

To the Chairman, Board of Directors, Shareholders and staff of AGL Energy Ltd.

The Communities of the Gloucester and Hunter Valleys are opposed to AGL's coal seam gas (CSG) plans and believe they present an unacceptable risk to our ground water and river systems and will hurt our local tourism and agricultural industries. If you go ahead it will destroy the way-of-life in our communities.

But more than that, the overwhelming community opposition and ongoing political uncertainty associated with CSG in NSW pose a substantial investment risk to AGL shareholders. We believe it is in the interest of shareholders for the company to withdraw from further CSG operations in our valleys.

Policy changes to introduce exclusion zones for CSG around residential areas in NSW have already led to AGL writing down the value of its CSG assets by \$340 million. Gloucester is the only residential area in NSW that will be exposed to new CSG development because approvals were already in place prior to the new policy. This makes the Gloucester project a lightning rod for the state-wide community movement.

That campaign is demanding even tougher restrictions, particularly around water catchments and is calling for increased landholder and community rights. Community blockades have already been successful in delaying AGLs projects and more are likely. These political and community risks need to be understood by shareholders.

The Board has equal responsibility to the public and shareholders. Environmental damage or impact on community health presents a legal risk to both Board members and the company generally.

AGL have become Australia's largest private owner, operator and developer of renewable energy generation facilities. This is a future direction for the company of which shareholders should be rightly proud. Unfortunately, this positive image is being tarnished by the company's reckless pursuit of CSG in areas completely unsuited to this type of industrial development. These proposals would turn the beautiful Gloucester Valley, the headwaters of the Manning River, drinking water supply for over 100,000 people, in addition to internationally renowned vineyards of the Hunter Valley, into industrialised gas fields.

Our communities want to continue to develop long-term and sustainable industries, including tourism, grazing, and horticulture. Renewable energy, similar to the new AGL solar plants in Nyngan and Broken Hill also offer economic opportunities for our regions, and ones we could work together on.

We urge AGL to avoid making a poor investment decision and to take steps away from these projects before it is too late for the communities and businesses of the Gloucester and Hunter Valleys.

Sincerely,

Groundswell Gloucester - Hunter Valley Protection Alliance - Manning Clean Water Action Group
Barrington, Gloucester, Stroud Preservation Alliance - Eco Network Port Stephens



**ECO NETWORK -
Port Stephens**

Overview of risks to AGL in the Gloucester and Hunter Valleys

1. Political Risk to Investment

- The NSW Government recently introduced CSG exclusion zones around residential areas and critical agricultural industries. These changes substantially impact on the Gloucester and Hunter projects. \$340 million in write-downs have already been realised.
- The NSW Premier said before the last election that: “The next Liberal/National government will ensure that mining cannot occur ... in any water catchment area, and will ensure that mining leases and mining exploration permits reflect that common sense; no ifs, no buts, a guarantee.” The community is demanding these promises be met and further CSG policy changes are likely.
- This month the NSW Opposition will introduce a bill to ban CSG in Sydney’s water catchment and have said they will consider further restrictions. The Gloucester Project is within a drinking water catchment area and may be impacted by the Labor policy.

2. Coal Projects

- Existing and proposed coal projects conflict with AGL’s stage 1 plans at Gloucester. The map attached shows proposed well sites fall within the Stratford proposed expansion and the ‘greenfield’ Rocky Hill mine. AGL made a submission against the proposed Stratford expansion and submissions close for Rocky Hill on 28 October 2013.
- The blasting processes from neighbouring coal mining increases the risks of well failure. The production and environmental risks associated with such failures do not appear to have been adequately considered in AGL’s plans. Both the Gloucester and Hunter Projects face these risks.

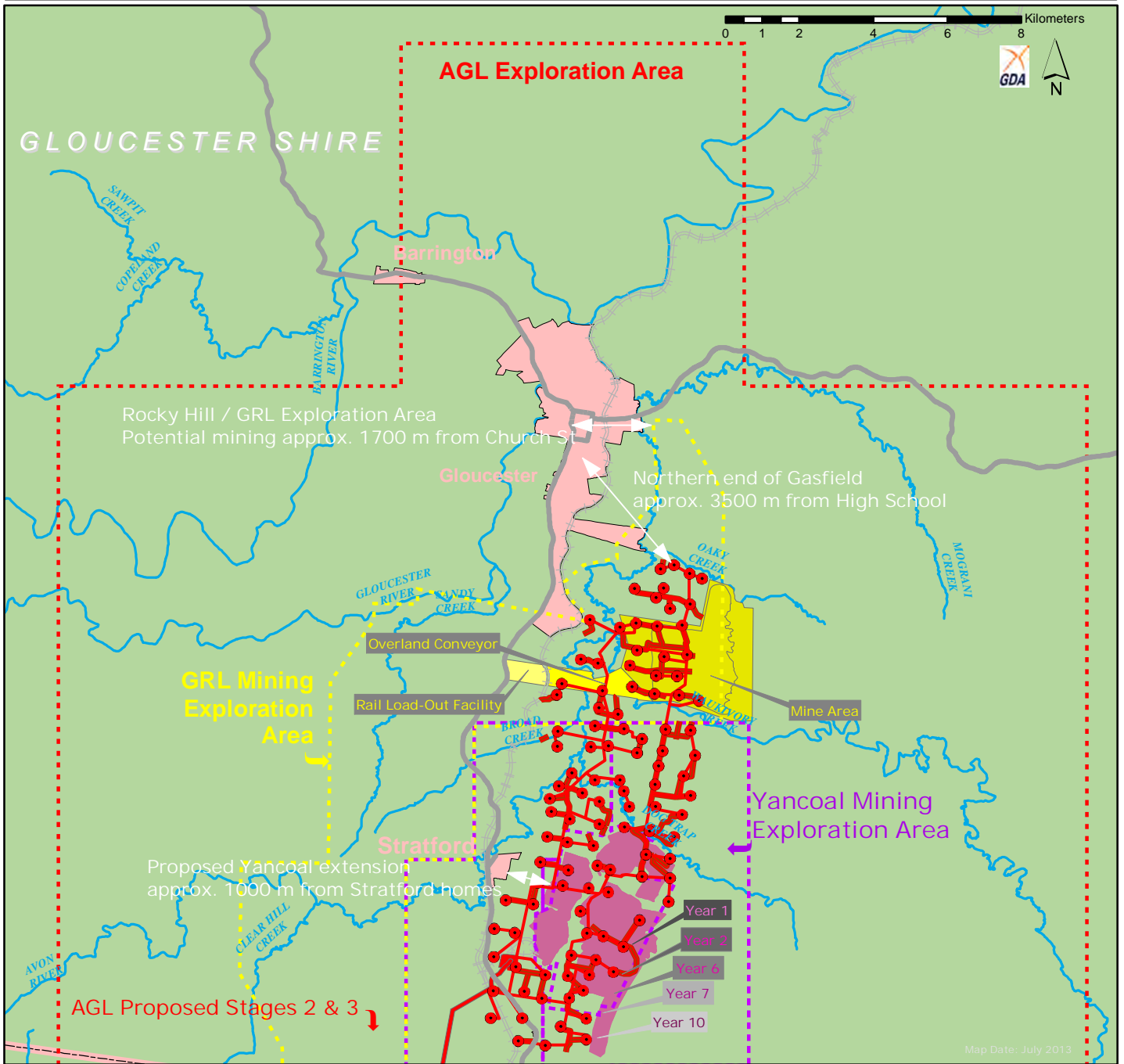
3. Risk to viability of Gloucester Stages 2 and 3

- AGL has only received approvals for Stage One (110 gas wells) at Gloucester. NSW Resources Minister Chris Hartcher said publicly that Stages 2 and 3 of the Project are “problematic.”
- The ability to obtain approval for stages 2 and 3 (a further 220 wells) will impact the financial viability of the entire project.
- The residential exclusion zones will constrain stages 2 and 3.
- The new Federal ‘Water Trigger’ under the *Environment Protection and Biodiversity Conservation Act 1999* (the EPBC Act) will also apply to stages 2 and 3 and is likely to further impact on project delivery.

4. Community Risk to Investment

- Strong community opposition to CSG poses a number of significant risks to AGL.
- The community has demonstrated its commitment and capacity to blockade, successfully delaying AGL’s exploration in 2012. Further direct action seems likely given the ongoing strong community opposition to the project.
- Similar blockade actions in the Northern Rivers against Metgasco’s project resulted in a substantial fall in share price and the company suspending operations in the region.
- The growing fossil fuel divestment campaign will begin to target AGL given its involvement in the CSG industry, presenting a risk to AGL’s share price in the long-term.

Extractive Industry Proposals in the Vale of Gloucester



Questions to the AGL Chairman and Board of Directors

Residential Exclusion Zones

The NSW Government has now finalised its coal seam gas (CSG) residential exclusion zone policy and has ruled out CSG development within 2km of all residential areas in the state. While Stage one of the Gloucester project will not be captured by the new rules as it had already been approved, this fact is increasing community opposition to AGL and the project.

AGL's proposed stages 2 and 3 have been described by the NSW Resources Minister as "problematic" and will be caught up in the new exclusion zone policy.

What is the level of risk to the AGL's entire Gloucester Gas Project from the new exclusion zones if stages 2 and 3 can't go ahead and is the board concerned that Gloucester will become a focal point for community opposition to CSG now it is the only residential area in NSW that will be exposed to new CSG development?

Independent water study not completed

AGL has given an undertaking to the Gloucester Community to do a water study of the Valley before proceeding with further work and has sought to fund an independent water study through the Gloucester Council. This study was announced in response to a community blockade in December 2011 against AGL's exploration work and concern that not enough was known about the hydrogeology in the Valley to undertake further drilling.

Now, even before this independent water study begins, AGL has announced it intends to frack 4 wells less than 600m from family homes.

How risky is it for AGL to proceed with further development before the water study or the promised bioregional assessments by the federal Independent Expert Scientific Committee are completed? And, what are the financial risks to the Gloucester CSG Project from community direct action that may occur because of AGL going back on its word? Has the board considered the reputational risk that AGL faces from the negative media this is likely to create?

Uncertain Hydrogeology

NSW Resources Minister Chris Hartcher and independent water experts have spoken of the complex fractured Hydrogeology in the Gloucester Valley. Given Stage 1 would be built in the Avon catchment, the drinking water supply of 75000 people, and Stages 2 and 3 are in the water catchment of Port Stephens, which supports thriving oyster, fishing and tourism industries, how embarrassed are you by the recent media that showed your Hydrology Manager, Mr John Ross, contradicting the AGL Upstream Gas General Manager about connectivity between coal seams in the Gloucester Valley and local rivers?

What impact will perceptions of this incomplete science have on your ability to build the community trust needed to complete this project?

Health impacts uncertain

Health and environmental impacts of CSG extraction are becoming well documented, the NSW Chief Scientists is currently completing a study of risks and The NSW Department of Health has called for a screening level environmental health risk assessment prior to CSG development. Are shareholders and board members aware that the Gloucester community has commenced baseline lung function and water studies that would be critical in potential future legal actions to demonstrate loss or damage caused by AGL's activities within the Valley?

Why not expand AGL's renewable businesses?

Given the overwhelming and increasing scientific evidence showing that the Gloucester Gasfield Project is fraught with serious and unresolvable issues, when will the board cut their financial losses and garner corporate and community respect through a rapid transition to secure investments in renewable energies?

Julie Lyford is the former mayor of Gloucester Shire Council, and has attended this AGM to bring the very serious and deep concerns of the 5000-strong Gloucester community to the shareholders.

Jenni O'Neill is a Gloucester resident and mother of two small children, concerned over AGL's plan to proceed with this fossil fuel folly rather than honor its promised commitment to community wellbeing and sustainability.