



AGL Energy Limited  
ABN 74 115 061 375

Tel: +61 2 9921 2999  
Fax: +61 2 9921 2552

72 Christie Street  
St Leonards, 2065 NSW  
AUSTRALIA

Locked Bag 1837  
St Leonards, 2065 NSW AUSTRALIA  
[www.agl.com.au](http://www.agl.com.au)

# asx & media release

7 November 2007

## AGL-Arrow joint venture acquires Enertrade's gas merchant business

AGL Energy Limited (AGL) announced today that it will, in a 50/50 joint venture with Arrow Energy NL (Arrow), acquire the gas merchant and pipeline businesses of the Queensland Power Trading Corporation (Enertrade) from the Queensland Government. The businesses will be acquired for a total purchase price of \$268 million plus transaction costs of approximately \$12 million (total initial cost to AGL of \$140 million). The transaction is expected to be completed by 30 November 2007 and is expected to be earnings accretive from FY08.

While the gas pipeline component of the transaction represents the majority of the acquisition cost, AGL does not consider the asset as core to its long term strategy and intends to sell its share of the pipeline before the end of the current financial year. Ahead of the sale, AGL and Arrow will however, optimise the asset and contractual mix between the pipeline and the existing upstream gas business to enhance the value of that upstream business.

AGL will initially fund its share of the acquisition price from cash reserves and debt facilities. Following the sale of the pipeline, the net cost of AGL's investment is expected to reduce to less than \$40 million.

Announcing the transaction, AGL Managing Director Mr Michael Fraser said, "The Enertrade gas merchant business is a natural extension of our existing Moranbah coal seam gas joint venture with Arrow as Enertrade is the major customer for gas produced at Moranbah. This deal will allow AGL and Arrow to capture more of the value from gas produced at Moranbah."

Mr Fraser added, "Importantly, AGL will also gain the dispatch rights to the 230MW Yabulu combined cycle power station located in Townsville and connected to the National Electricity Market. This will lift AGL's generating dispatch capacity in Queensland to in excess of 500MW when combined with the recently acquired Oakey Power Station dispatch rights.

"This deal effectively creates an integrated energy business for us along the Gladstone to Townsville corridor and will further enhance the business alignment of AGL and Arrow in one of the highest growth energy markets in Australia."

This transaction will form the largest integrated gas project of its type in Australia. Natural gas from coal seams will be processed, compressed and transported for sale to two major industrial customers in Townsville and also for supply into the Yabulu Power Station.

Under the terms of the agreement reached with Arrow, AGL will manage the gas merchant business for the joint venture and manage dispatch and control the output of electricity generated at the Yabulu Power Station. Arrow will continue to operate the reconfigured upstream gas business which will now include the Enertrade processing and compression facilities at Moranbah.

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## STRATEGIC RATIONALE – SUMMARY

- Provides substantial value benefits from integration with the joint venture's existing upstream gas position in the Moranbah Gas Project;
- Provides ability to streamline and unlock maximum value from pipeline transportation arrangements and allows operational flexibility and cost savings to be realised by the joint venture's upstream gas business;
- Delivers a material integrated wholesale gas and electricity portfolio enhancement in Queensland, particularly with the right to dispatch 230MW of base/intermediate generation which complements the existing 282MW Oakey peak generation dispatch rights;
- Well understood business/assets enables smooth and timely integration;
- Strengthens relationship and alignment with AGL's major joint venture partner in the Bowen Basin (Arrow) to permit a more integrated approach to future gas commercialisation plans; and
- Secures the rights for AGL and Arrow to develop the Central Queensland Gas Pipeline to provide the opportunity to market gas to Gladstone from the Moranbah Gas Project.

## AGL FINANCIAL IMPACT

Acquisition of 50 per cent of Enertrade's gas merchant business will result in an average increment to AGL's earnings in excess of one cent per share over each of FY08 and FY09. However, there is no change to AGL's revised FY08 earnings guidance. The EBITDA from the gas merchant business was approximately \$20 million in FY07 (50 per cent share), which was largely driven by revenue from electricity sales. The forecast for the balance of FY08 is expected to be in line with this result on a pro-rata basis.

Acquisition of 50 per cent of Enertrade's Gas Pipeline Assets is not expected to have a material impact on AGL's earnings. AGL intends to on-sell its share of the pipeline infrastructure by the end of the current financial year.

## AGL STRUCTURING

Upon acquisition, AGL and Arrow will form an unincorporated joint venture to operate the gas merchant business. AGL will proportionately consolidate the returns from the joint venture into the AGL Group.

### Further enquiries:

#### Media

Emily Kucukalic, Head of External Relations  
Direct: +61 2 9921 2375  
Mobile: +61 (0) 403 931 360  
e-mail: [ekucukalic@agl.com.au](mailto:ekucukalic@agl.com.au)

#### Analysts & Investors

Graeme Thompson, Head of Investor Relations  
Direct: +61 2 9921 2789  
Mobile: +61 (0) 412 020 711  
e-mail: [gthompson@agl.com.au](mailto:gthompson@agl.com.au)

### About AGL

AGL is one of Australia's leading integrated energy companies. Drawing on 170 years of experience, it includes retail and merchant energy businesses, power generation assets and an upstream gas portfolio. AGL has Australia's largest retail energy and dual fuel customer base. This includes customers supplied with gas and electricity through AGL's joint venture partnership with ActewAGL. AGL has a diverse power generation portfolio including base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources including hydro, wind, landfill gas and biomass. One of Australia's largest renewable energy producers, AGL is looking to further expand this position by exploring a suite of low emission and renewable energy generation development opportunities.



## **Enertrade's Gas Business Fact Sheet**

### **WHAT IS THE GAS MERCHANT BUSINESS?**

Enertrade's Gas Merchant Business comprises two key parts:

- Purchase of gas from the Moranbah Gas Project (MGP) coal seam gas operations to sell to large customers in Townsville; and
- Dispatch management of the 230MW Yabulu Power Station (YPS) in Townsville into the National Electricity Market (NEM).

The Gas Purchase Agreement with the MGP joint venture (50/50 AGL/Arrow) is for up to approximately 20 PJ per year for 15 years. The Agreement commenced in 2005.

The first part of the Gas Merchant Business is the supply of gas to two large industrial customers in Townsville and to Enertrade Electricity Trading under a:

- Gas Supply Agreement with Queensland Nickel Industries (QNI) for up to 6 PJ per year;
- Gas Supply Agreement with Copper Refineries Pty Ltd (CRL) for up to 0.25 PJ per year; and
- Self-supply arrangement for the balance of the Gas Purchase Agreement volumes to service the YPS Power Purchase Agreement (PPA).

The second part of the Gas Merchant Business is the right to dispatch the electricity generated from the 230MW YPS under a long term PPA with Transfield Services for about 17 years.

### **WHAT ARE THE GAS PIPELINE ASSETS?**

Enertrade's Gas Pipeline Assets include the North Queensland Gas Pipeline (NOGP) and the Moranbah Gas Processing Facility (MGPF).

The NOGP is a gas transmission pipeline that was commissioned in September 2004. It comprises:

- A 370 km, 12 inch diameter high pressure pipeline from the MGPF to YPS and QNI refinery;
- A 22 km, 10 inch diameter lateral pipeline connecting the mainline at Woodstock to the Stuart industrial precinct which houses CRL's 270,000 tonne per year copper refinery and a 288 MW open cycle gas turbine peaking power station; and
- Delivery facilities at the YPS and Stuart.

The NOGP has a free flow capacity of approximately 108 TJ per day (about 30 PJ per year) based on a load factor of 1.0, however with the installation of mid-line compression this could be increased to approximately 158 TJ per day (about 58 PJ per year). The pipeline route is shown on the map following (Figure 1).

The MGPF currently comprises inlet gas conditioning, four 2.6 MW reciprocating gas engine compressor units, a triethylene glycol (TEG) gas dehydration unit and export gas metering and monitoring. The facility is used to process gas for injection into the NOGP.

The current gas export capacity from the MGPF is approximately 51 TJ per day (about 19 PJ per year) with three compressors running and approximately 68 TJ per day (about 25 PJ per year) with all four compressors running.

The MGPF design and plant layout allows for incremental expansion to double the current capacity by increasing the number of compressors up to a maximum of eight units plus an additional TEG gas dehydration unit.

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### **WHAT IS THE CENTRAL QUEENSLAND GAS PIPELINE DEVELOPMENT OPPORTUNITY?**

The Central Queensland Gas Pipeline (CQGP) is a development opportunity to build a 440 km high pressure gas transmission pipeline from Moranbah to Gladstone. The AGL-Arrow joint venture will purchase the separate special purpose vehicle established by Enertrade which contains the assets, rights, easements and intellectual property associated with the CQGP development opportunity.

The CQGP could provide a strategic link for gas supply between the North Bowen Basin and Gladstone and interconnection of the NQGP to the existing state gas transmission network. The planned pipeline route would enable gas reserves within the Northern Bowen Basin coal fields to be developed and provide an alternative source of gas for Gladstone and/or facilitate an additional source of gas for Townsville.

### **WHAT ARE THE BENEFITS OF THIS TRANSACTION FOR NORTH QUEENSLAND?**

Customers in Townsville will for the first time have a direct contractual relationship with the upstream gas suppliers – AGL and Arrow. This will enhance field development planning, security of gas supply and promote more efficient and optimised commercial outcomes for customers.

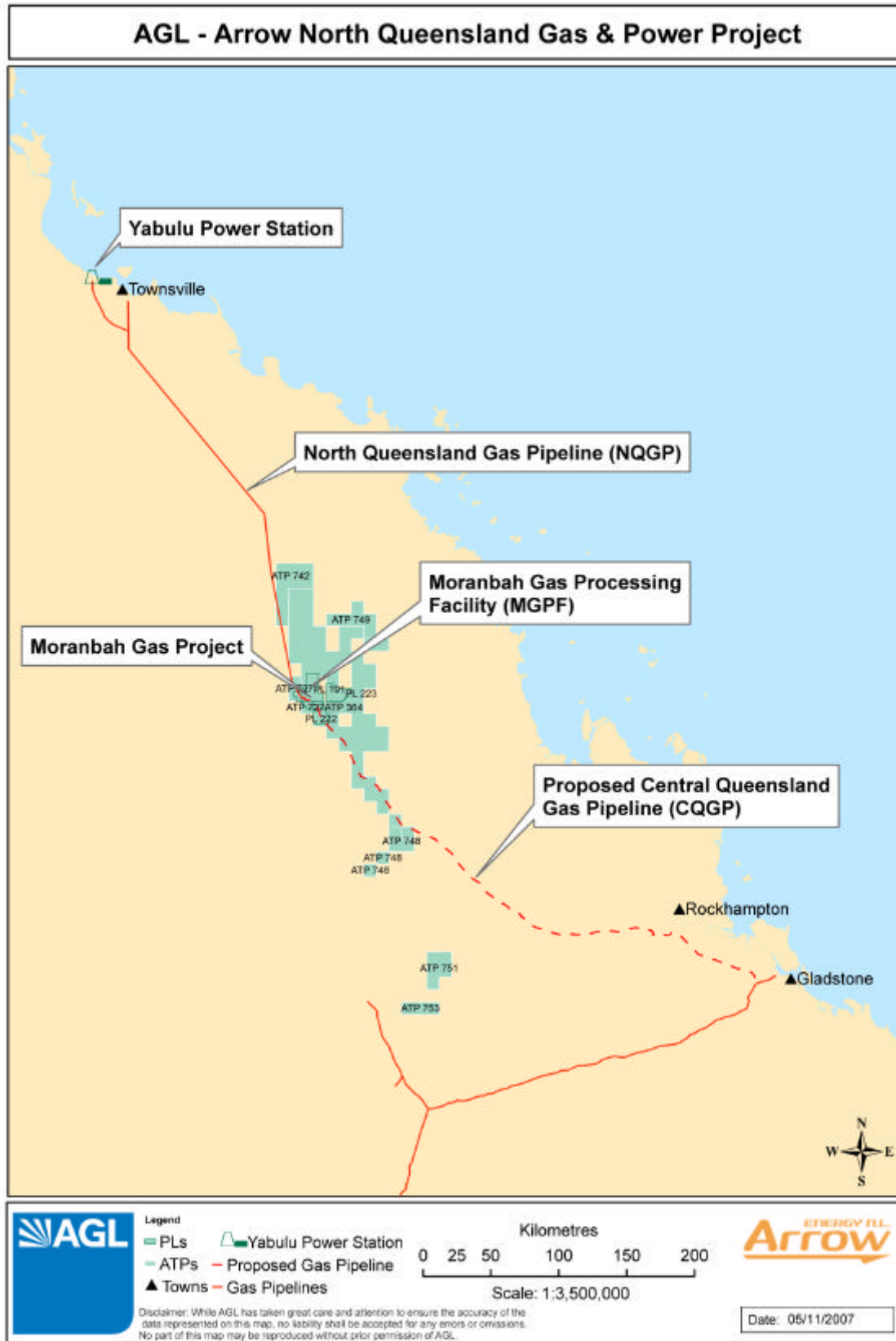
AGL and Arrow will have a much broader involvement in participating and promoting energy market developments in North Queensland, including along the Townsville to Gladstone corridor. Power generation and other gas market development opportunities in Townsville can be reviewed and assessed by AGL and Arrow from a 'whole of energy supply chain' perspective.

The prospects of further gas market and energy infrastructure development are enhanced through the direct market involvement of the North Queensland region's major gas producers.

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FIGURE 1 – Location of Enertrade's Gas Business Assets



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