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Central Petroleum

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CENTRAL PETROLEUM WELCOMES PIPELINE REFORM

The amendments to the National Gas Rules arising out of the Gas Market Reform Group ("GMRG") recommendation with respect to non-scheme pipelines (unregulated pipelines) has now passed through the legislative processes and commenced operations on 1 August 2017 as part of the Council of Australian Governments ("COAG") Energy Council process.

These recommendations were the result of COAG's adoption of the Vertigan Report on 14 December 2016.

By letter, dated 14 June 2017, published in the Second Supplementary Scheme Book, the Company advised shareholders that the fact that GMRG's Final Recommendations to leave the asset valuation techniques to the arbitrator meant the proposed reforms were superficial and did not deal with the root cause underlying excessive pipeline tariffs and, therefore, the current future value of Central Shares will be negatively impacted.

These Final Recommendations invited submissions by 20 July 2017 from interested parties. In its submissions Central, together with a number of other parties, argued that the asset valuation technique should be defined and based on a cost recovery basis rather than accounting depreciation.

The Natural Gas Law amendments under the new Rule 569(3) and (4) of the asset valuation technique is clearly defined and is calculated as the value of any assets used in the provision of the pipeline service is no longer based on accounting depreciation but 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 disposed of since the commissioning of the pipeline.

Submissions on the treatment of regulated pipelines ("scheme pipelines") close on 22 August and Central is hopeful that these will lead to an outcome not inconsistent with the treatment of unregulated pipelines leading to a no less favourable outcome to both producers and energy users. If this eventuates then the cost of transporting our gas to the Citygate in Sydney should reduce by a significant amount. This would give the necessary economic signals to present and future gas producers particularly from the Northern Territory to increase production in time to help mitigate the present "gas crisis".

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"This reform, if carried through to the scheme pipeline, could have the same effect on NT gas production as the demise of the PNG Gas Pipeline did on stimulating the Queensland CSG industry to its predominant position today", said Richard Cottee. "We congratulate COAG under the leadership of the Federal government in taking such a decisive step towards resolving the national gas shortage."