



Request for Proposals for the Purchase and Processing of Hardwood Residual Timber RFP_RT 2012

Supplementary Information No. 1 - Questions and Answers

This Supplementary Information No.1, together with the Presentation slides from the RFP Briefing held 7 February 2012 forms part of the Request for Proposals documentation.

14 February 2012

1. Corrections to RFP documentation

(a) Items 1.3 and 6.4 The statement “VicForests is will seek appropriate Government confirmations for relevant proposals prior to entering into definitive Agreements” should be replaced by “VicForests will seek appropriate Government confirmations for relevant proposals prior to entering into definitive Agreements”.

(b) Item 10, Part E

The unfinished text should read “Please outline below any clauses of the TSA which you are unable to comply with or to which you wish to propose a departure or variation.

(c) Item 4.3

The reference to approximately 2,500 ha of harvesting each year, should read approximately 5,000 – 5,500 ha each year.

2. Resource Offering

Q: In East Gippsland FMA, there is 58,000 tonnes MSH indicated from Integrated harvesting operations but no MSM shown from integrated harvesting operations. There is 103,000 tonnes MSM shown but it is not described as coming from Integrated harvesting. Is this actually from Integrated harvesting also? If not what is the source?

A: The Mixed species standard quality Timber described as MSM is from Integrated harvesting operations. Integrated harvesting operations refer to conventional forest operations where sawlogs and other products such as pulpwood are recovered. The term is used in the RFP to distinguish these operations from thinning operations.



Q: There is 38,000 tonnes indicated as being derived from thinnings operations. Does this include thinning operations conducted under the mixed age forest prescriptions as well as thinning operations conducted under the mixed species regrowth thinning silvicultural guidelines?

A: The thinnings quantity may include product from mixed age operations, in particular over the winter period. Proponents may wish to submit separate pricing for product from these two forest stand types.

Q: If the output of sawlogs results in higher levels of pulpwood than those in the Resource Offering, will the additional volume be available to the successful proponent in the first instance, or any additional volume be subject to another allocation process?

A: There are no projected increases in the output of sawlogs at this point in time. The RFP Resource Offering has been derived from the 2011 Resource Outlook, VicForests Thinning Strategy and an estimate of available residues based on an assumed yield per hectare.

Surplus pulpwood and or residue arising from future operations may be offered to the market at VicForests' discretion. Proponents may wish to include in their proposals their capacity to take additional supply to that on offer, in the event such resource may become available.

Q: Is the future sawlog volume from the East Gippsland FMA set at 50,000 m³?

A: The future resource outlook for sawlogs is consistent with that communicated in the 2011 Resource Outlook Statement. For the East Gippsland Region this is an outlook of 50,000m³ per annum. The annual Resource Outlook Statement will be provided by VicForests in coming months however it is not expected that this figure will change substantially.

Q: Can we get more information on where the resource is located?

A: A more detailed map showing the distribution of the Ash and Mixed species forests types is now available on the VicForests' website. This map is a representation of the strategic locations of the forest stands that have contributed to the 20 year, 2011 Resource Outlook Statement and the resource offering set out in the RFP.

The Break-even Price will indicate the relative cost (and hence location), of the resource in relation to the Delivery Sites nominated in a proponent's Registration. VicForests will also provide a Lead distance, being the weighted average "A class equivalent distance" for the Forest Blocks scheduled to supply the Timber under the specified supply scenario to the designated Delivery sites.

Additional information about the resource may be available upon request. Such information will be made available to all potential proponents, except where it is considered to be of a specific nature unique to an individual proponent.



3. Break-even Pricing

Q: Will Break-even pricing be split into components?

A : The Break-even pricing will be provided as a Mill Door Price to the delivery sites nominated for the nominated products with the exception of the residue product designated "N". The Stumpage Break-even Price will be provided for all nominated products.

If Proponents require a Mill Door Price for non-log products (product code = N), VicForests will require further time for operational cost analysis.

4. Renewable Energy

Q: Do Renewable Energy Certificates (RECs) apply to the use of sawdust?

A: The Timber Sale Agreement applicable to this RFP includes Clauses that allow for the sharing between VicForests and the successful proponent, of any commercial benefit such as RECs to be gained through any Carbon Scheme that includes native timber as an eligible renewable energy source. The Carbon Credit Payment calculation provides for sharing of benefits over and above a pre-defined threshold which VicForests believes is a reasonable approach.

Should the relevant circumstances eventuate, these Clauses in the TSA will apply to those RECs (or equivalent credit), that arise from the energy generated from the Timber sold under the TSA regardless of the form in which the Timber is utilised as a fuel source. This means that sawdust from Timber purchased under the TSA [RFP_RT 2012 version] that is used as feedstock for qualifying renewable energy generation may well be subject to these Clauses.

Customers with currently operating TSAs who utilise their residues from Timber purchased under these currently operating TSAs for energy generation are not subject to Clauses relating to RECs.

Q: Is the native forest resource eligible for RECs?

A: VicForests cannot provide a warranty that native forest resource will attract Renewable Energy Certificates (REC) or equivalent under a Carbon Scheme.

At the current time, the Australian Government has tabled regulations under the Renewable Energy Target (RET) scheme to exclude native forest biomass from the RECs. However, this issue is still under consideration by the Australian Parliament through a notice to disallow the tabled regulations by Independent members. The eligibility of native forest biomass for RECs is due to be resolved by 21 March 2012. Ineligibility for RECs does not mean that native forest biomass is prohibited for bio-energy purposes. The Timber Industry Action Plan (Action 7.3) indicates that the Victorian government supports the use of native forest wood waste for energy production.



Q: How do proponents protect themselves from unforeseen changes in Renewable Energy legislation and policy?

A: VicForests encourages proponents to address all risks clearly in their proposal, and obtain their own legal and financial advice as well as take into account political risk.

In relation to RECs, proponents should carefully consider the risks associated with renewable energy projects particularly given that the relevant legislation is generally governed at a federal level.

If there are aspects of the Timber Sale Agreement, including those related to Renewable energy, that present obstacles to proponents, proponents are encouraged to document these in their proposals.

5. Log Export Proposals

Q: Will log export proposals be evaluated separately.

A: Proposals will be sorted into two categories - Domestic Processing and Log Export. Proposals for Domestic Processing will be evaluated first.

Any remaining resource would be considered for Log Export Proposals. Should this situation arise, VicForests will seek an exemption from the State Government's policy which currently precludes the export of log. The approval of Log Export Proposals is subject to VicForests' Board and Government approval.

Q: Given the prioritisation of Domestic Processing proposals, how will VicForests manage the evaluation of Log Export Proposals for the changes in available resources?

A: At its discretion, VicForests may invite proponents into negotiation if the quantities and specifications of the Timber remaining after allocation to domestic processors changes significantly from that described in the RFP.

6. Evaluation

Q: Will VicForests disclose their risk assessment?

A: The Proponent's responses to the questions in the RFP (Part E) will be considered in terms of the broad categories: monetary value, investment and innovation and risk. The risk assessment will therefore address such matters as: capability, markets, safety, community engagement, commercial capacity and the proponent's risk management strategies.

VicForests intends to release additional information about the evaluation process when it provides Registrants with Break-even pricing.

VicForests will not disclose the results of its evaluation.



7. Point of Sale

Q: If considering a stumpage proposal, would it be possible to transition contractors across from VicForests?

A: VicForests will honour its existing agreements with contractors. Where appropriate, transition arrangements may be negotiated between all relevant parties. Proponents may consider including transitioning plans in their proposals including pricing.

8. Agreements

Q: Can VicForests provide some guidance around the magnitude of the Reservation Fee and Milestone Payments applicable to the Timber Resource Reservation Agreement?

A: Milestone payments should reflect the cost to VicForests in planning, preparing for and reserving the Timber for sale. However, proponents should be aware that the RFP is a competitive process and a competing proponent offering a higher Milestone payment may be viewed more favourably.

The following may be used as an approximate and indicative guide to calculating the following:

(a) Milestone payments:

Milestone payment = average annual quantity x rate x time adjustment factor

Where:

Rate = \$ 0 .50 / tonne for logs of MSH or MSM specification
 = \$ 0 .20 / tonne for logs of MSR or MSN specification

Time adjustment factor is:

	Jan-Jun	Jul-Dec
2012/13	1.02	1.04
2013/14	1.07	1.11
2014/15	1.15	1.20

(b) Reservation Fee:

Reservation Fee = 2% x average annual quantity x average Delivered Price.

9. Registration

Q: The Registration period is currently open. If Registrants have already lodged their Registration can they update their registration in light of information provided in this Supplementary Information No. 1.



A: Yes. Registrants may submit a revised Registration by the Closing Time for Registrations. Registrants must state that the previous Registration no longer applies.

Disclaimer

*Registrants, Proponents and potential Registrants should not rely on any express or implied statement, warranty or representation whether oral, written, or otherwise made by or on behalf of VicForests, its officers, employees, agents or external consultants **other than:***

- *a statement, warranty or representation expressly contained in the RFP document (including any written document formally amending the RFP document) relating directly to the RFP Process; or*
- *a written statement of VicForests which forms part of the formal clarification process described in Part C, 8.3 which relates directly to the RFP Process, and to avoid any doubt, a Proponent may not rely on any statements relating to the availability of resources, log specifications and break-even pricing whether in the RFP or otherwise.*

Under no circumstances whatsoever, will VicForests be liable for any expense or loss that may be incurred by Registrants, Proponents or potential Registrants which arise (whether directly or indirectly) in relation to this RFP. VicForests has various rights in relation to the RFP and the RFP process as set out in Part C, 12.3 and Registrants, Proponents or potential Registrants should make themselves familiar with these.