



The Treasury

Teresa McMichael
Acting Director
General Purpose Standing Committee No.1
Legislative Council
Parliament House
Macquarie Street
SYDNEY NSW 2000

Contact: Richard Timbs
Telephone: (02) 9228 3340
Our Reference: EA1635355

25 JAN 2011

Dear Ms McMichael

Inquiry into the Gentrader transactions

Further to the appearance before General Purpose Standing Committee No.1 on Tuesday 18 January 2011 by Kevin Cosgriff, Richard Timbs and myself, please find attached the following documents:

1. annotated transcript
2. responses to the five questions on notice arising from the transcript
3. letter to the Chair of Standing Committee No. 1, Reverend the Hon. Fred Nile, clarifying the transcript which I would like to request appended to and referenced in the formal record.

Yours faithfully

Secretary

Cc: The Hon Eric Roozendaal MLC

QUESTION ON NOTICE – INQUIRY INTO THE GENTRADER TRANSACTIONS

18 JANUARY 2011

Question No. 1

Transcript Page Reference: 16

Question from: Reverend the Hon. F. J. Nile (Chair)

Estimated technical life of power station

CHAIR: *These documents also refer to a "contracted term" and to the "remaining technical life of the power station". In other words, you are guaranteeing that the power station will operate for a certain number of years. Can you explain how that would work? Is there a point at which the power station is written off—after 10 or 20 years?*

Mr COSGRIFF: *Throughout the transaction process engineering advice was taken as to the capacity that the power station would generate and what its technical life would be. That is reflected in the gentrader agreements. Effectively what we are saying is that the power station works for a period and that its technical life can be and has been estimated, and that is included in the gentrader contract.*

CHAIR: *Do you know offhand the estimated technical life?*

Mr COSGRIFF: *I do not have that in front of me, but that information is easily obtainable and I can provide it.*

Answer:

The Technical Life of each NSW power station as estimated by the appropriate State Owned Corporation is:

- | | |
|---------------|-----------|
| • Munmorah | mid 2014 |
| • Liddell | 2022 |
| • Wallerawang | 2028/2029 |
| • Vales Point | 2028/2029 |
| • Eraring | 2032 |
| • Bayswater | 2035 |
| • Shoalhaven | 2038 |
| • Colongra | 2039 |
| • Mount Piper | 2042/2043 |

QUESTION ON NOTICE – INQUIRY INTO THE GENTRADER TRANSACTIONS

18 JANUARY 2011

Question No. 2

Transcript Page Reference: N/A

Question from: Dr John Kaye MLC

Date for retirement of Munmorah coal-fired generator.

Mr COSGRIFF: The first significant coal-fired generator, Munmorah, will retire within the next few years.

Dr JOHN KAYE: That is not true. Are you not trying to get a contract to refurbish it?

Mr COSGRIFF: Yes. Delta notified the energy trading market that it would be decommissioned, from memory in 2014, but I will take that date on notice. That provides a refurbishment option. The Gentrader contract written for the life of that plant will be very short term.

Answer:

As published in AEMO's 2010 ESOO "Delta Electricity advised that Munmorah Power Station will be available until winter 2014 which is consistent with previous expectations". The Munmorah Gentrader Agreement has been prepared on the basis that it ends by June 2014. Following that time Munmorah is available to the private sector for rehabilitation as a development site.

QUESTION ON NOTICE – INQUIRY INTO THE GENTRADER TRANSACTIONS

18 JANUARY 2011

Question No. 3

Transcript Page Reference: 19

Question from: Dr John Kaye MLC

Number of participants that dropped out of the Cobbora process?

Mr SCHUR: The Cobbora project was originally envisaged as a mine that would be developed by the private sector. The exploration area was determined and the generation businesses formed an unincorporated joint venture. The reason they did that was that Cobbora became essential in terms of further coal supply for those generating business, particularly in an environment in which export coal prices have been increasing, poor facilities, particularly at Newcastle, have improved and our generating businesses face this pressure of increasing fuel costs, given the demand for coal internationally. That was the underlying motive. The commencement of the procurement process for Cobbora coincided with the global financial crisis.

Effectively, that financial climate meant that the playing field was thinner than may otherwise have been the case. There was also a fair bit of merger activity that was happening at the time and one or two participants in the process dropped out at very late stages as well.

Dr JOHN KAYE: One or two?

Mr SCHUR: Can I take that on notice?

Dr JOHN KAYE: Yes please.

Mr TIMBS: I do not think we said publicly how many parties were bidding or how many dropped out. I am not sure that we would actually disclose that.

Dr JOHN KAYE: We now know that it is one or two.

Mr SCHUR: I am happy to take that on notice.

Answer:

We can confirm one tenderer withdrew at a very late stage in the process.

QUESTION ON NOTICE – INQUIRY INTO THE GENTRADER TRANSACTIONS

18 JANUARY 2011

Question No. 4

Transcript Page Reference: 21

Question from: The Hon. Trevor Khan

Quantum of fees payable to institutions involved with the transaction?

The Hon. TREVOR KHAN: What is the amount of the fees that are payable to the various institutions that have made valuable contributions to this transaction?

Mr SCHUR: I do not have that information on me. I am happy to take that on notice.

The Hon. TREVOR KHAN: So whatever it is, we take \$5 billion, we take \$1.2 billion off for the repayment of the debt, is that right?

Mr SCHUR: Yes, roughly.

Answer:

The total transaction costs from 17 December 2007 to 17 January 2011 is \$165.8 million (including GST).

The Fees payable to advisers who have made valuable contributions to the transactions for the above time period are, as follows (cost inclusive of GST):

• Financial Advisor (Credit Suisse)	\$8,710,431
• Financial Advisor (Lazard)	\$2,859,679
• Accounting & Tax Advisor (Ernst & Young)	\$30,854,515
• Legal Adviser (Baker & McKenzie)	\$28,501,956
• Gentrader Legal Consultant (Johnson Winter Slattery)	\$8,191,642
• Market Consultant (Frontier Economics)	\$19,090,859
• IT Consultant (KPMG)	\$8,381,535
• Engineering & Environmental Consultant (WorleyParsons)	\$5,504,339
• Probity Advisor (RSM Bird Cameron)	\$1,177,614

QUESTION ON NOTICE – INQUIRY INTO THE GENTRADER TRANSACTIONS

18 JANUARY 2011

Question No. 5

Transcript Page Reference: 22

Question from: The Hon. Trevor Khan

What is the price for coal locked into the gentrader contracts?

The Hon. TREVOR KHAN: Sorry, that is the price for coal locked into the gentrader contracts?

Mr SCHUR: Yes.

CHAIR: It is the \$31 per tonne.

Mr SCHUR: I do not know. I do not have the details.

The Hon. GREG PEARCE: Against the current market value, which is \$70, \$80 or \$90.

The Hon. TREVOR KHAN: But you can get that detail for us?

Mr SCHUR: I am happy to get that detail for you. The current working assumption and the modelling that has been done to date suggests that that project will be able to recover its cost of funds, that is, before we contemplate any export potential associated with that mine. So that would be a further up side that would increase the return to government. So the view on Cobbora is that it is a commercially viable, stand-alone entity that will recover its costs of funds.

Answer:

When I answered the question my intention was to provide the Committee the Cobbora coal price information; however I have been advised that the price information is commercial in confidence and that I am unable to disclose the information at this time.

However, I can disclose that the "free on rail price" (ex mine) at Cobbora is fixed to all parties. The 'free on rail' price does not include transport to power stations or mining royalties. The price is adjusted with regard to a number of published indices including CPI, materials, fuel and labour.

Cobbora Coal Contracts involve delivered costs of coal some 25% to 50% higher than current average delivered coal costs to the Central Coast and Hunter Valley power stations.