

September 15, 2010

Mr Ralph Mignone
Manager Engineering and Technical Regulation
Envestra
10 Floor, 81, Flinders Street
Adelaide 5000

Dear Mr Mignone,

Re: South Australia and Queensland Access Arrangement Reviews – Operating and Capital Expenditure

Envestra Ltd (Envestra) engaged Zincara Pty Ltd (Zincara) to independently review the operating and capital expenditure (opex and capex) sections of its Access Arrangement review submissions to the Australian Energy Regulator (AER) for the five year period 2011-12 to 2015-16. The scope of Zincara's work was to provide feedback to Envestra regarding the submissions which could assist in enhancing their compliance with the National Gas Law and National Gas Rules.

Zincara has now completed its reviews of information contained in the Access Arrangement Information (AAI) and pertinent supporting documents such as Asset Management Plans (AMPs), Mains Replacement Plans (MRPs), Capacity Management Plans (CMPs), Business Cases and Excel Spreadsheets underpinning forecast opex and capex.

The AMPs provide a consolidated view of a number of technical and operational plans and how these are used to drive asset management strategies and expenditure to ensure safe, reliable and sustainable supply of gas in line with:

- Legislative obligations;
- Effective risk management;
- Financial business parameters;
- Lowest lifecycle costs; and
- Extraction of maximum value from assets.

The MRPs are a significant part of Envestra's asset management strategy outlined in the AMPs and provide the basis and justification for programs to complete the replacement of old cast iron and unprotected steel networks.

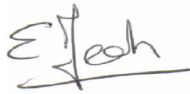
The CMPs document:

- The current capacity performance of Envestra's distribution networks;
- The basis for maintaining capacity within these distribution networks;
- Projected load growth and other drivers for network augmentation; and
- The scope, timing and budget estimates of augmentation projects required to cost effectively sustain network growth and maintain a safe and reliable supply of gas to consumers.

Zincara's review of the AMPs, MRPs and CMPs found that Envestra/APA is applying standards of safety at least equal to those of reputable Australian gas distribution owner/operators, and to generally accepted minimum technical standards and practices of an efficient and prudent owner/operator.

Business Cases and Excel Spreadsheets presented to Zincara in support of forecast opex and capex generally indicate the activities and projects are what would be expected of a prudent owner/operator and costs are efficient. Opex and capex unit rates were reviewed in detail. In those instances where Zincara questioned the prudence and/or efficiency, advice was provided to Envestra about perceived shortcomings, errors or inconsistencies in the documentation. Zincara understands that Envestra has accepted most of the advice provided and has endeavoured to reflect this in the AAI and the related documents as appropriate.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ed Teoh', with a horizontal line underneath.

Ed Teoh
Director