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To: Warwick Anderson
Australian Energy Regulator

From: Glenda McLoughlin

CC: **Pages:** (inc cover)

Fax: 02-6243 1280 **Date:** 14-Sep-05

Re: Directlink Determination/ Embedded
Generation Option

Urgent For Review Please Comment Please Reply Please Recycle

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14 September 2005

Australian Energy Regulator,
PO Box 1199
Dickson ACT 2602

Attention: Mr Warwick Anderson

VIA: Facsimile

Dear Mr Anderson,

I am writing in relation to your current review of the Directlink Joint Venture application for conversion to a regulated interconnector. Metgasco has been appraising the development of coal seam methane in the north-eastern region of NSW. Our work to date indicates that there is a substantial gas resource, in excess of 4 Trillion cubic feet, available in the region. We are currently engaged in evaluating commercialisation opportunities for this resource. One of these options is the development of embedded power generation facilities.

We understand that population growth in the northern New South Wales region has placed considerable strain on the local electricity network and that the development of embedded generation would be welcomed. In particular, we have commissioned PB Power to consider the optimal design of electricity generation facilities and the electricity network benefits that such generation could offer to Country Energy and TransGrid. We have held preliminary discussions with Country Energy and have been advised that connection at the Casino 11kV substation is practical. Detailed discussions and connection studies are now underway.

Metgasco has followed the Directlink review with interest but due to the exploratory nature of the study it has not been possible to provide input to the ACCC's deliberations. However, we have now reached the point where our gas availability has been confirmed and the front end engineering design of the initial generation facility has been completed. We therefore wish to provide the Commission with details of our proposed generation program.

Metgasco has developed a phased approach to the development of our power projects. It is our intention to build, own and operate a non-scheduled plant of between 12-20MW. The final scale of this plant will be determined by the technical capability of the Country Energy substation at Casino to accept power load to the 11kv connection. This facility will comprise 12*1MVA reciprocating engines and the associated high voltage switchyard and protection facilities. Additional reciprocating engines can be added to the project up to the point where the project is constrained by the capability of the 11kv connection at the Country Energy Casino substation, which we have been advised by Country Energy is in the range of 12-20MW.

Metgasco has retained Burns & Roe Worley as our engineers and project manager for this venture. We issued a request for tender for equipment in July and are currently evaluating offers from equipment providers. Metgasco has commenced the formal planning approval process with Richmond Valley Council which is planned to be completed by year end. The construction of the plant is scheduled for completion by June 2006 and will be in operation before the summer of 2006. Our analysis indicates that this level of generation could provide considerable benefits to Country Energy and TransGrid in the immediate future. It will overcome a number of identified network limitations and offers the opportunity to defer certain network augmentation expenditures.

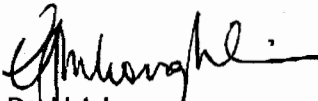
In the medium term, Metgasco intends to develop a larger scale power facility of approximately 200MW. We have previously retained energy market consultants ACIL Tasman who have advised us that the load in this area is expected to grow by 200MW over the next 5 years. It is our intention to develop this project in a staged manner to meet energy market and network requirements. We understand from the reports provided to the Commission during the Directlink review that TransGrid is considering the augmentation and construction of the line between Lismore and Dumaresq to ensure reliable supplies are maintained to the Lismore region. Metgasco understands that by increasing its generation capabilities to approximately 30 to 40 MVA over the next 2 years it can assist TransGrid to defer this proposed upgrade for a number of years. Further increases in capacity could defer this upgrade indefinitely. Gas supplies from the region are sufficient to sustain much larger scale generation.

Metgasco is engaged in ongoing discussions with Country Energy in relation to its power developments. We have also met with TransGrid on several occasions to ensure that the generation facilities are tailored to best meet the needs of local customers and provide optimal support for the electricity distribution and transmission systems. Formal agreements for network support are expected to be negotiated soon.

By way of background, Metgasco owns 100% of PEL16 located near Lismore in northern NSW. We have been engaged in gas exploration activities in this permit since 1999. Last year the company became publicly traded by listing on the Australian Stock Exchange.

We believe the Metgasco facilities offer enormous benefits to the network businesses and local customers. We have provided this information to assist the Commission in its deliberations and would be pleased to discuss the project in more detail if required.

Yours sincerely



David Johnson
Managing Director
Metgasco Ltd