

Electronic Announcement

TO:	Name	COMPANY ANNOUNCEMENTS OFFICE	
	Company	THE AUSTRALIAN STOCK EXCHANGE LIMITED	
FROM:		ANDREW PURCELL – CHIEF EXECUTIVE OFFICER	
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STOCK EXCHANGE ANNOUNCEMENT

SYDNEY GAS AND AGL FORM JOINT VENTURE TO DEVELOP COAL SEAM GAS IN NSW

I attach Media Release dated 14 September 2005.

Andrew Purcell
Chief Executive Officer

MEDIA RELEASE

SYDNEY GAS AND AGL FORM JOINT VENTURE TO DEVELOP COAL SEAM GAS IN NSW

14 September 2005

Sydney Gas and AGL will form a 50/50 joint venture to drive the development of coal seam gas across Sydney Gas' current assets and permits in NSW.

Under the Sydney Gas - AGL Joint Venture arrangement:

- Sydney Gas and AGL will each own 50% of the assets, receive 50% of the revenue and pay 50% of the costs;
- AGL will pay Sydney Gas \$42.25 million (to be paid on settlement of the joint-venture contract arrangements);
- AGL will pay Sydney Gas up to an additional \$51 million by 31 December 2008, in consideration for proving up additional reserves at Camden;
- There will be a new gas sales contract for the joint venture participants for 10 years, with AGL having a five-year extension option, for the Camden project allowing a ramp up to a total annual contract quantity of 14.5PJ per annum, with potential aggregate sales of in excess \$600 million (at current prices) over the life of the contract.

The Chairman of Sydney Gas, the Hon Michael Knight AO, said the joint venture arrangement was a strategic decision for the future of Sydney Gas.

"This investment by AGL in our assets heralds a new era for Sydney Gas", Mr Knight said.

"The Joint Venture has the financial strength and technical expertise to allow Sydney Gas to be a gas producer on a scale that would not otherwise have been possible.

"In AGL, Australia's largest energy retailer, we have a partner who brings capital and marketing strength.

"AGL already purchases gas from our Camden project so they have detailed knowledge of our business, the capability of our technical staff and the significant potential of coal seam gas in New South Wales."

"I am delighted that a company of the standing of AGL has agreed to become a strategic partner in the development of Sydney Gas's coal seam gas projects," Mr Knight said.

Sydney Gas was advised by Lazard and Atnaskovic Hartnell.

For further information contact
Beth Powell, Sydney Gas
Ph: (02) 9253 5555

REINVENTION OF SYDNEY GAS

14 September 2005

Chairman of Sydney Gas, the Hon Michael Knight AO, today announced major changes to the organisation following an extensive review of all aspects of the company and its operations.

The cornerstone of which is the joint venture arrangement with AGL (see attached release).

The review into company strategic and operational issues was announced on 4 July 2005, following the departure of the former CEO Dr Bruce Butcher. Mr Knight was appointed Chairman of Sydney Gas on 21 April 2005.

Mr Knight said the reviews had confirmed the great potential of the coal seam gas leases and the quality of expertise developed by Sydney Gas's technical staff in locating and producing gas in New South Wales.

He said the review had also identified the need to increase the priority given to gas production and sales, and the necessity of lowering the cost of the company's borrowings.

"The plans announced today recognise that a substantial re-organisation of the company's affairs was necessary if the great potential benefits of coal seam gas development are to be enjoyed by the Sydney Gas shareholders," Mr Knight said.

He said the company re-organisation, approved by the Board, included the following elements:

- the joint venture arrangement with AGL
- repayment of existing high-cost debt;
- a significant reduction in corporate overheads
- a streamlined senior executive team; and
- a restructured board

"These changes provide for a reinvention of Sydney Gas which will enable it to prosper and maximise the returns to our shareholders," he said.

Refinancing

"At present Sydney Gas has high cost debt (\$30 million of convertible notes, where the conversion price is above the current share price, and an unusual and restrictive debt facility)".

"The company will introduce a new approach to finance so that exploration and early stage development will be entirely equity funded. Debt will only be used in future to the extent it can be comfortably serviced from operational cash flows."

The new Sydney Gas CEO, Mr Andrew Purcell, said the joint venture arrangement provided Sydney Gas with a quality partner in AGL, and the means to eliminate inappropriate reliance on debt.

“Funds contributed by AGL in order to become a joint venture partner will enable Sydney Gas to reduce dramatically the cost of short term financing and allow appropriate long term arrangements to be put in place,” Mr Purcell said.

“Sydney Gas has today requested Chimaera Capital Limited to allow it to immediately repay the outstanding \$20million currently drawn down from the Chimaera facility and terminate the securities underpinning it. Sydney Gas does not intend to draw down any further from the facility.”

AGL has agreed to a mechanism to underpin the \$30 million redemption of convertible notes in April and June 2006. Noteholders can elect to convert to shares in Sydney Gas at the rate of \$0.60 per share.

Capital and Operating Costs

Under the joint venture arrangement, AGL will contribute 50% of all future capital expenditure across all of the licences, ensuring an orderly and more cost-effective continuation of the development program. All operational costs associated with the Joint Venture will also be shared 50/50.

This represents a substantial future cost saving to Sydney Gas for the development of the Camden project.

Exploration and Development

The focus will be on fulfilling the gas supply contract in Camden and developing opportunities with high-value potential in the Hunter Valley.

The gas exploration project at Ravensdale and in the Jiliby, Yarramalong and Dooralong Valleys (Wyong Creek) near Wyong will be discontinued. (See attached joint release with the AGA.)

“The Camden project is the highest operational priority, including the development of new production technology and a greater emphasis on continuing exploration of the area,” Mr Purcell said.

“Our best energy development prospect is in the Hunter where the exploration project near Broke is showing very promising results.”

“In both its existing and new operations, Sydney Gas will be working very hard to sustain positive relations with landowners, communities and other stakeholders. We will try in every case to achieve the best outcomes through cooperation rather than confrontation and litigation,” Mr Purcell said.

Corporate Overheads

Following the Reviews, a new CEO and Managing Director, Andrew Purcell, has been appointed and a program adopted to reduce corporate overheads. The identified savings in corporate overheads from both the senior management restructuring and an attack on excessive corporate costs, is projected at \$3 million in a full financial year. (See details in the attached Fact Sheet).

Changes to Sydney Gas Board

Chairman of Sydney Gas, The Hon Michael Knight AO also announced the following changes to the Sydney Gas Board. Three long-standing directors and shareholders, Mr Artur Birkner, Mr John Castleman Jnr., and Mr Domenic Martino, have retired.

“I acknowledge each of their contributions to the development of Sydney Gas and recognize that the skills base going forward are not identical to those which have been essential to develop the business to this point,” he said.

Mr Knight said “As Sydney Gas reinvents itself it is sensible to change the name of the company. A proposal to formally rename the company will be put to the Annual General Meeting of Shareholders this November.”

For further information contact
Beth Powell, Sydney Gas
Ph: (02) 9253 5555



Joint Statement from Sydney Gas Ltd and the Australian Gas Alliance

Sydney Gas announces that it will not be proceeding further with gas exploration and/or production at Ravensdale and in the Jilliby, Yarramalong and Dooralong Valleys (Wyang Creek).

The Australian Gas Alliance is pleased the new leadership of Sydney Gas has acknowledged that these areas are not suitable for Methane Gas exploration and production.

The Australian Gas Alliance acknowledges that Methane Gas could be good for New South Wales when produced in an environmentally and socially acceptable manner and with the consent of landholders.

The Australian Gas Alliance and its supporters will now terminate its activities.

14 September 2005

Further contact:

Sydney Gas Ltd
Beth Powell
Manager Corporate Relations
Tel: (02) 9253 5555

The Australian Gas Alliance
Mr Tony Davis
Legal Counsel
Tel: (02) 9412 2066

FACT SHEET

14 September 2005

AGL and Sydney Gas Joint Venture

The two companies will form a 50/50 joint venture involving all of Sydney Gas' current assets and permits in NSW. Each participant will own a 50% share in the assets. AGL is a highly capable and reputable partner for Sydney Gas.

Under the Sydney Gas – AGL joint venture arrangement:

- AGL will pay Sydney Gas \$42.25 million, on settlement of the joint venture contract arrangements;
- AGL will pay Sydney Gas up to an additional \$51 million by 31 December 2008, in consideration for proving up additional reserves at Camden;
- A new gas sales contract for the joint venture participant, with AGL having for 10 years, with a five-year extension option, for the Camden project allowing a ramp up to a total annual contract quantity of 14.5 PJ per annum, with potential aggregate sales in excess of \$600 million (at current prices) over the extended life of the contract;
- A close association with Australia's largest energy retailer.

Under the joint venture arrangement Sydney Gas and AGL will share equally future costs and revenue from gas sales. Sydney Gas will receive substantial benefits in the form of lower costs and more rapid development including:

- the Joint Venture will enable new wells to be drilled in the Camden area earlier than would have been possible if Sydney Gas alone was responsible for the funding.
- revenue from gas sales from those wells will be available much earlier.
- new activities in the Hunter Valley are likely to come to fruition much earlier.

The production operations will be conducted by AGL. The exploration operations will be conducted by Sydney Gas. Sydney Gas Camden Operations will provide services to both production and exploration. The Joint Venture will not result in staff redundancies at Camden.

The Joint Venture arrangements also enable Sydney Gas to put the company on a sound financial basis going forward. This includes reducing the high cost of existing debt and providing the opportunity for Sydney Gas to be debt free by the middle of 2006. In particular:

- AGL has agreed to a mechanism to underpin the \$30 million redemption of convertible notes in April and June 2006.

- some of the funds directly contributed by AGL in order to become a joint venture participant will be used to repay the \$20 million borrowed from Chimaera Capital Limited. Sydney Gas will attempt to negotiate early repayment.
- the balance of funds contributed directly by AGL will allow Sydney Gas to contribute towards its share of the Joint Venture capital expenditure program. Any further capital expenditure funds will come from the revenue from gas sales and, if necessary, from further equity raisings.
- the remaining undrawn \$30 million under the Chimaera facility will not need to be drawn.

Reduction in Corporate Overheads

Following the Reviews commissioned by the Board there will be substantial reductions in the corporate overhead costs of Sydney Gas. Some of these savings will come as a result of a restructure of senior management positions. The table below sets out the Total Annual Rewards paid in the 2004/2005 financial year to the then holders of certain positions:

Chief Executive Officer	945,589
Executive Director Finance and Development	514,925
Chief Development Officer	341,876
Company Secretary and Corporate Counsel	333,636
Chief Operating Officer	277,000
TOTAL	2,413,026

The new Chief Executive Officer of Sydney Gas will be paid a maximum Total Annual Reward for the coming financial year of \$550,000 (with the last \$100,000 of this being short term incentive payments which will only be made if 4 stretch targets already set by the Board are met).

The other positions have all been abolished. In some cases the roles are not relevant to the new functions of Sydney Gas. In all other cases the responsibilities have been divided between existing staff.

Just on these figures alone there will be a salary saving in senior management costs of almost \$1.9 million in a full financial year. The actual savings, once “on costs” such as secretarial support and business supports are included, will be considerably higher.

It should be noted that a further additional substantial saving was made compared to the 2003/2004 Financial Year when the Board on 22 June 2005 decided not to award any discretionary bonuses to the then CEO and outgoing Executive Chairman. In the previous financial year their combined bonus figure was \$600,000.

In addition to the savings in salaries for senior executives outlined above, other specific reductions in corporate overheads are being implemented. This includes imposing much tighter controls on discretionary expenditure.

Through an attack on waste and inefficiency plus some tight financial controls on ancillary costs such as travel and consultancies, corporate overheads are expected to be reduced by \$3 million in the 2005/2006 financial year.

Production and Exploration

The future priorities for production of the assets in NSW will be set by the joint venture participants. In the interim though, it is worthwhile to set out the immediate priorities.

(1) Camden Stage 2 Development Project

The Review concluded that the highest operational priority is the continued development of Camden Stage II, including the development of new production technology and a greater emphasis on continuing exploration in the area. Improved production from the Camden project to date and the success of the production plant shows that this is the company's most valuable asset.

Our top priority is the continuing improvement of revenue generation at Camden. Net sales have increased from \$220,000 per month in December 2004 to almost \$1m per month in August 2005. It is expected that net sales revenues will increase each quarter through 2005/6.

More than 80 wells have now been drilled in Camden and more than 65 of these are on line to our two gas plants, Ray Beddoe (RBTP) and Rosalind Park (RPGP). Whilst the Stage I wells, producing to RBTP, have been consistently flowing gas since May 2001, the wells in the Stage II area, producing to RPGP, have had a short life so far with an average of only 136 days and as such are in their very early stages of production. Bearing this in mind, it is worth noting that average production across all Camden wells is now at a level of 181 Mscfd, an improvement of 10% over the last month alone.

(2) Camden Stage 2 Exploration and Appraisal

To expand the production capability of the Camden project area there is expected to be a range of exploration activities, including new and re-interpreted seismic work, potential core holes identification, ground magnetic surveys and new well-drilling and completion techniques.

Of the last 10 wells drilled and completed, 5 of these have been completed in both the Bulli and the Balgownie seams. The effect of this is to increase GIP (Gas in Place) open to well bore by about 60% in each well and thus increase potential recovery overall and daily gas flow rates.

The Joint Venture work program provides for a series of Surface-to-In-Seam (SIS) horizontal wells within PPL4 Production Lease in Camden. Drilling for the first of these wells is expected to commence early in the third financial quarter, subject to relevant approvals.

This has two positive impacts, (i) fewer surface sites would be required to achieve a similar gas flow and (ii) less equipment and surface disturbance provides for lower impact on site.

(3) Other projects

The exploration project near Broke in the Hunter Valley is showing very promising results and is the next priority after Camden. The next phase of operation is to expand this Pilot Project, appraise the asset fully, prove up reserves and develop a long term business plan. This will commence early in 2006.

The third of the priority projects is the continuation of desk-top and non-invasive analysis of the geology, hydrogeology, environmental and social aspects of the Upper Hunter area. It is expected that we will be providing the market with an update on progress during the fourth quarter of the 2005-2006 financial year.

In the case of the Wyong project, the Review has called into question the viability of proceeding at Ravensdale and in the Jilliby, Yarramalong and Dooralong Valleys (Wyong Creek) near Wyong. The hydro-geological studies confirm that the drilling program would have no effect on the water catchment or water table.

However, the topography of the area -- particularly the length and narrowness of the valleys -- will substantially increase both the infrastructure costs and the operating costs of the proposed project. The pattern of land ownership means that there will need to be negotiations with individuals in order to obtain sufficient well sites for a viable project. Unlike other areas, most of the properties are generally only large enough to support a single well site rather than multiple wells. There is also considerable opposition among the owners of potential well sites. The combined effect of these three facts is that landowner access will be more costly and progress will be slow in this area to a greater extent than anywhere else.

Having regard to all of these issues the Review determined that there was not an acceptable business case for proceeding with the Wyong project. Consequently, Sydney Gas will not be proceeding with exploration or development at Ravensdale and in the Jilliby, Yarramalong and Dooralong Valleys.

Board Restructure

The role of Sydney Gas and its board will change significantly as a consequence of the Joint Venture participation. The skills base going forward are not identical to those which have been essential to develop the business to this point. In order to facilitate change, three long-standing directors and shareholders of Sydney Gas, Mr Artur Birkner, Mr John Castleman Jnr., and Mr Domenic Martino have retired.

Sydney Gas plans to add additional directors with appropriate skills.

Name Change

As Sydney Gas Ltd reinvents itself it is sensible to change the name of the company. A new name will underline that the company does not wish to be associated with some of the mistakes of the past. It will also enable the company to operate under a name which much better describes who we are and what we actually will be doing in the future. A proposal to formally rename the company will be put to the Annual General Meeting of shareholders this November.

