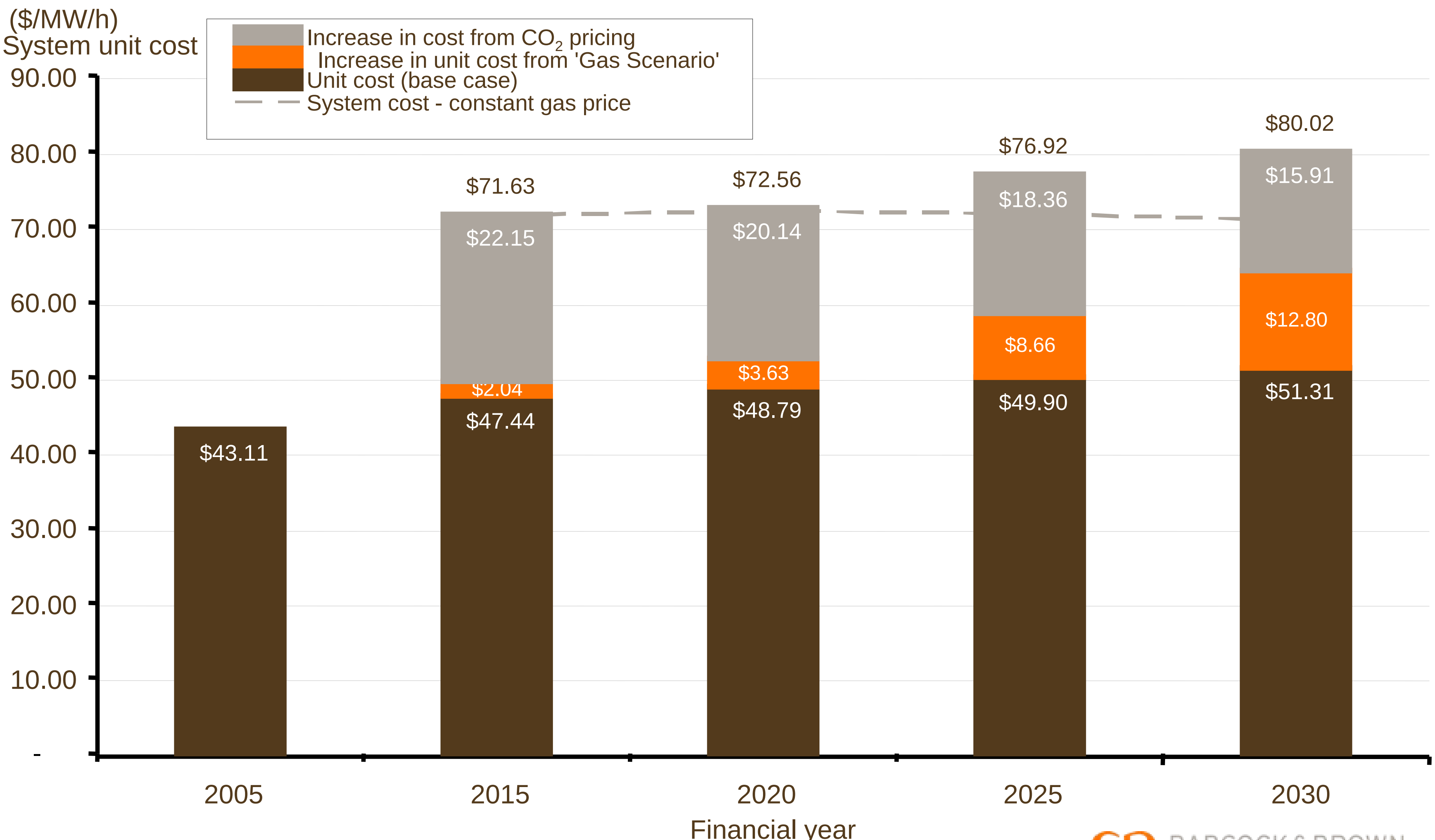
AND THEN UNIT COST RISES…



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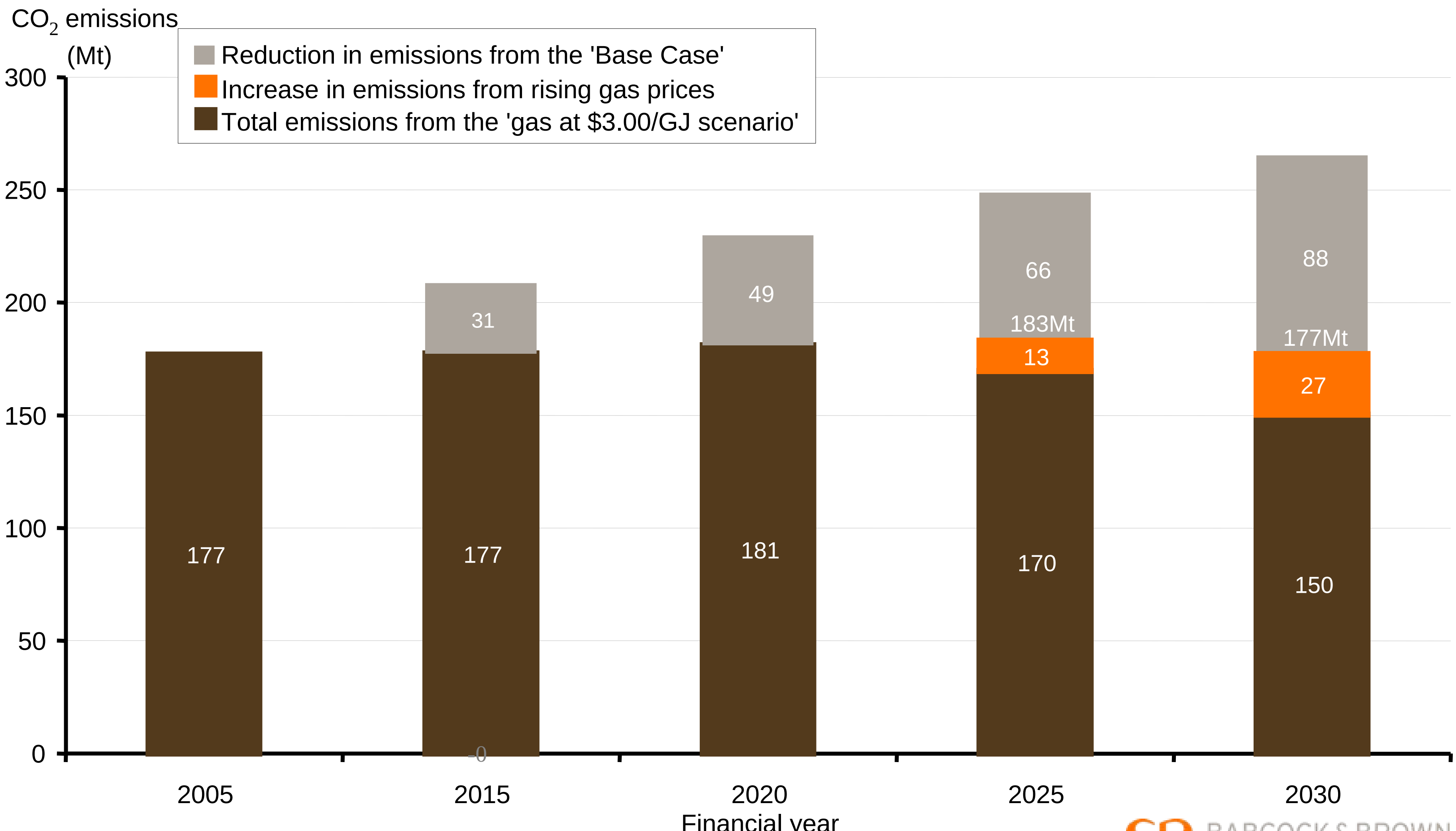
WITH COAL EXPERIENCING A RENAISSANCE, CO_2 RISES AGAIN



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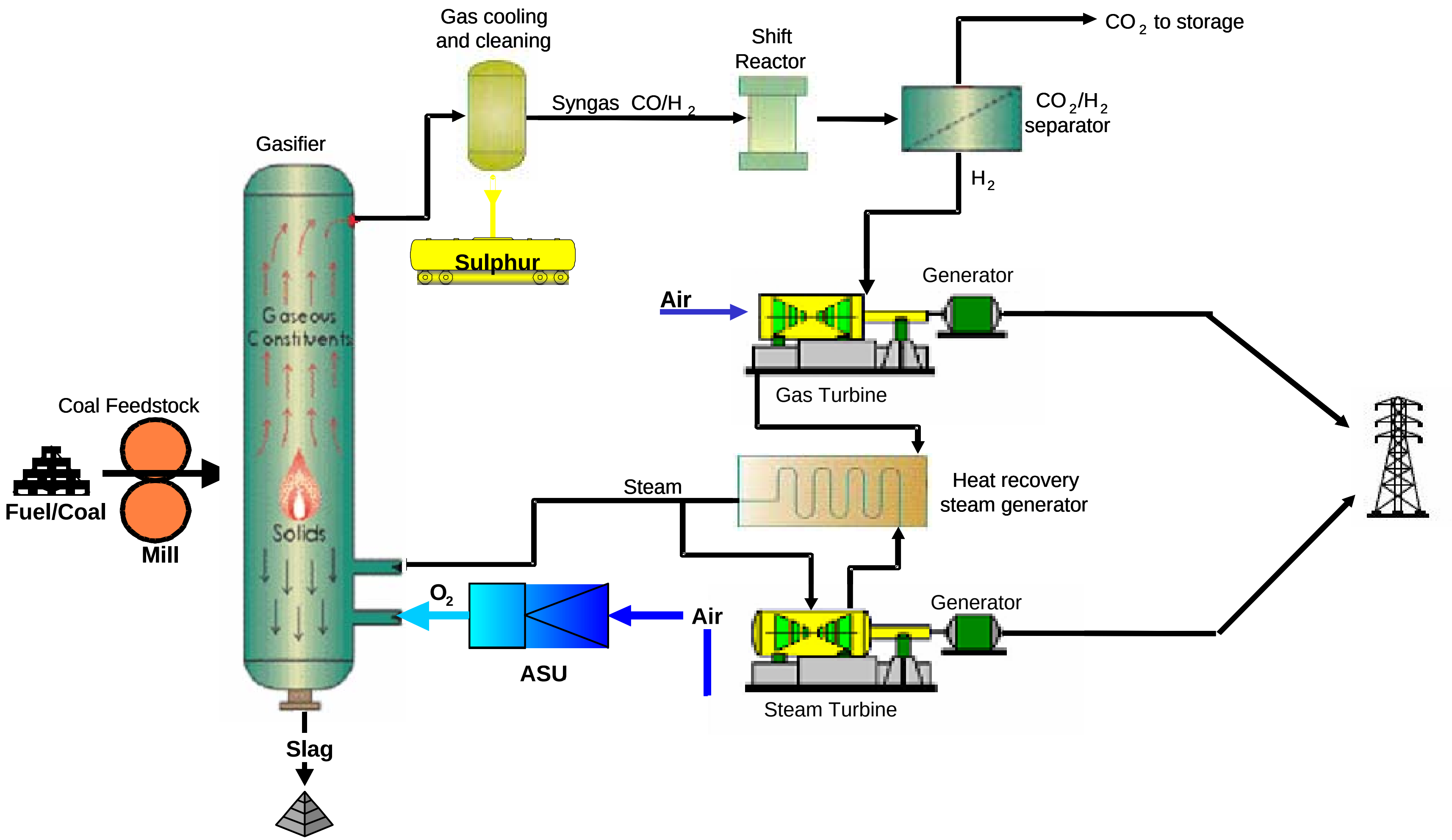
So conventional power applications are going to do it tough in the long run…

This is where IGCC+CCS or Nuclear fits in from an emissions perspective…

IGCC +CCS SCHEMATIC



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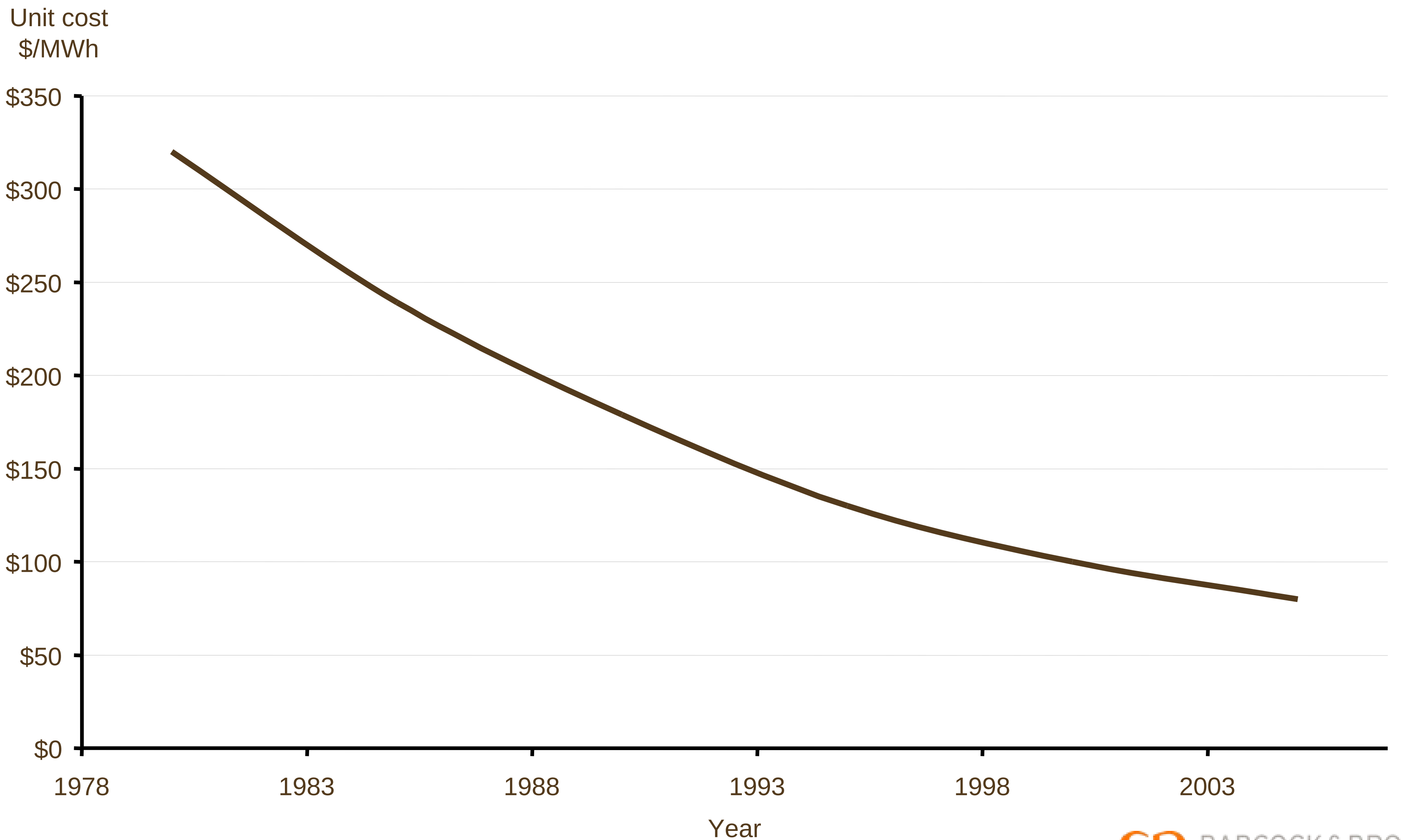
AND THE COST OF NEW TECHNOLOGY INVARIABLY FALLS, E.G. WIND TURBINES



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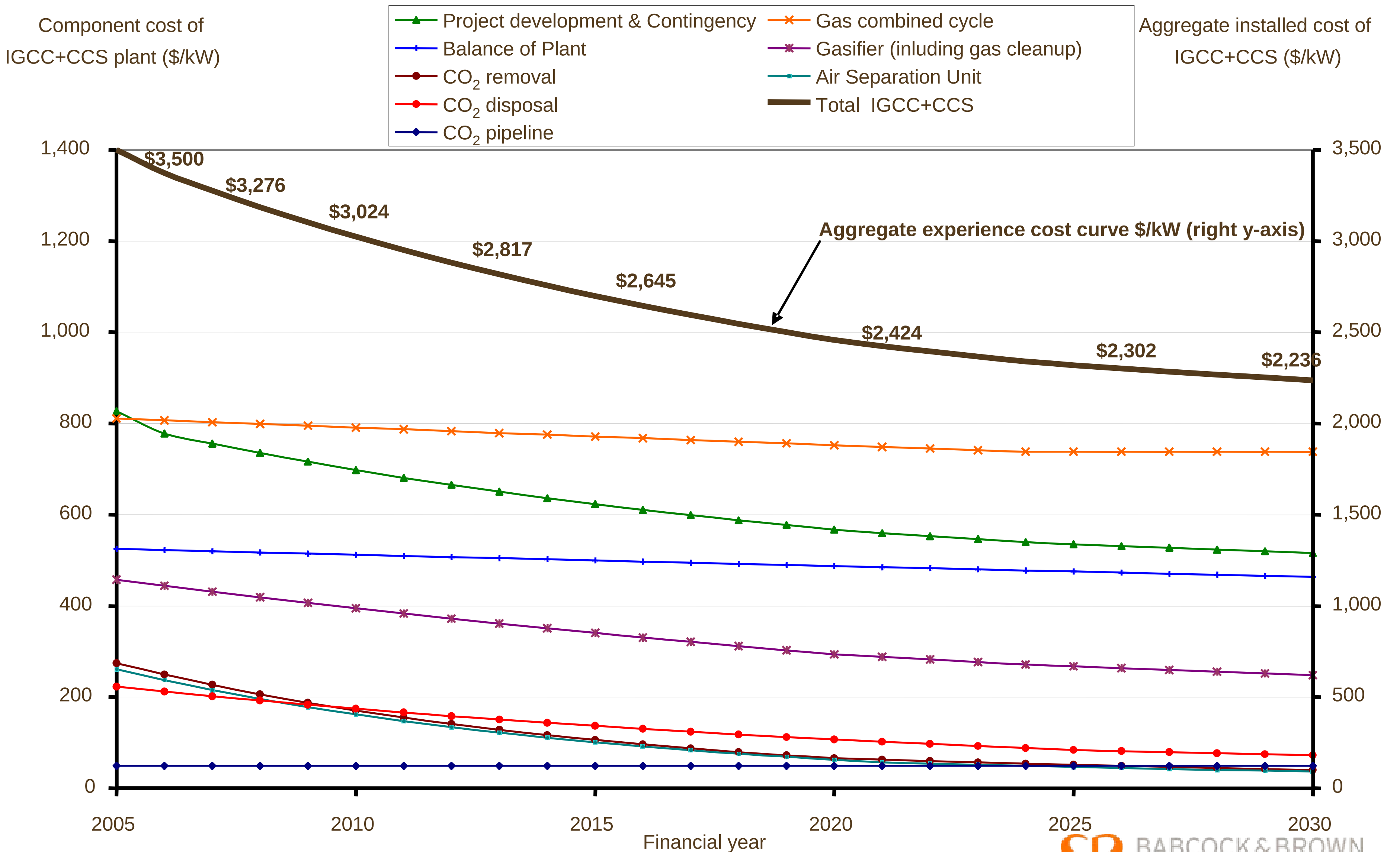
AND WE THINK IGCC WILL GET CHEAPER…



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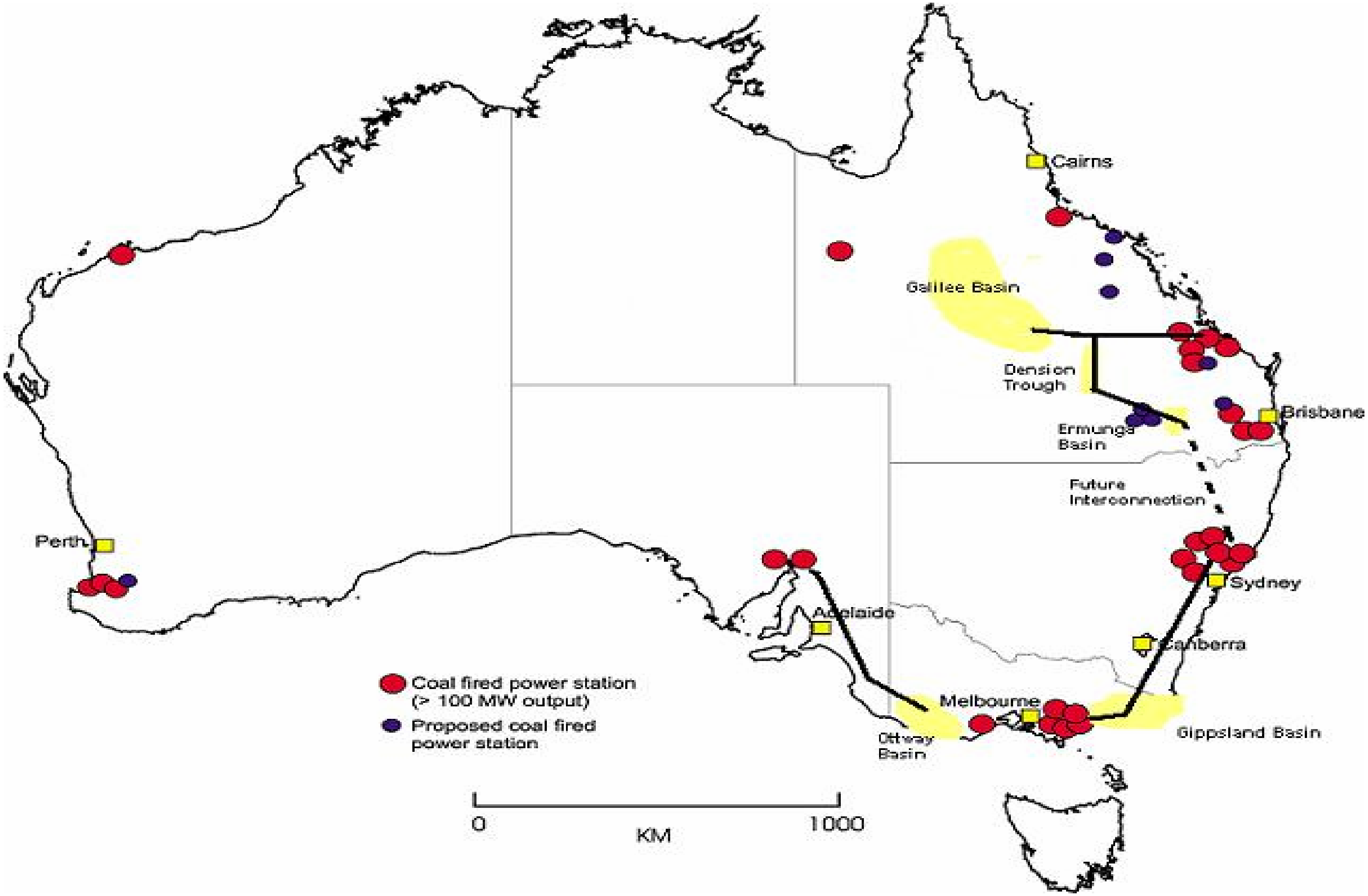
AND CHEAPER AGAIN IF NATIONAL INTERCONNECTED CO_2 PIPELINES ARE BUILT



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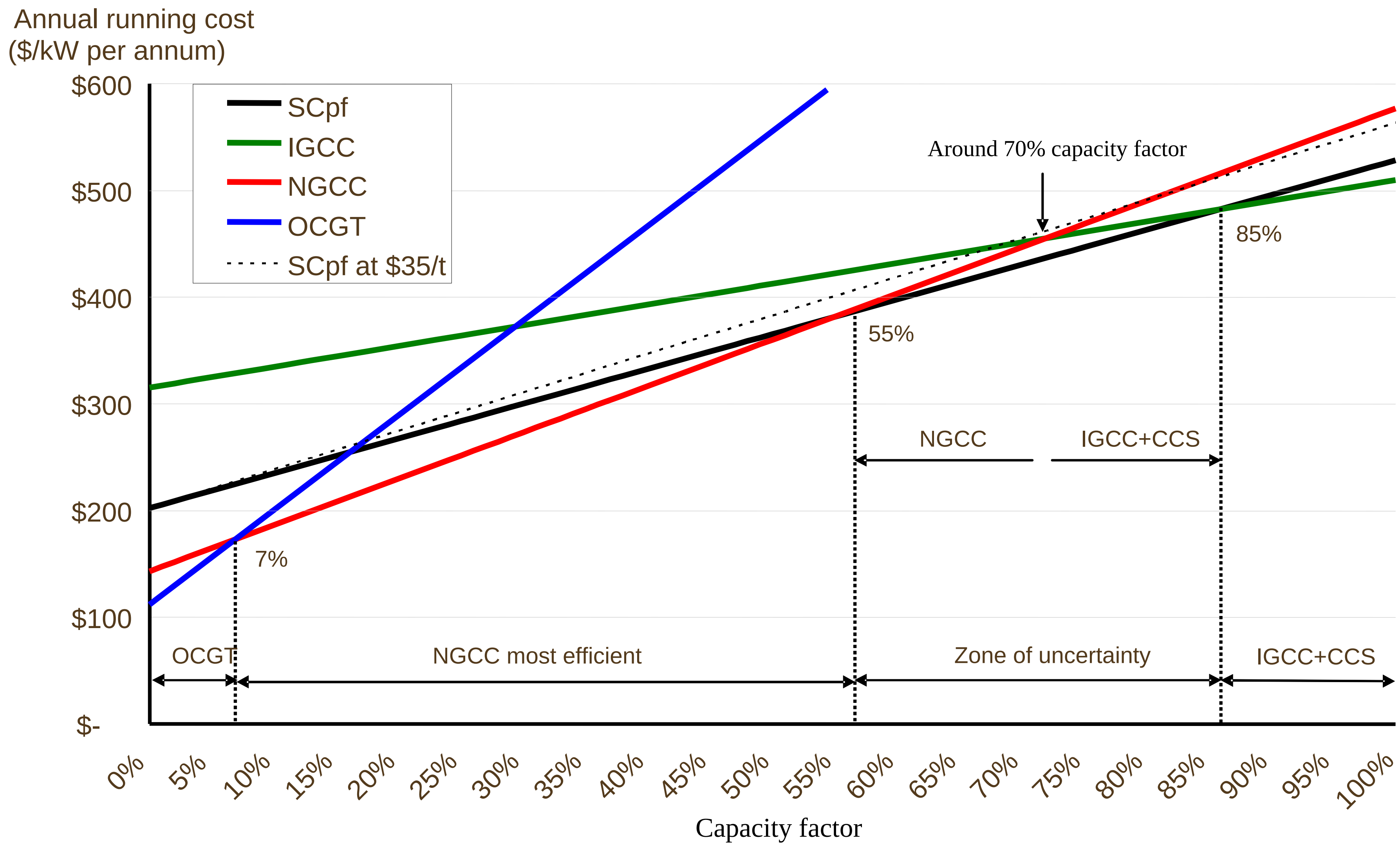
PLANT MIX $30.00/T CO_2



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AND THIS IS WHAT IT LOOKS LIKE…

Technology	Installed capacity (MW)			
	2015	2020	2025	2030
Conventional black coal	21,540	20,940	17,120	13,120
Conventional brown coal	6,395	6,395	6,200	4,450
IGCC+CCS (black & brown coal)	-	5,850	11,700	18,900
NGCC	6,379	6,379	10,079	14,998
OCGT	4,703	6,503	9,053	11,979
Hydroelectric	6,810	6,720	6,720	6,720
Distillate GTs	558	558	558	220
Renewables	3,140	3,140	3,140	3,140
Total	49,524	56,484	64,569	73,526

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AND THIS IS WHAT IT COSTS...

Financial parameters	2015 $M	2020 $M	2025 $M	2030 $M
Asset Value	51,896	66,679	81,479	98,446
Aggregate fuel cost	3,072	3,038	3,244	3,396
Operations & maintenance	1,930	2,515	3,265	4,168
Depreciation	1,211	1,724	2,280	2,934
Capital charges	5,709	6,764	7,857	9,723
Total annual system running costs	11,921	14,041	16,646	20,221
$C0_2$ charges	5,322	5,099	4,592	3,834
Total system cost	17,243	19,140	21,238	24,056

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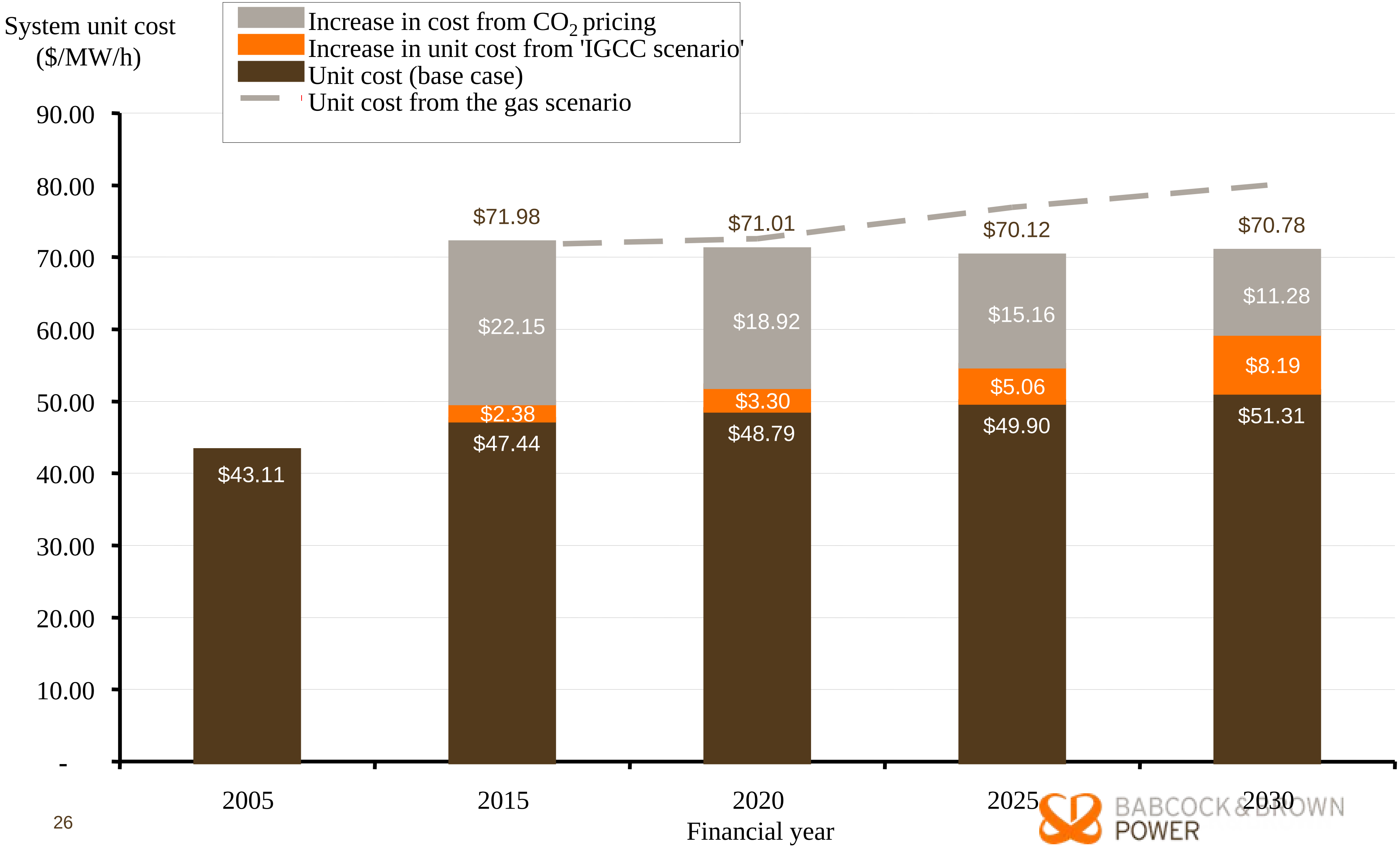
IGCC AVERAGE SYSTEM COST STACKS UP



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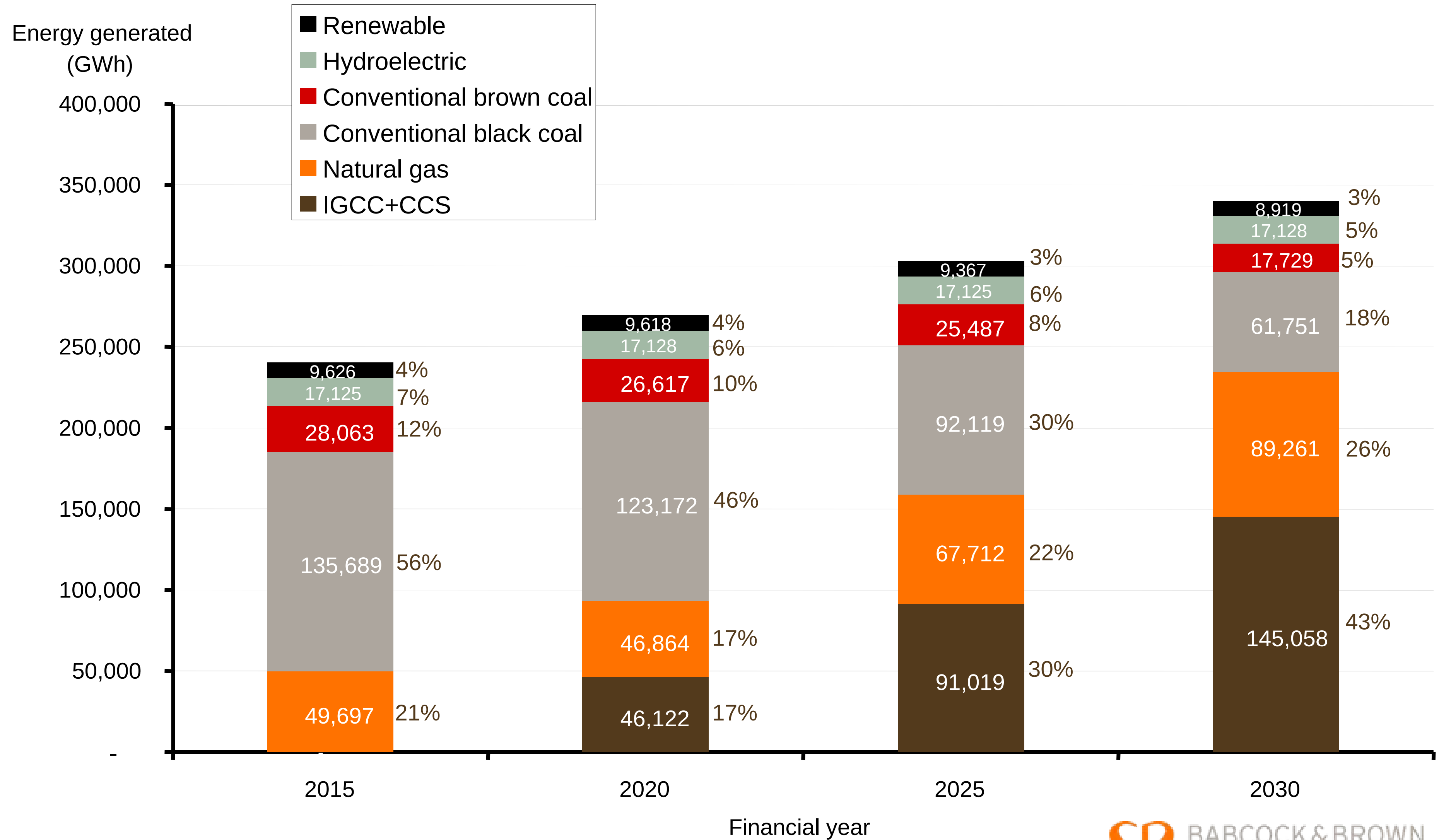
PRODUCTION MIX IGCC SCENARIO



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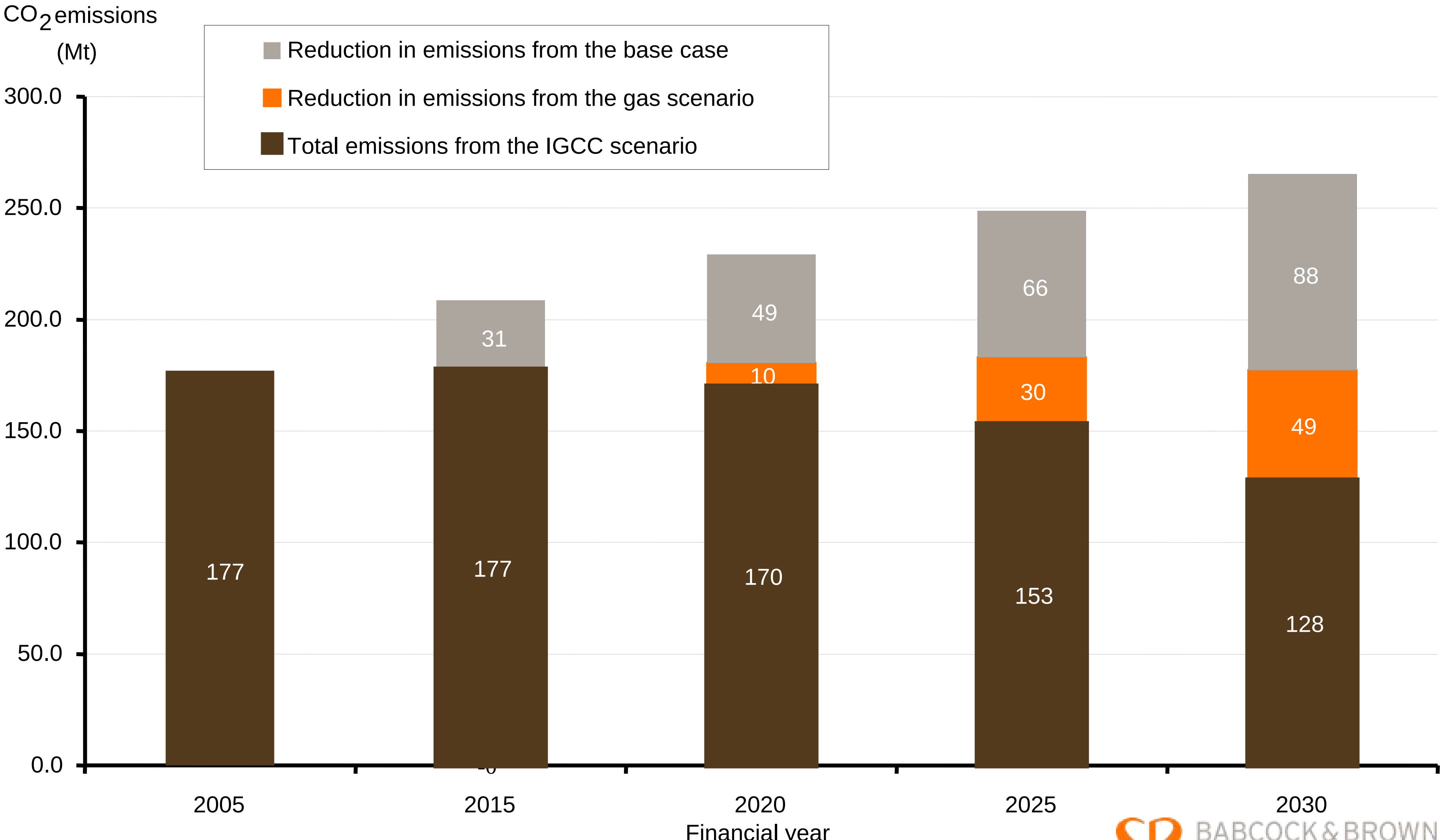
AND WE GET DEEP CUTS IN CO_2 EMISSIONS



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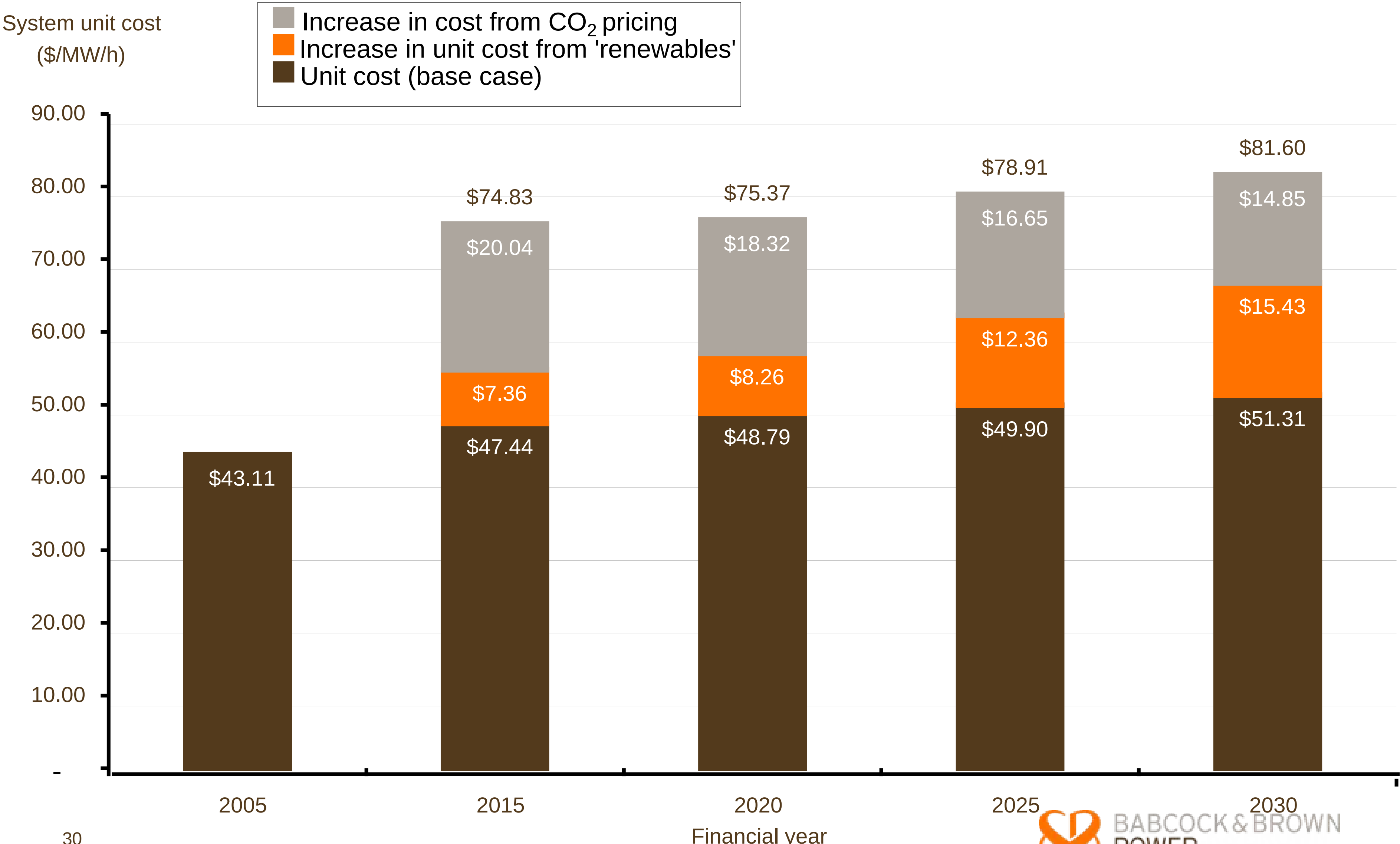
In relation to *renewables*, it can't compete with IGCC, and by comparison, is expensive…

SYSTEM COST RENEWABLE SCENARIO



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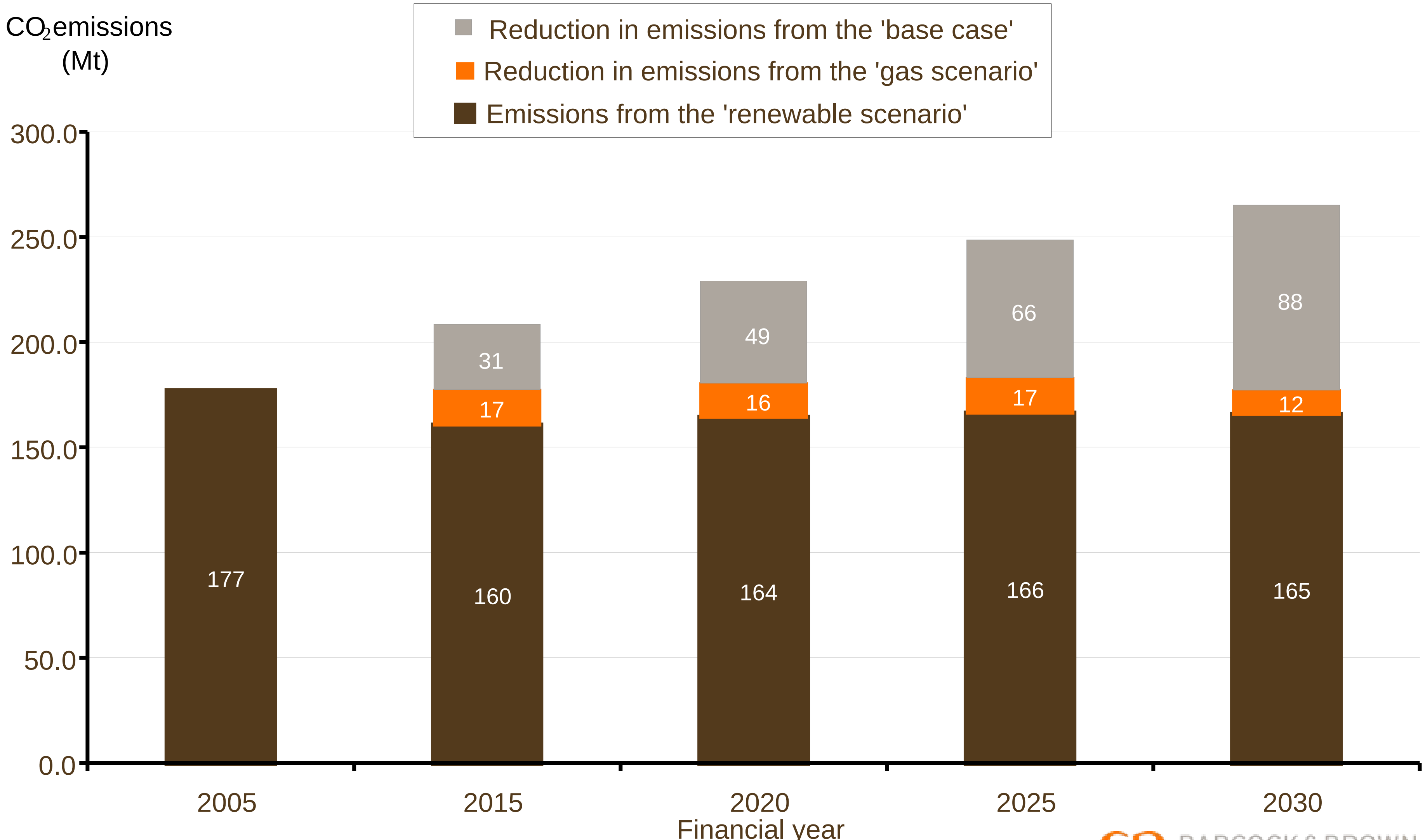
RENEWABLES HAS A RELATIVELY LOW CO_2 IMPACT - IT MISSES THE BASE LOAD



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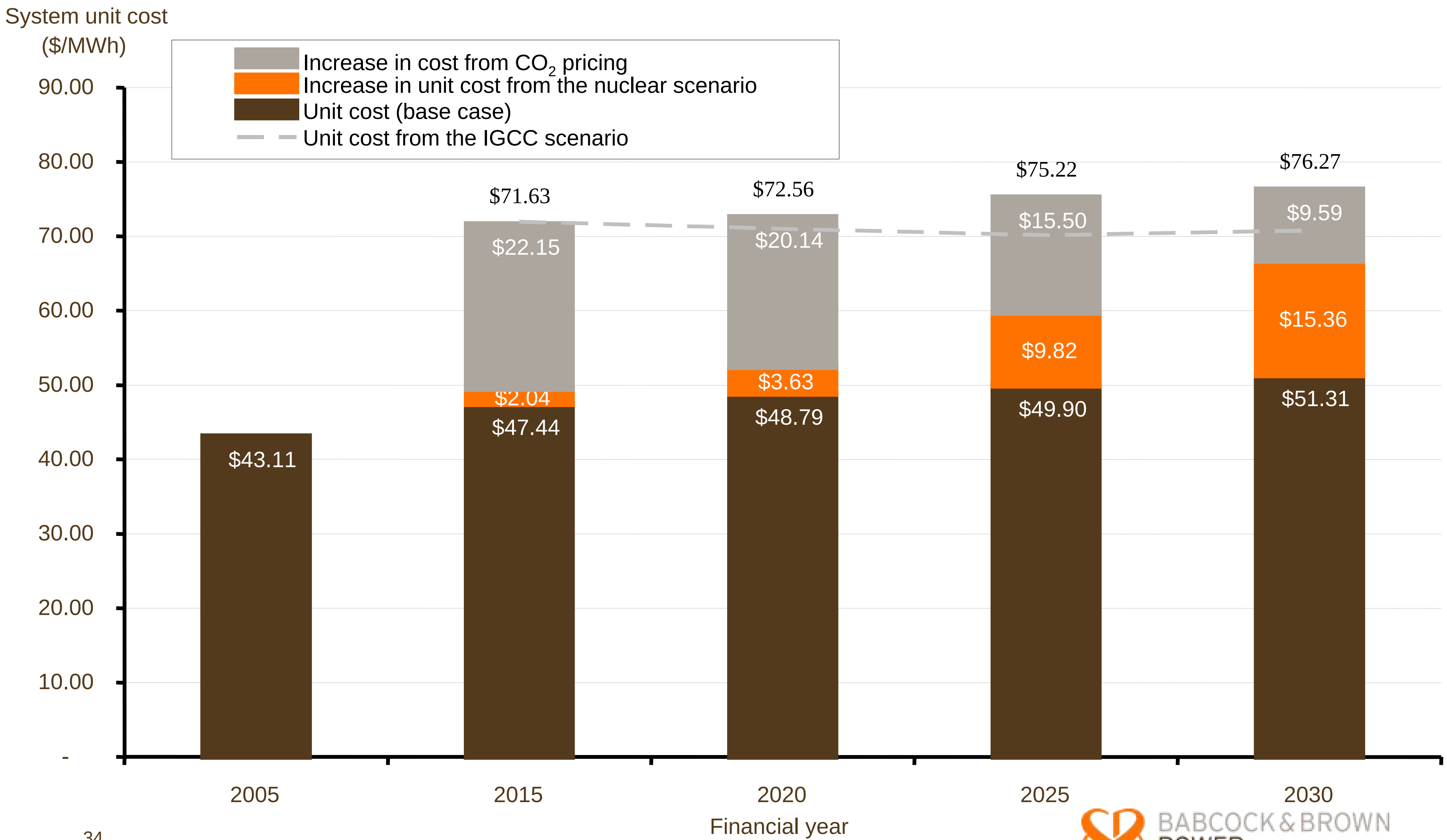
If all else fails, Nuclear could do the trick, although we're not sure who will deliver them, nobody in Australia knows much about nuke's.

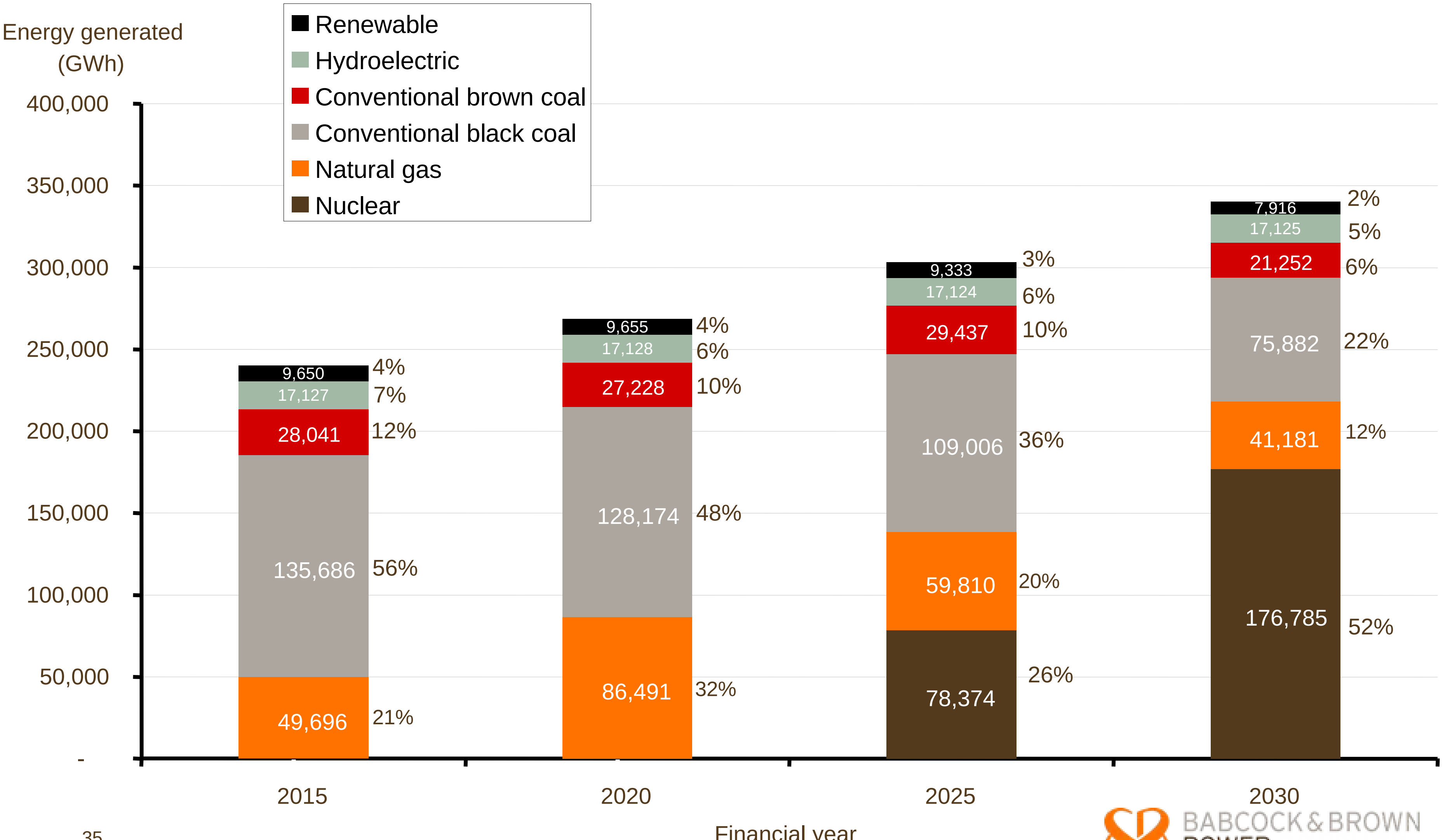
AND THERE'S A BIG CAPITAL COST…

Financial parameters	2015 $M	2020 $M	2025 $M	2030 $M
Asset Value	52,298	58,454	8,259	119,307
Aggregate fuel cost	3,108	3,889	3,954	3,512
Operations & maintenance	1,891	2,456	3,013	3,725
Depreciation	1,218	1,447	1,797	2,237
Capital charges	5,753	6,430	9,378	13,124
Total annual system running costs	11,969	14,221	18,143	22,597
$C0_2$ charges	5,322	5,412	4,699	3,262
Total system cost	17,291	19,633	22,841	25,859

WITH LOW FUEL COSTS, SYSTEM COST IN THE NUCLEAR SCENARIO LOOKS OK



PRODUCTION MIX NUCLEAR SCENARIO



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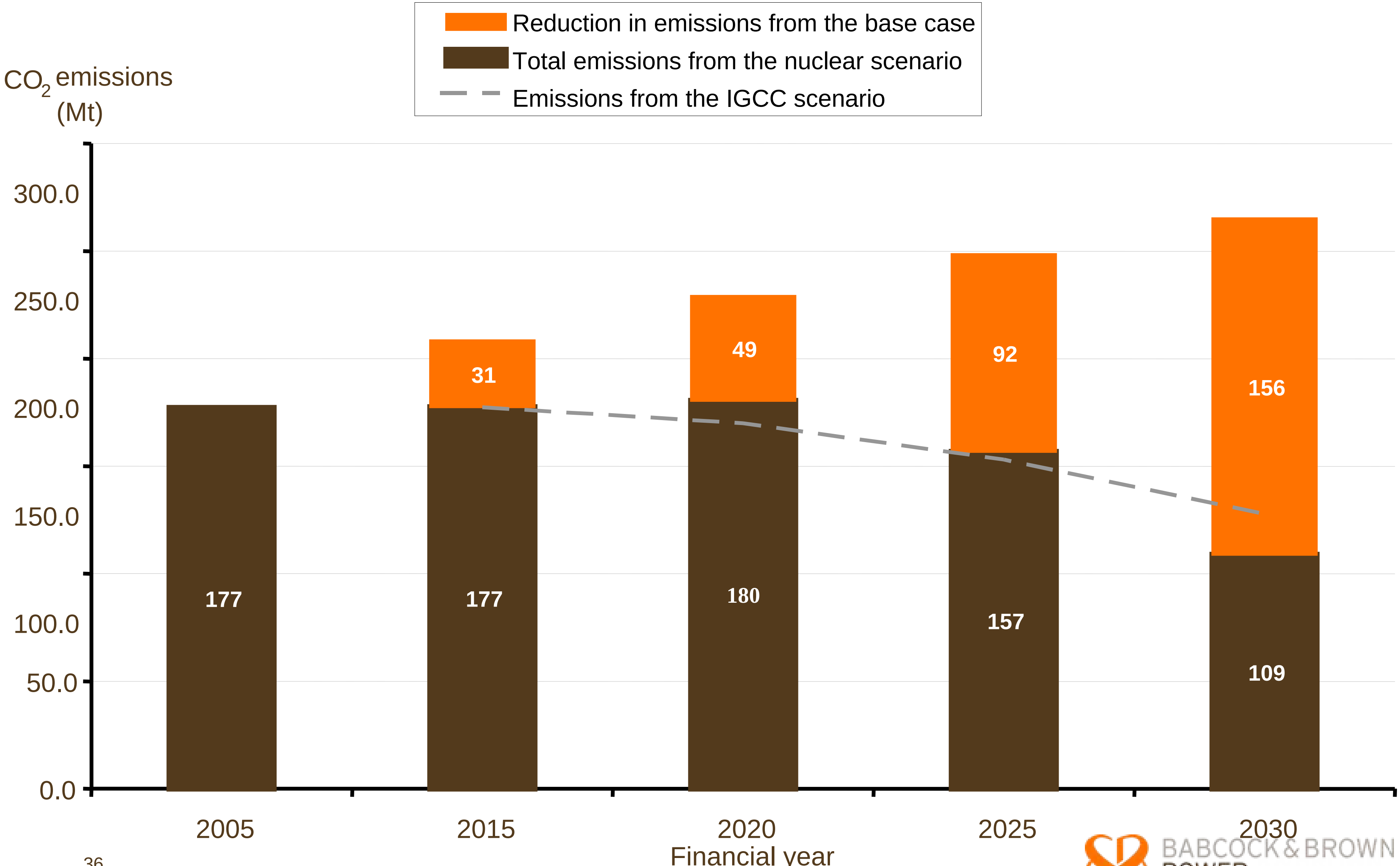
AND HAS BY FAR THE BEST CO_2 EMISSIONS OF ALL SCENARIOS



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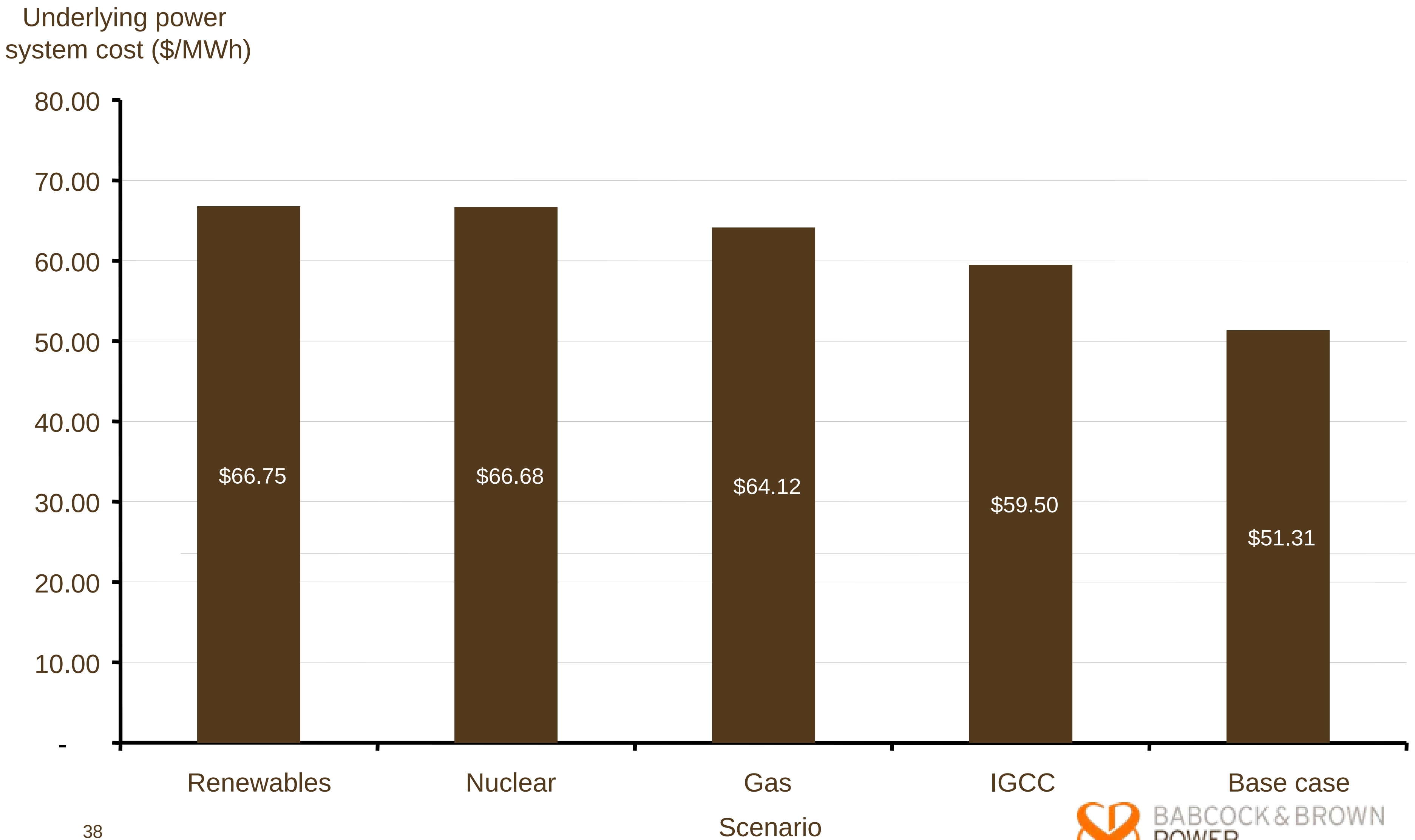
So, what does all this mean?

IGCC HAS THE LOWEST SYSTEM COST (EXCLUDING THE BASE CASE, OF COURSE)



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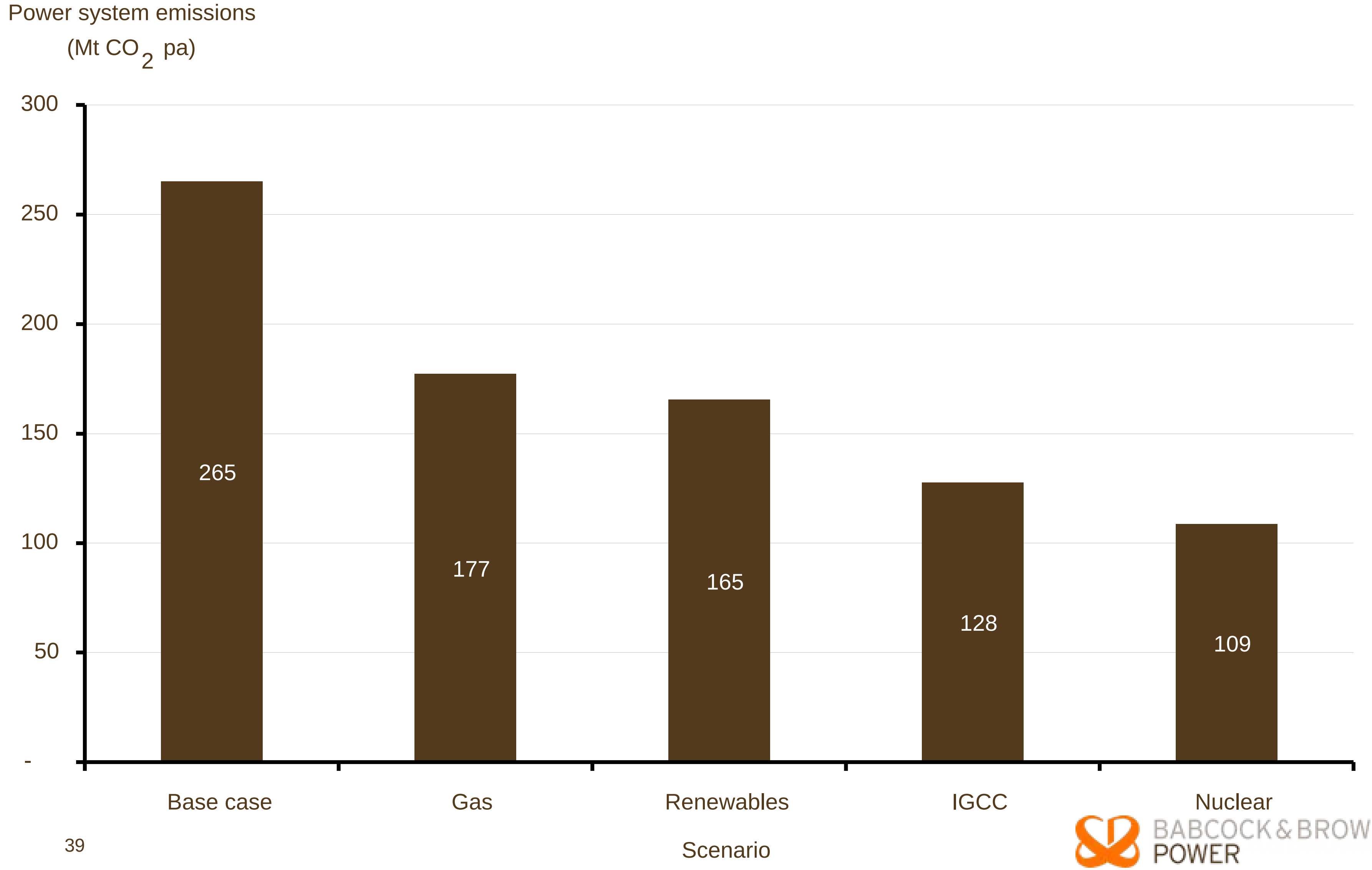
NUCLEAR HAS THE LOWEST CO_2 EMISSIONS, FOLLOWED BY IGCC



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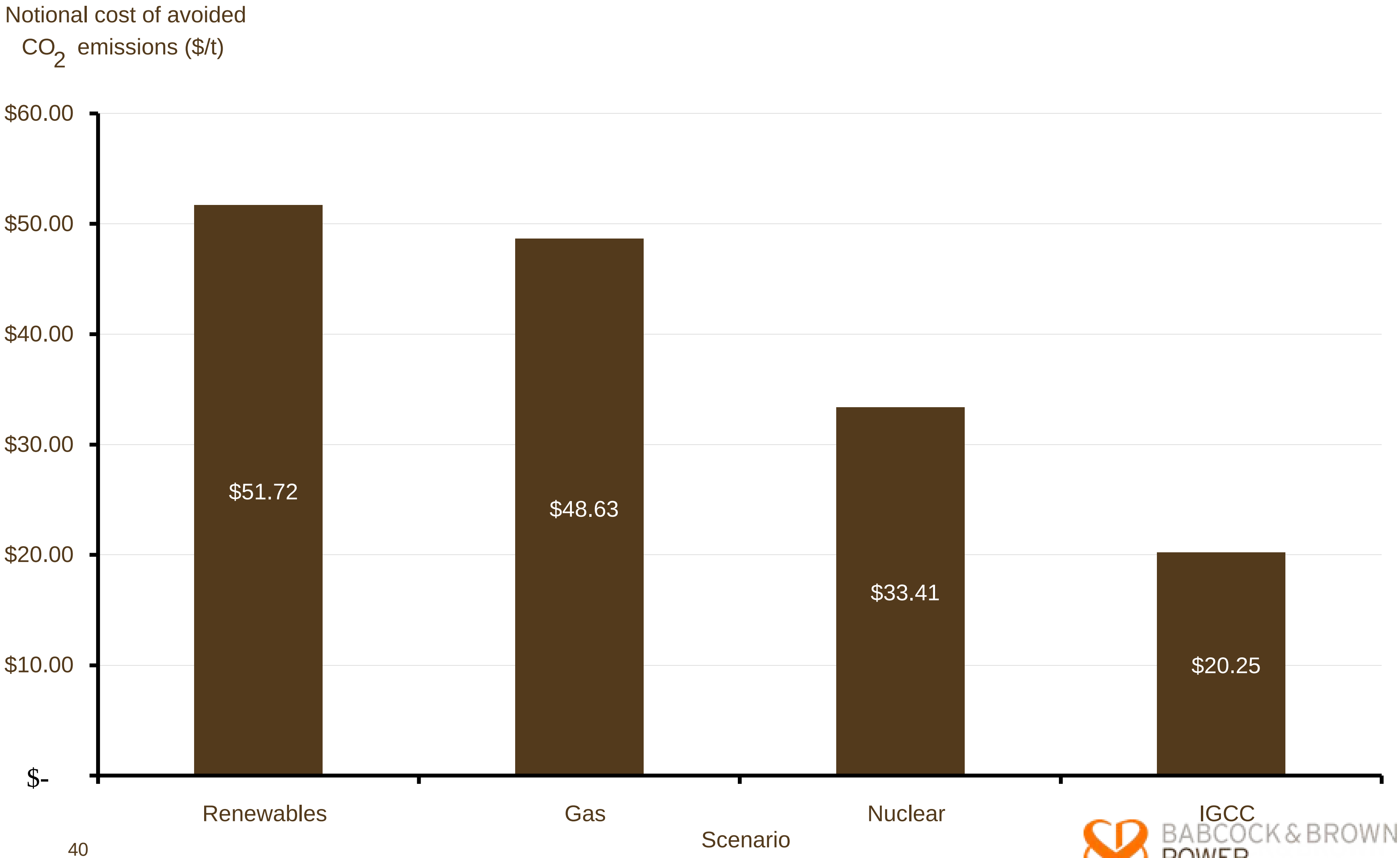
OVERALL - IGCC IS LOWEST COST, BASED ON AVOIDED COST OF CO_2



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CONCLUSION

- The most promising technology deployment simulated in this research was in the IGCC+CCS scenario
- If the concept of CCS or Carbon Capture and Storage does not succeed, Australia's CO_2 emissions footprint will be most optimally reduced by the deployment of a nuclear fleet
- The gas scenario is very clearly the best near-term option for Australia in terms of keeping CO_2 emissions checked, but over time, gas volumes become too much
- The renewables scenario provided the least desirable outcome due to the comparatively low cost of Australia's fossil fuel resources, and the relatively finite stock of high quality renewable resources, but… there will be an optimal level of renewables in the plant mix

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