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Ms Isla Macphail
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Dear Ms Macphail

PUBLIC ACCOUNTS COMMITTEE INQUIRY INTO PROJECT PLANNING FOR WESTERN AUSTRALIAN INFRASTRUCTURE PROJECTS – MUJA A AND B REFURBISHMENT

Background

Muja Power Station Stages A and B (Muja A/B) consists of four coal fired generating units of 60 MW capacity each. The units were decommissioned in May 2007. Verve Energy called for Expressions of Interest (EOI) to lease or utilise the plant for 15 years.

At the conclusion of the EOI process in May 2008, Verve Energy selected the Innovative Aluminium Company (Inalco) as the preferred bidder. Inalco is affiliated with the Kempe Group of Companies, an international provider of engineering solutions.

The Muja A/B project is a proposal to form an incorporated joint venture (JV) with Inalco to refurbish and upgrade Muja A/B with an expected return to service date coinciding with the 2012/2013 capacity year in the Wholesale Electricity Market (WEM). The refurbished power station is intended to have an operating period of up to 15 years.

Problems or Opportunities Which the Project is to Address

The impending introduction of a national greenhouse emissions or carbon scheme has created significant uncertainty in the electricity industry. This has resulted in an environment where there is limited funding and financing opportunities for thermal base load power generation facilities. Additionally, the technologies that may be used to reduce greenhouse emissions are unproven and or unavailable as yet.

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The Muja A/B project will be a viable 'stop gap' measure that aims to provide reliable power during this period of uncertainty. The refurbishment of an existing facility is also less capital intensive than the construction of a brand new facility and although the facility is a coal fired power station, the aggressive payback requirement over a shorter project life makes it attractive for potential investors.

Additionally, the project will introduce further generation to ensure a continuation of a secure and reliable supply of electricity in the South West Interconnected System (SWIS) while buying time for clean coal technology to mature and become available.

The project introduces significant opportunities for Verve Energy to leverage off its existing infrastructure, skilled workforce and reliable fuel source while continuing to produce electricity in a safe, efficient and reliable manner.

Scope of Project and the Wider Context to which it Relates

The scope of the project is to primarily ensure the plant can adequately produce electricity in the intended operating mode for up to 15 years. The installation of pollution abatement equipment in order to comply with Muja Power Station's Environmental Licence represents the largest specified item of the project's scope.

This funding required will be approximately \$145 million which will cover capital expenditure, pre operating expenses and capitalised interest during construction.

Please refer to page 3 for the project's strategic fit.

Project Stages

There are three stages to this project:

- pre-feasibility;
- development and design; and
- construction and commissioning.

The costs associated with each phase are commercially confidential in nature and Verve Energy's JV partner's approval is required for data to be released.

Sources of Funding

The project will be project financed with Verve Energy's JV partner providing the capital.

Robustness of Cost Projections used when Developing the Project and Applying for Funding

Project due diligence has been independently conducted on all aspects of the project by the ANZ's Project and Structured Finance Division, Inalco and Verve Energy. The cost projections are deemed to be robust and have been evaluated by a number of independent consultants.

Executive Summary of the Business Plans used in the Development of the Project (including Reference to Risk Analysis)

Verve Energy has as part of its strategic planning process identified that there is considerable uncertainty in the external environment to which it operates in. One of the external factors that has a significant impact on Verve Energy's business is the uncertainty in the carbon environment. This environment can add significant costs to Verve Energy's business and while there is no clarity, Verve Energy is also mindful of its obligations to produce electricity in SWIS. Hence, it was identified that a short term solution was required to fill this gap until the external environment could provide a solution. The solution identified was the refurbishment of the retired Muja A/B units.

In assessing this project, Verve Energy has undertaken commercial due diligence on the Kempe Group and Inalco. In addition to this, a number of external consultants have assessed the commercial, legal, taxation and engineering aspects of the project. The list of consultants includes Interfinancial, Azure Capital, Ernst and Young, BDO, Freehills, Johnson Winter and Slattery, ANZ Banking Group and SKM.

The Muja A/B project is one of Verve Energy's strategic projects. This project will provide a short to medium term solution for SWIS while clarity and direction is sought in the external environment.

Should you require more information, please don't hesitate to contact Mr Kurt Baker on 9424 1996.

Yours sincerely



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