Poor Fella

My Country

but still

The Lucky Country.

The story so far

- ACCC Enquiry confirms
  - gas shortage
  - predicts ex-field marginal costs to rise to $5.70/GJ for CSG *page 40-slide 3

- ACCC suggest a reference price of
  - $7.77/GJ for Southern Markets
  - $5.87/GJ for Queensland

- "Unexpected" demand (slides 4-7) for gas following closure of
  - Northern Power Station
  - Hazelwood Power Station

  With further dislocation in 2022 when Liddell closes.

- Most commentators expect spot price for LNG to rise to above long term price in 2022-2025.

Chart 1.7: CSG production cost curve in the east coast gas market as at March 2016

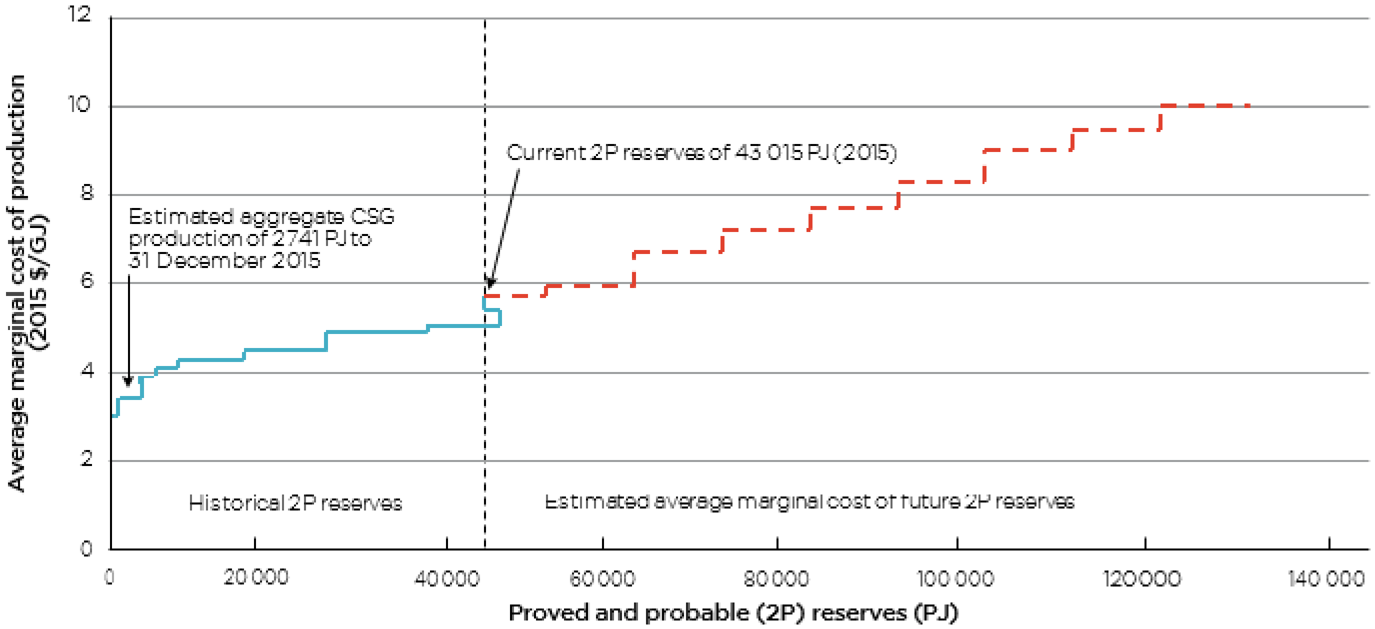

Chart 1.7 shows the historical and projected average marginal cost of production of CSG in the east coast gas market in real terms. These cost estimates include drilling, well completion, gas processing, water treatment and compression. Chart 1.7 shows average marginal costs have increased from $2.97/GJ when CSG production commenced in 1997 to around $3.70/GJ for current production in 2015 and are projected to increase to around $5.70/GL when aggregate production reaches current 2P reserves of 43000 PJ (all values in real $2015). (Source ACCC Inquiry into the East Coast Gas Market Report, page 40)

ACCC Gas Market Inquiry – 2016 Slide

The ACCC released its Inquiry into the east coast gas market in April 2016:

- Comprehensive and "fully informed" assessment of the east coast gas market
- 12 month study with unprecedented access to confidential market information
- Key findings:

    1. New gas supply is urgently needed
    2. At risk capital investment from gas producers is required now
    3. Efficient pricing for existing pipelines is critical to a market based response
    4. Without the above, demand destruction will occur (lost jobs, higher energy costs)

ACCC
Inquiry into the East Coast Gas Market – 2016 Slide

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Chart 1.1 Forecast gas supply and demand balance in the east coast gas market, excluding Arrow, 2016–25

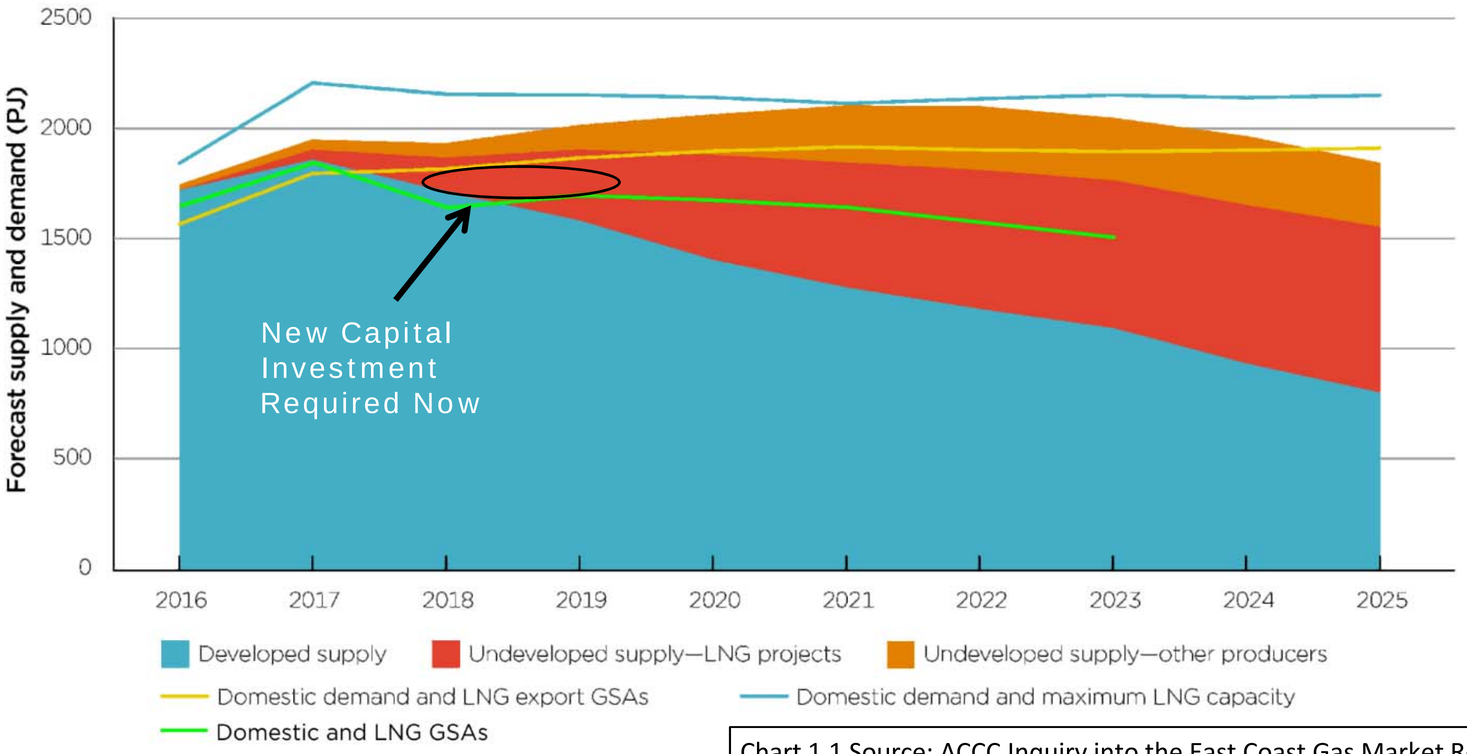
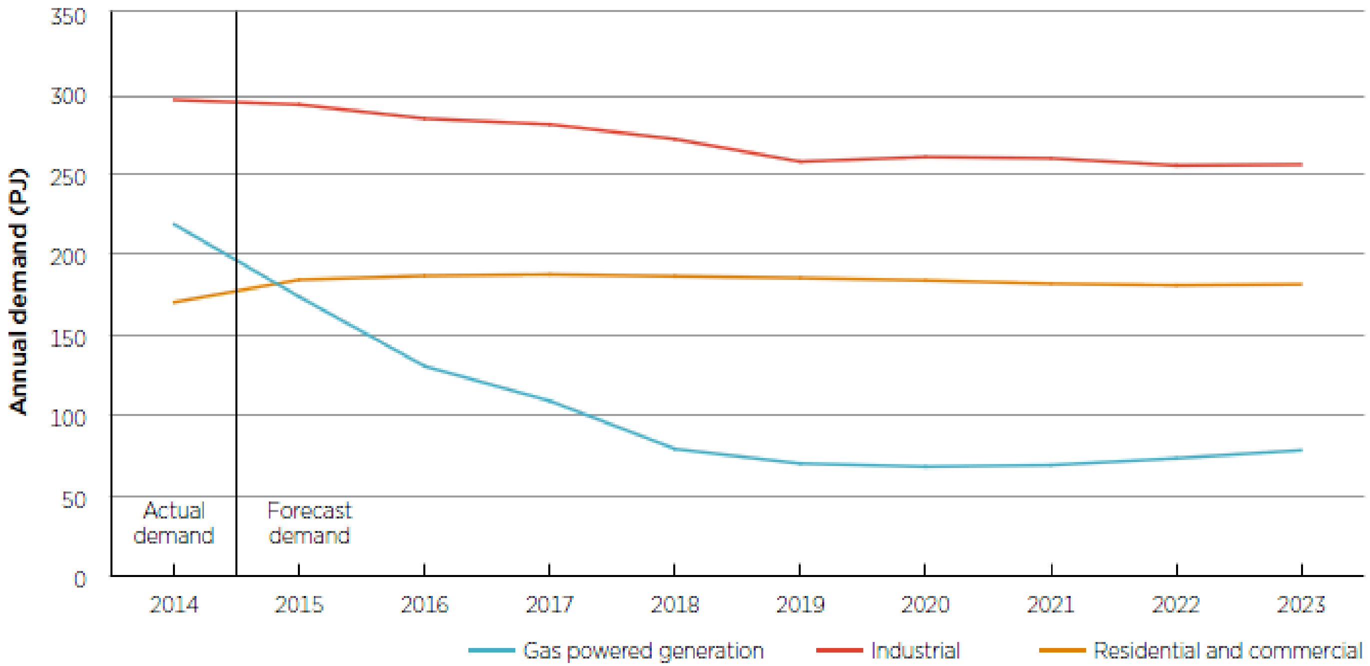


Chart 1.1 Source: ACCC Inquiry into the East Coast Gas Market Report

- Sufficient gas is available for existing domestic and LNG contracts through 2018
- Undeveloped supply needs to be brought to market from 2018 (this is at serious risk through moratoriums, ineffective economic regulation of pipeline tariffs, and depressed energy markets generally)
- The east coast market is critically short of gas from 2018

ACCC
Inquiry into the East Coast Gas Market – 2016 Slide

Chart 1.6 Actual and forecast domestic demand, 2014-23



Source: AEMO's 2015 National Gas Forecasting Report.

The ACCC forecasts already include significant destruction in industrial energy customers and a significant pull back in gas generation. A gas supply shortfall will cut beyond what has already been factored in.

2022 - HINDSIGHT

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The Real Crunch to Australia will be in 2022 when

- LNG spot market equals or exceeds long term pricing
- Liddel closes.

The volatility in gas price must be accompanied by supply chain flexibility to allow independent “futures” market.

Electricity companies will profit by VoLLatility* in electricity market if physically hedged.

* Volume of Lost Load atility

Pipeline reforms

- First Tranche with GMRG in August 2017 put asset valuation technique as capital costs less capital recovered (see NGR 569(4 below))

(4) For the purposes of subrule (3)(a);

(a) The value of any assets used in the provision of the pipeline service must be determined using asset valuation techniques consistent with the objective of this Part set out in rule 546(a); and

(b) Unless inconsistent with paragraph (a), the value of any assets used in the provision of the pipelines service is to be calculated as:

i. The cost of construction of the pipeline and pipeline assets incurred before commissioning of the pipeline (including the cost of acquiring easements and other interests in land necessary for the establishment and operation of the pipeline);

plus:

ii. The amount of capital expenditure since the commissioning of the pipeline;

less:

iii. The return of capital recovered since the commissioning of the pipeline; and

iv. The value of pipeline assets dispose of since the commissioning of the pipeline.

CTP’s position

- Fully funded four hole appraisal programme over three fields in first half of 2018.
- Brown Field Development with 70TJ/day existing plant with NGP having 60TJ/day capacity available in late 2018.
- If drilling confirms prognosis and pipeline reforms synergistic with reforms on “uncovered” pipeline, Mereenie Gas (including ex-field costs) can be delivered at around $5/GJ to Sydney.
- CSG marginal ex-field predicted $5.70/GJ. ACCC reference prices is $7.77/GJ Southern $5.87 QLD.
- Price will be long term $8-$10/GJ citygate.
- Annual incremental royalties for Northern Territory if drilling confirms prognosis is $10.5m to $16m to NT Government and $2.3m to $3.5m to CLC.
- “Covered pipelines” to come.
- Day ahead auction for capacity to come.

Milestones – CTP is perfectly positioned

2017

Q3

- Fund raising for drilling *Completed*
- Joint Marketing Agreement with Macquarie *Agreed*

Q4

- Interim approval from ACCC
- JV approval for Mereenie Campaign
- Regulatory approval
- TEG

2018

Q1

- Drilling at Mereenie
- Commissioning of TEG

Q2

- Drilling at Palm Valley and Ooraminna
- Marketing of gas for new reserves

Q3

- Reserve certification commenced
- Sales contracts

Q4

- NGP commissioned
- Gas delivered into East Coast Market

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