

Advancing the long-term security of gas supply

AGL's Upstream Gas business explores, develops, stores and produces natural gas.

Upstream Gas is responsible for advancing AGL's position to achieve long-term security of gas supply. Its portfolio includes assets in Queensland and New South Wales.

In Queensland, AGL's upstream portfolio includes Silver Springs production, development and storage, along with AGL joint venture interests in the Moranbah Gas Project, the Galilee Basin, the Cooper Basin, and at Spring Gully.

AGL's New South Wales portfolio comprises wholly owned and operated assets at Camden, in the Hunter Valley, and at Gloucester.

Financial Performance

Operating EBIT for the year was \$0.6 million, a decrease of \$13.7 million on the previous year. The decrease was due mainly to a fall in income from the provision of gas storage services.

At year end, proved plus probable (2P) reserves were 2,166 PJ, an increase of 77 PJ (3.7%) on last year. AGL's entitlement to 2P reserves within ATP1103 in the Bowen Basin in Queensland increased as a result of exploration and appraisal activities during the year.

Commissioning of the Silver Springs Underground Gas Storage Facility

In November AGL officially opened its Silver Springs Underground Gas Storage project south of Roma, Queensland.

AGL has developed underground gas storage in a depleted sandstone reservoir in the Bowen Surat Basin in central Queensland that is underpinned by a contract with QGC Pty Limited (QGC – a BG Group business). The reservoir and related Silver Springs assets were part of AGL's acquisition of Mosaic Oil which was completed in October 2010.

The arrangements will allow QGC to store gas in the reservoir while it develops its Queensland Curtis LNG Project, which will convert coal seam gas into liquefied natural gas for Asia-Pacific markets.

AGL will provide QGC with gas storage services for up to seven years until 2018. AGL has agreed to deliver gas to QGC from the gas storage project by swapping gas which QGC is required to deliver to AGL at Berwyndale under AGL's existing long term gas sale agreement with QGC.

This facility provides AGL with significant long term value as the eastern Australian gas market shifts its focus to the international LNG market. In addition to opening up service opportunities, the facility will allow AGL to manage demand and maintain gas supplies.

The project is located near key gas markets in Brisbane, Gladstone and Mt Isa.

The facility will use the APA-owned Berwyndale to Wallumbilla Pipeline to transport gas to the AGL-owned Silver Springs Pipeline. This allows gas to flow to and from the Wallumbilla gas hub from the Silver Springs gas plant and our newly acquired Wallumbilla LPG plant.

Gloucester Gas Project

During the year, AGL released its report investigating groundwater and surface water conditions within its Gloucester Gas Project area. AGL delivered on its promise to the community, by submitting the report for independent peer review as prescribed and overseen by the Gloucester Community Consultative Committee.



Greater community involvement

AGL understands there is community uncertainty about coal seam gas. We have increased our efforts to keep local communities informed about our exploration and development activities, with a new community relations team living and working in project areas, and the opening of the Singleton Information Centre.

The report explored what affects, if any, there might be on the groundwater from natural gas exploration. It provided an in-depth foundation for future work, involving geological appraisals, drilling, permeability testing, water level monitoring, water quality sampling, isotope studies, data collation, analysis and reporting.

The report's findings conclude that:

- > there are four types of groundwater systems across the area;
- > there are few beneficial aquifers. The water in the shallow aquifers in the alluvium and shallow rock is saline and low yield, and is only suitable for stock water supply and limited domestic purposes; and
- > deeper water bearing zones have no groundwater resource potential.

Subsequent to the end of the financial year, the Land and Environment Court upheld the validity of the planning approval for the project. AGL now intends to recommence exploration activities in the project area.

