



2 April 2013

Ref: BPT/128/13

**BY EMAIL and POST**

National Competition Council  
GPO Box 250  
Melbourne VIC 3001  
Attention: Mr Ross Campbell, Director

Dear Mr Campbell

**Re: Application for Coverage, South East Pipeline System**

I refer to the application by Kimberly Clark Australia for coverage of the South Eastern Pipeline System (SEPS) and our recent conversations regarding this matter. In particular, I understand that you are seeking a factual information of Beach's gas exploration and development activities in the region of this pipeline.

In response, I am pleased to provide the following summary:

- Beach Energy Ltd (Beach) both in its own right and with co-venturers holds four exploration permits, three production licences and three retention licences in the South Australian part of the Otway Basin.
- Beach also owns 100% of the Katnook gas plant which is a receipt point on the SEPS. This interest was acquired by Beach Energy in early 2012, following the successful takeover of Adelaide Energy Ltd.
- Beach is attracted to exploration in this region not only for the geological characteristics of the area but also due to proximity and connectivity to gas markets which are expected to experience a future tightening of supply post 2015.
- Production in the Katnook area ceased as a result of ongoing reservoir depletion in October 2011. This was prior to the acquisition of these interests by Beach.
- Following acquisition by Beach, a review and upgrade of the operating systems at the Katnook gas plant have been undertaken to ensure the plant has all regulatory approvals and is fit for future gas processing. Beach has also successfully hydrotested a number of flowlines into the Katnook plant. The plant remains on a manned care and maintenance basis while Beach presently undertakes a detailed technical review of the production potential of existing fields and matures exploration prospects in the region ready for drilling.
- This investment in the infrastructure is reflective of Beach's optimism for further gas production in the area.

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- In particular, Beach has recently drilled an exploration well in PEL495 in the first quarter of 2013 and is planning to follow that up in 2014 with another well in PEL495 and a well in PEL494. All gas discoveries from these wells will most likely be initially connected to the Katnook gas plant.
- Should major discoveries be made in this drilling program, Beach would seek expeditiously to connect these fields (both to facilitate extended production testing and achieve an economic return). Such well connection would, of course, be subject to consultation and support from landowners and the local community.
- Beach is exploring for new discoveries of both conventional and unconventional gas in the region and if high volumes were proven, would also consider tying directly to SEAGas pipeline. Beach sees a major gas market opportunity post 2015 (both volume and price) and this is being reflected in priorities that Beach is giving to its risk investment in this area.
- Before committing to further development work on existing (but currently shut-in) fields, Beach will seek to establish that an immediate opportunity exists to sell any gas produced and that production and sale of gas can be maintained.
- KCA with substantial gas demand represents a logical opportunity for Beach in the potential restarting of existing in the Katnook area. While no gas marketing discussions have yet taken place, Beach envisages that an approach to KCA would occur if the results of the current technical review are positive.
- In relation to supply from existing fields, any gas supply arrangement is unlikely to meet KCA's entire load so that Beach would need to be one of multiple suppliers. Initially, also Beach would be unable to offer firm supply until the performance characteristics of existing fields in response to the further development projects had been assessed.
- Other gas supply opportunities would also be canvassed to ensure an appropriate customer is secured and Beach's commercial outcomes were optimised. Obviously, Beach would expect to also engage with Origin Energy. Discussions with the owner of SEPS would also be initiated as part of determining both the economic and gas marketing framework for production from existing fields. Reasonable tariffs in SEPS will be critical to the economics of development work in the Katnook fields.
- The commercial viability of reworking fields such as Katnook, Redman, Jacaranda Ridge and others to produce the gas remaining in place is dependent on both determining that the technical risk is acceptable and establishing satisfactory economic and market conditions in relation to the sale of product.
- Beach envisages that the reworking of the existing fields if determined to be economically viable should result in gas production within a 12 month period.

I trust that this information meets your requirements.

Yours Faithfully

For



**Rod Rayner**

Group Executive – Strategic Business & External Affairs