

11 August 2008

Steve Edwell
Chairman
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Dear Steve,

RE: TRANSEND'S REVENUE PROPOSAL

I am writing to you in respect of the above review to highlight a number of matters that are of crucial importance to our business, Australian Paper.

Background

Australian Paper is member of the PaperlinX group, a leading international marketer and a leading Australian manufacturer of fine communication papers and high performance packaging papers.

Burnie & Wesley Vale Mills

Australian Paper's Wesley Vale and Burnie Mills are both located on the northwest coast of Tasmania and employ over 625 on-site employees and local contractors.

Historically in 1938 Associated Pulp and Paper Mills "APPM" (now Australian Paper) commenced production of fine writing papers at Burnie and in 1970 APPM built a small semi-chemical and paper mill at Wesley Vale. Since inception both sites have been upgraded periodically over the years to improve efficiency and environmental impacts.

Burnie Mill

Burnie is equipped with two paper machines and can produce 146,000 tonnes of paper per year. Most of this is plain paper for forms grades, photocopying, offset printing and base grades of paper which are then coated at Wesley Vale Mill.

The Mill utilises coal and wood waste fired boilers for steam generation and can efficiently meet up to one-third of its electrical requirements via on site turbine generation.

Wesley Vale Mill

Wesley Vale Mill is equipped with two pulp mills, a paper machine and an off-machine coater. It can produce 40,000 tonnes of pulp each year, and 140,000 tonnes of coated and uncoated papers for publishing, business forms and printing. Fibre sources used at Wesley Vale include plantation pine and plantation eucalypt.

The Mill was converted from oil fired to gas fired boilers in 2007 as part of a program to reduce Australian Paper's carbon footprint. This Mill now uses natural gas and electricity as its two main energy sources

Most importantly for the above review, both Mills are connected directly to the Transend electricity transmission network and are considered large industrial consumers of electricity in Tasmania.

Transend Revenue Proposal

Australian Paper has been broadly aware of this review for some time having received invitations from Transend to attend briefing sessions as early as October 2007. In addition, we have now undertaken a preliminary assessment of Transend's proposal and have subsequently established that the increase in total electricity transmission charges proposed could be in excess of 28% in 2009 due to Transend's apportionment of costs across users.

Despite this preliminary analysis however, we have had insufficient time to review the proposal documents in their entirety, understand their content, analyse the impact of Transend's proposals on our business and formulate a credible response. We are currently investigating options to more fully respond to the Transend submission; which includes, in particular, working with Transend's management team to ensure that we are more fully informed of the impacts of the proposal, as it relates to Australian Paper.

Australian Paper's initial response

While we are unable to formulate a detailed response to matters of substance, it is clear that the following issues must be considered by the AER as a high priority for this review.

Lack of justification for price increase

Our preliminary examination of the Transend documents has led us to postulate that the proposals contains limited rationale for the proposed increases to Australian Paper's transmission changes that could be considered fair and reasonable.

In 2007-08, the Wesley Vale and Burnie Mills consumed some C. 230GWh of electricity based on an average Load Factor of 76%. Similar load profiles are being anticipated for the next 5 years. That is, Australian Paper has no plans for any significant change over the next 5 years.

On that basis alone, it is difficult to understand how Australian Paper could have contributed to any increase in Transend's costs that would justify increases of the magnitude proposed.

Confused economic signals

Our preliminary understanding of material in the Transend proposal is that major cost drivers for Transend's business are linked to increasing demand from domestic housing and Greenfield industries. If that is the case, it would seem both prudent and rational for Transend to allocate those costs to the parties that cause the cost drivers. This would send better pricing signals to market and produce a more equitable outcome for other users.

Detrimental impact on Australian Paper

Australian Paper is concerned that there is a potential for the Transend proposal to represent a substantial impost against our business. Based on our initial assessment, which requires further validation, an outcome that would give rise to increases of the magnitude assessed would promote and give cause for Australian Paper to evaluate network by-pass options.

Australian Paper operates in a competitive market against imports from lower cost businesses in Asia and elsewhere. The business has limited capacity to pass on increased costs, much less increases of the magnitude proposed. Australian Paper's long term survival depends on finding continuous productive improvements and cost reductions in all aspects of its business.

As a large industrial electricity user, Australian Paper expects its energy retailer and Transend to find better and more efficient ways to operate their businesses – to our mutual benefit.

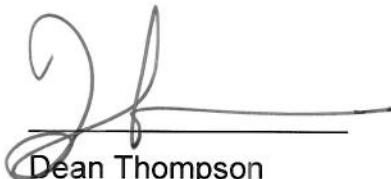
Next steps

It will take several weeks for Australian Paper to engage both Transend & supplementary resources to assist our understanding of the Transend proposal and develop a considered response.

In the meantime, I would appreciate an opportunity to discuss our concerns with you and your senior staff. The objectives for this meeting would be to ensure that our position is understood by your office, that we can develop an understanding of your processes and timeline and explore what we can do to provide information that would assist your deliberations.

I would appreciate it if you could arrange a convenient time for me to meet with you within the next fortnight or so.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'D. Thompson', written over a horizontal line.

Dean Thompson
Procurement Manager
Australian Paper