

BABCOCK & BROWN
POWER



Babcock & Brown Power Limited · ABN 67 116 665 608
Babcock & Brown Power Services Limited · ABN 37 118 165 156
as responsible entity for Babcock & Brown Power Trust · ARSN 122 375 562
Level 23 The Chifley Tower · 2 Chifley Square · Sydney NSW 2000 Australia · T +61 2 9229 1800 · F +61 2 9235 3496
Level 25 Waterfront Place · 1 Eagle Street · Brisbane QLD 4000 Australia · T +61 7 3229 1200 · F +61 7 3221 5979
www.bbpower.com

7 May 2008

Mr David Kelly
Program Manager
Investor Group on Climate Change (Aus/ NZ)
Carbon Disclosure Project 2008,
40 Bowling Green
London
EC1R ONE
United Kingdom

E.Mail: info@cdproject.net
Telephone +44 207970 5660
www.cdproject.net

Dear Mr Kelly

Carbon Disclosure Project 2008

Thank you for your letter of 20 March 2008 regarding the Carbon Disclosure Project.

We are pleased to provide a preliminary response to the Carbon Disclosure Project, reflecting the development of the Babcock and Brown Power business, while acknowledging the importance of climate change management in an electricity generation portfolio.

Babcock & Brown Power (ASX:BBP) is a power generation business which listed on the Australian Securities Exchange sixteen months ago in December 2006. The BBP portfolio expanded to include Alinta's power generation operations from September 2007 and full ownership of the Alinta retail gas business with approx.570,000 customers from December 2007. BBP's assets are diversified by geographic region, contract counterparty and fuel supply.

The issue of carbon risk was clearly recognised and identified in the BBP "Prospectus and Product Disclosure Statement "(PDS) refer Power Industry Overview page 35 (Appendix 1). Major carbon policy initiatives of Australian Governments, including the likely introduction of national carbon emissions trading as early as 2010 (the Australian Government's new target date for such a scheme to commence) were discussed.

BBP is currently focussing on its preparation for meeting National Greenhouse and Energy Reporting Act 2007 obligations. The Act's requirements place significant

reporting compliance obligations on BBP. Critical objectives of this Act provide for transparent public reporting of greenhouse gas emissions and underpin the carbon trading regime to be introduced by 2010.

Depending on the final Emissions Trading Scheme (ETS) design and implementation there are potential opportunities and some risks to be managed for the diverse BBP portfolio. As the largest private generator in Australia, BBP is playing an active role within the industry to model and understand the impacts of such a trading regime to support future strategy development and implementation.

As indicated in the PDS and supported by a public report by Intelligent Energy Systems (IES), the average carbon intensity of BBP's portfolio at the time the Prospectus was released (November 2006) was 817 kg CO₂/MWh (Appendix 2), below the average of 970 kg CO₂/MWh for all generators in the National Electricity Market (2004-5). With the purchase of the Alinta gas generation assets and, with the imminent completion of new high efficiency plant, BBP's average Greenhouse Intensity from electricity generation will further reduce. With over 80% of fuel sourced from gas the estimated Carbon Intensity for the BBP power generation portfolio is now (April 2008) less than 800 KgCO₂/MWh.

A comprehensive understanding of emissions across BBP's facilities from power stations to offices and fleet operations is regarded as critical to the business's future. For this reason BBP has engaged a leading energy and greenhouse consultancy, Energetics, to assist with developing an accurate business wide carbon inventory. The timing of this detailed inventory work is planned to coincide with the requirements of the first round of reporting under the NGER Act in the 2008-9 financial year.

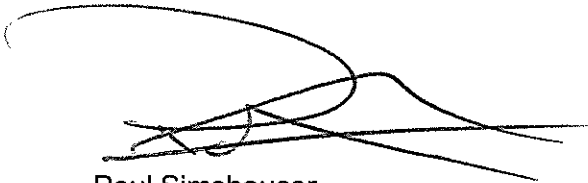
While impacts of physical risks of adapting to climate change are an ongoing consideration, BBP's major assets are well placed compared to many competitor businesses. For example, the large thermal generation plants in the portfolio are once-through seawater cooled plant (Northern Power Station, Playford Power Station, Newport Power Station) and therefore not subject to the significant potential threats of water shortage (or increased water costs) of other large thermal generators located in inland Australia, which rely largely on freshwater resources for cooling.

The PDS already provides carbon footprint information for the initial portfolio (including IES's independent analysis) and introduces considerations of carbon risk for the portfolio. In future under Australian legislation (NGER Act 2007) the carbon footprint of BBP and its major businesses will be publicly available. As the carbon inventory information and BBP's future greenhouse management strategies are progressively refined, BBP intends to provide further details to the Carbon Disclosure Project. However the inventory data provided in this submission reflects that already on the public record and already available to investors.

BABCOCK & BROWN
POWER

BBP, with expert external assistance, is in the process of ensuring that data for the coming financial year is accurate and complete.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Paul Simshauser', with a large, sweeping flourish above the name.

Paul Simshauser
Chief Executive Officer

Reference

1. BNB Analyst Presentation at BNB Infrastructure Conference, London 29 April 2008, www.bbpower.com.

**Appendix 1 – Extract from the BBP Prospectus and Product Disclosure Statement
Section 3: Power Industry Overview (Page 33)**

3.5 GREEN POLICY INITIATIVES

In recent years, both the Australian Federal and State governments have developed and implemented a number of 'green energy' based initiatives, which have led to the development of 'green energy' markets which operate alongside the electricity markets. These 'green energy' markets provide additional revenue streams to certain generators. Some of them benefit particular generators within BBP's portfolio.

Government schemes include:

- The Renewable Energy (Electricity) Act 2000 (Cth) which is administered by the Office of Renewable Energy Regulator and requires wholesale purchasers of electricity to acquire renewable energy certificates (RECs) from accredited renewable energy generators equal to a percentage of their annual electricity purchases. The legislation is often referred to as the Mandatory Renewable Energy Target (MRET) scheme. This scheme effectively provides additional revenue streams for accredited renewable energy generators, as retailers pay a market-determined price for RECs to avoid paying penalties if they fail to meet their required renewable purchases.
- The National Green Power Accreditation Scheme which is a voluntary renewable energy scheme initiative developed among the New South Wales, Victoria, Queensland, South Australia and Australian Capital Territory governments that allows electricity retailers to purchase electricity from accredited "green" generators and charge higher prices to retail customers to reimburse the retailer for the cost of that green energy.
- NSW and ACT implemented the Greenhouse Gas Abatement Scheme (GGAS) that imposes benchmarks on all electricity retailers in NSW and ACT to reduce greenhouse gases from electricity. Retailers can offset the liability for their excess emissions with NSW Greenhouse Abatement Certificates (NGACs). These certificates are created for every tonne of carbon dioxide that is abated that would ordinarily have been produced by traditional sources of generation. Such abatement can include verifiable efficiency improvements at existing power stations. From a generator's perspective, an ability to create NGACs represents an additional source of revenue. All new gas powered generators physically connected to the NEM, including some of the generators owned by BBP, produce a relatively low carbon intensity and are eligible to create NGACs.
- Queensland's 13% Gas Scheme aims to ensure that 13% of Queensland's electricity requirements are met by gas powered generation. Under Chapter 5A of the Electricity Act, end users of electricity are obliged to purchase Gas Electricity Credits (GECs) to cover 13% of their energy usage. All gas powered generators located in Queensland, including those owned by BBP, are eligible to produce GECs, provided they generate above an allocated baseline.

Additionally, other green energy policies are under development or consideration. The States and Territories set up the National Emissions Trading Taskforce to consider the introduction of a co-ordinated National Emission Trading System (NETS). The taskforce released a discussion paper on 16 August 2006, which proposed an emissions permit scheme that could start as early as 2010. Emission caps and corresponding credits could be placed on individual entities that could then trade permits. Offset credits to neutralise emissions produced could be created through projects such as the planting of forests. If approved, the scheme is initially intended to apply to power stations with greater than 30MW of capacity. It would be expanded to cover approximately 45% of national emissions by 2015.

**Appendix 2 – Extract from the BBP Prospectus and Product Disclosure Statement
Section 11: Expert Reports (Page 133)**

**Intelligent Energy Systems Markey Report – Australian Electricity Markets
Table 2.2 Carbon Intensity of Generators**

BBP Power stations	Carbon Intensity (kgCO₂-e/MWh)
Braemar	600
Oakey	780
Redbank	950
Ecogen	590
Northern	1,100
Playford	1,510
Osborne	440
BBP Total (NEM)	913
Kwinana Pro Forma	400
BBP Total (Aust)	817
NEM 2004-2005	970
Australia 2004-2005	964