

Jemena Gas Networks (NSW) Ltd

2015-20 Access Arrangement

Response to the AER's draft decision and revised proposal

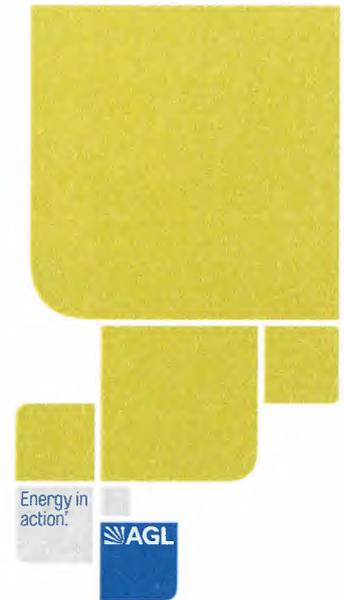
Appendix 4.5 - Letter from AGL - Gloucester supply

Public

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Mr Scott Martin
Commercial Services Manager
Jemena Gas Networks
Level 20, 111 Pacific Highway
North Sydney NSW 2059

10 February 2015

Dear Scott,

I refer to your letter of 13 January 2015 seeking AGL's views on the timing of coal seam gas production from Gloucester and its expected delivery into the Sydney network. In that letter, you provided an extract (pages 16-17) from Sleeman Consulting's report to the AER regarding the capital expenditure forecasts included in JGN's proposed access arrangement for 2015 – 2020.

AGL's current plans for the Gloucester Gas Project (GGP) are for first gas in the second half of 2018. The design peak volume of sales gas has not been finalised at this time, but a plateau range of 20 to 30 PJ per annum is considered technically feasible, with a ramp up period between first gas and plateau of 18 to 24 months. The timing and quantity of gas sales will not be finalised until later in 2015 and is subject to a final investment decision (FID) by the AGL Board.

Having perused the extract of the report that you have provided, we understand that Sleeman Consulting's views are as follows:

1. AGL has government approval for the GGP stage 1 development;
2. AGL has not committed to any GGP development to date and is unlikely to do so in advance of approvals being granted for additional stages of the GGP;
3. Political circumstances in NSW are unfavourable for the CSG industry; and
4. Therefore, it is unlikely that any CSG development will commence delivery of material quantities to Newcastle by July 2020.

AGL's response to each the views expressed by Sleeman Consulting are set out as follows:

1. AGL confirms that it has NSW Government project approval for the stage 1 area, as well as concept plan approval for the whole GGP development area including locations outside the stage 1 area. The whole approved GGP development concept plan area has been identified by the NSW Government as a Strategic Energy Project. In its most recent assessment (as at 30 June 2014), AGL's independent reserves evaluator has included substantial reserves outside of the GGP stage 1 area, indicating that these areas are considered more likely than not to be accessible for economic development.

2. The opinion that AGL is unlikely to commit to the GGP stage 1 development before it has final approvals in place for the development of future stages is not consistent with AGL's actions. While the AGL Board will make the ultimate decision at the time, AGL has not made application for, nor has plans to seek, final government approvals for additional stages of the GGP before going to the AGL Board for FID on the stage 1 development. AGL is waiting for the results of the current Waukivory pilot flow testing before proceeding to FID.
3. While political and regulatory oversight of the GGP is at an intense level at the moment, AGL completed its hydraulic fracture stimulation operations at the Waukivory pilot site in December 2014 without any delays caused by local protest action. Pilot dewatering operations are likely to continue over coming months despite AGL's voluntary suspension of operations on 27 January 2015.
4. Planning for the construction phase of the GGP stage 1 development is well advanced, with front-end engineering and design work completed in 2014. Currently, the most optimistic to the most pessimistic range of dates for first gas are between mid-2018 and end 2019.

In summary, not all Sleeman Consulting's views are consistent with AGL's actions. While the AGL Board reserves the right to delay or ultimately not approve FID of the GGP stage 1 development, this is most likely to be primarily due to the lack of economic viability of the overall project and not for the lack of final approvals for all the additional stages.

Yours sincerely,



Paul Ashby
General Manager Commercial Development, Upstream Gas