18 July 2002

Ms Kanwaljit Kaur
General Manager, Gas Group
Australian Competition and Consumer Commission
PO Box 1199
DICKSON ACT 2602

BHP Billiton Petroleum Pty Ltd
600 Bourke Street
Melbourne Victoria 3000 Australia
GPO Box 86A
Melbourne Victoria 3001 Australia
Tel +61 3 9609 3333 Fax +61 3 9609 3015
bhpbilliton.com

Dear Ms Kaur

GasNet Access Arrangements Application

Please find attached BHP Billiton's third submission on GasNet's Access Arrangements application. This submission addresses the following aspects relating to the application: the K-factor mechanism; forecasts of demand and basin reserves, the 'feasibility' of the South West Pipeline (SWP) and the economic life of South West Pipeline.

BHP Billliton remains very concerned with GasNet's attempt to cross-subsidise the SWP and penalise the Longford-Melbourne assets and has provided further supporting material:-

- greater transparency in relation to the K-factor carryover mechanism is required and the additional information required is identified, to ensure that there is no opportunity for smearing of costs;
- the further review of forecast demand and reserves puts even greater doubt on the Saturn report conclusion of declining Gippsland reserves and GasNet's proposal to reduce the economic life of the Longford-Melbourne assets;
- additional analysis confirms that the SWP is unlikely to deliver significant volumes of gas into the PTS and will be an under-utliised pipeline; and
- there is no justification for the SWP to have an economic life any different from that of other GasNet assets.

BHP Billiton has previously formally requested the ACCC to consider whether the Access Arrangement Information provided by GasNet (and VENCorp) comply in full with Sections 2.6 and 2.7 of the Code. A considerable time has lapsed since the formal request was made and BHP Billiton is acutely concerned that this access review is proceeding without the information deficiencies being properly addressed.

The ACCC has a statutory duty to perform its access review in which it must not only consider the legitimate property rights of GasNet, but at the same time it must assure itself that customers and other stakeholders are protected from abuse of monopoly power and that access competition is promoted to the greatest extent possible.

Please also find attached the final version of the "Comment on WACC Proposals by GasNet Australia" prepared by Pareto Associates Pty Ltd including a listing of the differences between the final version and that included in our second submission of 21 June 2002.

If there are any questions regarding this submission, please do not hesitate to contact me on (03) 9652 6800.

Yours sincerely,

David Murphy
Gas Marketing Manager

BHP BILLITON SUBMISSION

ON

GASNET ACCESS ARRANGEMENTS APPLICATION

COMMENTS ON

- ***K-Factor Mechanism***
- ***Forecasts of Demand and Basin Reserves***
- ***'Feasibility' of the South West Pipeline***
- ***The Economic Life of South West Pipeline***

19th July 2002

A. Comments on the K-factor carryover approach

GasNet was granted an ability to offset under-recovery of revenue due to lower than expected gas transport volume, by use of the K-factor carryover mechanism. GasNet has included in its revenue requirement for the new access arrangement an amount representing their estimate of the K-factor carry forward. GasNet has required as a "fixed principle" the continuation of this practice. This K-factor carryover is not a common practice with other gas transport systems.

Of concern is the ability of GasNet to reduce the cost reflective requirements of the Gas Code, by use of this mechanism.

1. The general principle for the K-factor carryover is that GasNet is allowed to recover its forecasted average tariff for each year in the access period. The table below, calculated for a simple two zone system, shows some gross inequalities in the application of K-factor.

		Zone A	Zone B	Total	Average tariff $/GJ
Forecast	Revenue $ Gas volume GJ	10 30	90 20	100 50	2.00
Case 1	Actual revenue $ Actual volume GJ	5 15	90 20	95 35	2.71
Case 2	Actual revenue $ Actual volume GJ	10 30	45 10	55 40	1.38
Case 3	Actual revenue $ Actual volume GJ	20 60	90 20	110 80	1.38
Case 4	Actual revenue $ Actual volume GJ	10 30	180 40	190 70	2.71

   In all the cases above, there is a clear variance between the actual and forecasted volumes. Yet the K-factor adjustment will only apply in some of the cases. The inequality in the K-factor is magnified in Case 3 where the actual revenue collected for a zone and total revenue for the system is more than forecasted due to higher gas volumes. This example demonstrates an instance where applying the K-factor disadvantages all users of the system and allows GasNet to obtain windfall gains. The K-factor is clearly not designed to recognize and adjust for gains or losses generated by individual injection and withdrawal zones.

2. However, the Gas Code states that cost allocation must be cost reflective, based on the principle that the user should pay for that part of the system used. Thus, within the tariff design there is every expectation that some zones will over-recover and others under-recover their share of the revenue stream permitted by the ACCC. Further, as there is currently no clear way of identifying where the individual tariffs may not be recovering revenue appropriately, the

allocation of any gross adjustment as identified by the K-factor, will perforce be imprecise.

3. As a result of this imprecision at individual tariff level there is a strong potential for cross subsidies to be built into the tariff structure, as well as for cross subsidies to develop resulting from allocation of the gross adjustment. This second possibility for cross subsidy has been identified in BHP Billiton's 21 June submission.

4. To avoid the potential for inbuilt cross subsidies, the Gas Code requires the service provider to demonstrate the cost allocation mechanism between zones, and to provide the costs used to develop the tariffs in each zone. This has not been done by the access applicant. GasNet alleges that it is not required to provide these figures, but equally the Gas Code does not specifically allow GasNet to build into its tariff structure a mechanism to protect it from incorrectly forecast volumes. If GasNet wishes this protection, it must be prepared to allow interested parties to be satisfied that the initial tariff structure is appropriate. Failure to do so, provides GasNet with the opportunity to actively bias the tariffs, with the knowledge that it has the ability to recover gross anomalies in volumes forecasted.

5. A particular concern with regard to injection tariffs and K-factor adjustments is that SWP and WTS are to be ring-fenced from PTS. As much of the gas flow from WUGs is gas injection sourced from Longford and therefore needs to be "netted off" against injection at Longford, extreme care must be taken to ensure the causes of the need for the K-factor adjustments are identified for each of the three independent elements of the GasNet system. Failure to do so may result in an incorrect allocation of the K-factor adjustment.

6. A simple analogy will be to compare the Longford and SWP injection zone with Zone A and Zone B of the example above. We are of the view that the required tariff for the SWP injection zone will potentially be higher than that required for the Longford injection zone (see below). We have also expressed our expectation that the injection volumes through the SWP will be much less than anticipated. Any shortfall in SWP revenue will create a situation similar to Case 2 where there is a gas shortfall in a high tariff zone. In such a situation, as demonstrated by the above example, a K-factor correction would apply and there would be a cross subsidization by stealth with the Longford injection system and all the rest of the other users paying for the cost of the SWP.

7. BHP Billiton considers that the inequalities identified can be reasonably addressed by ring-fencing the K-factor application to each withdrawal and injection zone. This would mean that the average tariff for each zone would be calculated and the K-factor correction applied only to zones that recover an actual average tariff less than forecasted. In the example above, none of the cases would be eligible for a K-factor

correction under this proposal. The ring-fence would be consistent with the user pays principle.

8. While this is an ideal proposal, it may be impractical to implement such a system as some withdrawal zones at the root of the transmission system would pass through gas to other end zones and be affected by any variance between the forecasted and actual gas volumes in the end zone.

9. A more practical approach would be to ring-fence the 5 injection zones and a single withdrawal zone. Thus, the K-factor would be calculated for each injection zone and a single K-factor also calculated for all withdrawal zones.

10. Further we reiterate the observation made in our earlier submission: the K-factor adjustment moves some risk from GasNet and places it with consumers. As a result the WACC granted GasNet by ACCC must reflect this risk reduction and be further reduced below WACC's calculated on an equivalent basis and granted to gas transmission systems, which do not have this revenue protection.

The ACCC must prevent the potential for cross subsidization by stealth through the K-factor correction. The ring-fence of the K-factor calculation to each zone would mitigate this issue, however, this may be impractical to implement. Therefore, as a minimum, the ring-fence should be applied to each of the injection zones and a single consolidated withdrawal zone.

B. The Supply/Demand gas balance - the Longford-Melbourne elements of GasNet should not be depreciated more quickly

In its access application, GasNet sought to increase the Longford-Melbourne tariffs and reduce the SWP tariffs, by arguing that the supply of gas from Longford would cease early in the 2020's, resulting in those assets related to the Longford plant having an economic life shorter than their technical life. GasNet also argued that SWP assets would have an economic life matching their technical life.

To support its contention GasNet (through the Saturn report) made some predictions which on deeper analysis are clearly flawed

<u>General Observations on demand growth</u>

1. In BHP Billiton's submission of 21 June 2002 to the ACCC, we assessed that the demand forecasts of ABARE and NIEIR were too high and that they exceeded the views of both VENCorp and GasNet (see GasNet's forecasts used for tariff setting). It should be noted that both ABARE and NIEIR have disclaimers with regard to their forecasts. These are that they are based on unconstrained gas supplies being

available (ABARE research report 01.11, October 2001, page 20, and NIEIR 1999 report 'Natural gas consumption in Australia to 2015', page 10).

The ABARE report makes the disclaimer that "…no assumptions have been made about … source or … timing of … pipeline developments (r)ather … that there are sufficient resources available to service the … demand". NIEIR takes a similar approach and as a result both sets of forecasts must be considered as at the high end, and somewhat optimistic, as there will always be constraints in supply infrastructure which will dampen demand growth. A recent example of this concerns the development of the PNG gas supply and the PNG gas pipeline. A review of the demand forecasts for this pipeline development shows that the short term demand requirements have been consistently overstated.

2. The NIEIR forecast for SA, NSW, Tasmania, Victoria and Queensland shows a demand of 1162 PJ/a by 2015, while the ABARE forecast is for 901 PJ/a, for the same period. In BHP Billiton's submission, we raised concerns as to the reliability of these forecasts and the conclusions drawn from them.

3. Mr Grant King, Managing Director of Origin Energy had observed in a presentation made on 6 March 2002[1] that:-

> Significant past and potential investment in the gas industry has been based on overly optimistic forecasts and may therefore be stranded for many years.

In commenting on the reduction in ABARE's forecasts made in 1997 for year 2004 and revised in 2001 he pointed out that:-

> (for the year) 2004 (the) difference in forecasts is over 400 PJ per annum.

He concluded that:-

> unrealistic forecasts for gas demand have led to a view that eastern Australia was facing a tightening of gas supply.

With senior industry figures of the stature of Mr King throwing doubt on ABARE's (and other) forecasts, the point that we would emphasise is that care should be exercised by the ACCC in assessing future gas demand forecasts, thereby reinforcing the view we put in our earlier submission that the ABARE and NIEIR forecasts should be considered optimistic.

[1] Presentation to ABARE Outlook 2002. See (www.orginenergy.com.au/investor/investor.php?page=55)

4. In addition to Mr King of Origin Energy, a number of other gas producers (whose core business is the sale of gas) have also cast serious doubts on the ABARE and NIEIR forecasts:-
    a. In its CSLA investor pack presentation document for 23 May 2002[2], Santos estimates eastern Australia gas demand should only reach 900 PJ/a by 2020, and indicates estimated usage of less than 800 PJ/a in 2015.
    b. In its forecast of eastern Australia demand Mr David Maxwell of Woodside Energy (SEAAOC presentation June 2002[3]) suggests the eastern Australia demand to be around 750 PJ/a by 2020.
    c. Mr Mike Weill of BHP Billiton Petroleum (UBS Warburg Resources Conference - 8th May 2002[4]) has forecast that eastern Australia base case demand should reach 700PJ/a by 2020 and might reach near 900 PJ/a in a high growth scenario.

    Overall, the assessment of industry experts' demand growth forecasts indicates an overall rate of growth for NSW, SA, Vic, Tasmania and Queensland averaging about 2% pa, closely matching the historical growth in demand for natural gas. The demand forecasts by ABARE and NIEIR (relied upon by GasNet) are too high, particularly in the context of their assumptions concerning pipeline developments.

General Observations on Reserves

1. In its earlier submission, BHP Billition noted that reserves were often only proven to provide about 8-12 years of forecast demand based on current usage. In its paper "Victorian and other eastern state gas supplies: 1999-2025", published in 1999, VENCorp noted:-

    > To illustrate the point we note that in 1977, gas reserves in the Gippsland Basin as at 31 March 1977 were stated by the Bureau of Mineral Resources (forerunner of BRS) … and [compared] … with BRS 1995 estimates …
    > This data indicates Gippsland Basin reserves, allowing for different reserve definitions have remained about the same over the period 1977-1995, a period when over 3,000 PJ of gas have been extracted from the basin.

    VENCorp further stated that:-

    > The situation for Australia as a whole [indicates] that between 1972 and 1992 both production and remaining reserves have risen substantially. Analytical groups such as NIEIR are in a dilemma when faced with this "evidence" and the need to model and analyse the future supply of a depletable resource.

[2] See (www.santos.com.au/v1/news/present/default.asp)
[3] See (www.investor.woodside.com.au/Presentations+Speeches+Publications/Overview)
[4] See (http://www.bhpbilliton.com/bbContentRepository/Presentations/UBSWarburgConfMikeWeill.pdf)

> [T]he ultimate depletion date for Gippsland Basin fields will significantly affect long term gas costs to major Victorian markets. Thus, even the highest cost (on current estimates) reserves (Angler/Anemone) from Gippsland would, because of their location, provide lower cost (real resource cost basis) market gas than gas from other basins.

To amplify on this point it is worth highlighting that permit holders in the Gippsland basin are currently seeking further reserves and BHP/Esso is spending in excess of A$50 million on Northern Margin seismic acquisition and interpretation.

2. Mr Grant King of Origin Energy in his presentation (cited earlier) observed:-

> The view that eastern Australia may be running short of gas is however more to do with industry structure prior to deregulation. [Prior to deregulation] there was therefore no incentive to explore for gas. Consequently the southern basins have remained under-explored compared to other producing basins. However recent exploration and development programs are significantly changing the view of available resources.

3. In its report annexed to the GasNet submission, Saturn suggests proven reserves in SE Australia (Gippsland, Bass, Otway and Cooper basins) of about 13,300 PJ and "actual" reserves of some 25,000 PJ. (Of these, Gippsland is seen to provide 12,000 PJ of "actual reserves" whereas VENCorp in its report indicates that Gippsland is seen to have 16,000 PJ of "enhanced reserves" - nearly doubling the level of "unproven reserves" in the Gippsland basin estimated by Saturn).

4. In comparison to Saturn, Mr Grant King of Origin Energy in his presentation (cited earlier) suggested eastern Australian "actual" gas reserves of 37,200 PJ including some 15,000 PJ of coal seam methane (csm) and proven reserves of 13,300 PJ.

   He commented:-

> A conservative forecast of reserves cover for the eastern Australian market would therefore be 16-30 years, and possibly up to 60 years.

5. Woodside in its presentation (cited earlier) clearly indicated that there will be an increasing supply of gas from Gippsland through the early years of this decade, but more tellingly assessed production from Gippsland as still at the same level as now. This would imply a total supply from Gippsland from now to 2020 of some 4,000-4,400 PJ, compared to the Saturn estimate of 8,000 PJ for the same period. The Woodside assessment when combined with reserve increase

expectations would take the expected life of Gippsland basin beyond 2050.

6. In their presentations, both Santos and BHP Billiton indicate that reserves in eastern Australia are depleting, with Santos indicating the start of the decline from the later part of this decade, and BHP Billiton indicating the decline starting in the middle of the next decade. Notwithstanding these forecasts, both forecasts show or imply that existing basins will still be supplying gas after 2020 (2025 in the case of Santos). The BHP Billiton forecast shows that Otway and Yolla fields could well be exhausted prior to the Gippsland basin.

BHP Billiton submits that the conclusions that can be drawn from the published data on reserve forecasts are:-

a. Gas supply companies tend to understate reserves for valid commercial (and other) reasons.
b. Historically, gas reserves have increased or matched supply even when growth in the demand for the gas increases.
c. New gas supplies are being discovered which will reduce the demand on existing reserves. In particular, coal seam methane (csm) supply growth (refer to recent contracts for csm supply to Townsville power station and Australian Magnesium Corporation at Stanwell) could impact on the life of Cooper basin, with a cascaded effect onto NSW gas sales from Gippsland.
d. Contracts in place for gas supply to South Australia will reduce Otway basin as a source for gas into Victoria, and the recent article (AFR 15/7/02) on TXU building a pipeline (in addition to the SEAGas Pipeline) from Otway to Adelaide to supply the TXU SA electricity generation plant, reinforces this point.

There is no doubt that there is significant imprecision in forecasting gas demand and gas reserves, but the assumptions underlying the Saturn report would seem to overstate the expected demand for gas in the eastern States, and at the same time, understate the potential reserves of natural gas to meet demand in the southeastern States.

In its 21 June submission to the ACCC, BHP Billiton highlighted that the workings of the Saturn report were flawed, and therefore the conclusions drawn are invalid[5]. The review of demand and reserves undertaken in this further submission puts even greater doubt on the Saturn conclusion that GasNet should reduce the economic life of its Longford-Melbourne assets. In fact, the review indicates that the assets will still be in use in 2030, longer than the current proposed depreciation rate implies.

This review also reinforces the comment made in the 21 June BHP Billiton submission that in order for the forecast gas demand in Melbourne to be met, the Longford-Melbourne gas transmission assets will have to be augmented, as the vast majority of available gas from Otway is being contracted to SA based users.

C. The feasibility test for the South West Pipeline (SWP)

GasNet has previously applied to the ACCC for SWP assets to be approved as needed, that they are economic and feasible, and therefore to be rolled into the PTS. Rightly, the ACCC rejected this application. In its current access application, GasNet has suggested that SWP is feasible and should be incorporated Into the access arrangement for PTS.

In its 21 June submission to the ACCC BHP Billiton indicated that SWP is not feasible and has stated concerns that GasNet may attempt to enhance SWP revenue from other parts of the GasNet system.

1. SWP has been stated as being "feasible" due to the forecast high gas demands in Victoria, and the declining ability of Gippsland basin to provide for the increased demand. As noted above, the overall Victorian demand beyond 2030 (when not using overstated expectations) could well be satisfied by supply from the Gippsland and Bass basins. On this scenario, only when there is a major daily demand spike, will there be a need for supply augmentation.

2. The only new offshore gas field capable of supplying gas from Otway is Minerva. In any case, Minerva gas will not be available from the start of this access arrangement but from 2004. Woodside has noted in its Investor Road Show 11/2001 that the earliest supply of gas from Geographe and Thylacine will flow in mid-2006. Thus, there is little gas

[5] BHP Billiton has stated in the submission the rationale behind this assertion, and is prepared to discuss the outworkings with the ACCC if necessary.

available from Otway for the next 5 years, to support the assertion that SWP will be a significant supplier to the Melbourne market.

3. A review of the planned gas flows from the Otway basin reveals:-

    a. Current contracts for gas from Minerva (BHP Billiton press release 15 May 2002) show that gas from this basin is destined for the SA power generation market.
    b. The small amounts of uncommitted gas from Minerva will be insufficient to demonstrate SWP feasibility, as even at maximum output (which the BHP Billiton press release states will not be the case), this would deplete uncommitted reserves in less than 3 years.
    c. A subsequent news report (AFR 15/07/02) regarding TXU indicates that more gas from Otway (Woodside's Geographe and Thylacine fields) will be destined for TXU's power stations in Adelaide.
    d. Should these supplies be late (TXU needs a new gas contract for its power station from 2004/05), then there is the potential that TXU could use its underground gas storage as an interim supply point, and gas will flow to South Australia from WUGs rather than towards Melbourne.
    e. Origin Energy, in addition to being a partner in the Geographe and Thylacine fields of Otway basin, is a 50% developer of the Otway to Adelaide pipeline. Origin also is a shareholder in gas fired power stations in SA and the dominant SA gas retailer. We believe that there is little doubt that Origin will transfer much of its gas from Otway to serve its SA-based needs to further under-pin its market position.
    f. TXU and GasNet are part of the Southern Gas Pipeline project consortium which plans to build a pipeline from Port Campbell to South Australia.
        i. Despite a competing pipeline, SEAGas pipeline, securing approvals in May 2002, there is no indication that either TXU or GasNet intends to exit from the project (in fact the contrary situation seems to be the case), thus indicating GasNet's commitment towards directing Otway gas towards the SA market in the near to medium term.
        ii. GasNet in Chapter 4:Project Rationale of the pipeline EIR indicates that "Customers of the Southern Gas Pipeline will source gas primarily from existing and potential gas reserves in the Victorian and South Australian sectors of the Otway basin" (Page 21, Section 4.2.3).
    g. The SA government (as are major gas users in the State) is keen to promote an alternate source of gas (other than Cooper basin) and mitigate the state's dependence on a single gas supply via a single pipeline from Moomba.
    h. Supplying gas from Otway to SA, will reduce the demand for gas from Cooper basin allowing greater flow to NSW, increasing pressure on sales of Gippsland gas into the NSW market and reducing the depletion rate from Gippsland. Moreover,

prospective substantial transportation reference tariff reductions on the EAPL pipeline will put some pressure on sales of Gippsland gas into NSW (see ACCC draft decision on the EAPL access arrangements application).

Overall, there is little or no indication that gas flows from Otway in the near term (up to 2010) are destined for the Victorian gas markets.

4. In its Environmental Impact Report of its proposed Southern Gas Pipeline (SGP) from Otway to Adelaide, GasNet opines that as gas supplies (in the medium to long term) are depleted in the Victorian basins, gas flows will reverse on SGP delivering gas from the Moomba gas hub, implying that SWP will then become the dominant supply transmission pipeline for the Melbourne gas market. Significantly, this overlooks the fact that the pipeline from Moomba to Adelaide (Epic) is currently already often constrained even when it is supplying just the Adelaide demand. Thus, there will be little capacity on the Epic pipeline for gas to then transfer to Victoria via the SGP, unless the Epic pipeline is duplicated. For SWP to be able to deliver gas from the northern gas fields, therefore, is reasonably unlikely, even when viewed over the long term.

5. However, as northern gas becomes commercially available from the Moomba gas hub, flows of this gas will initially more likely follow flows along EAPL and EGP, delivering gas adjacent to Longford. It is likely that some strengthening of the interconnection at Culcairn may eventuate, but this option does require major augmentation of the GasNet system from northern Victoria to Melbourne in order to provide for the Melbourne demand.

6. As we suggested in our submission, when the Victorian supply is near depleted and unable to meet the Victorian demand, then either there will be major upgrades of GasNet's systems and the EGP and duplication of Epic, or more likely, there will be a new pipeline coming directly from the Moomba hub, perhaps using part of EAPL. Such a new pipeline would most likely come into Melbourne from the north or west, requiring Gippsland to provide any material underground storage needs.

7. For the access arrangement period (2003-08), SWP will have a source of gas either from Lara (ex the PTS) or from Otway (WUGs and Minerva). There may be an additional source of gas from Geographe and Thylacine during the last year of the regulatory period.

   The operation of WUGs is limited, but averaging the injections to SWP over 2000 and 2001, an annual injection rate of ~14 PJ might apply. To this might be added 15 TJ/d for (say) 2 months from Minerva, giving a total of some 15 PJ/a flow on SWP towards Melbourne.

It is noted that GasNet has valued SWP at $85 million[6] and requests a "real" WACC of 8.22%, which equates to about an 11% nominal return, "costing" $9.35 million pa. GasNet has requested an opex allowance of $21.9 million[7] over all GasNet assets which when prorated over the length of GasNet assets gives an SWP opex allocation of $1.7 million, with economic depreciation (at 2% pa[8]) adding another $1.7 million to SWP costs. In all, the required return of the SWP requires a revenue stream of $12.75 million pa. Spreading this amount over 15 PJ of flow, results in a required transmission tariff *for all gas flowing* of some 85 cents/GJ over the spot price for Victorian gas.

As WUGs was emptied during 2000 and GasNet is of the view that there is a "Melbourne warming" trend resulting in lower peak gas demand, there is an expectation that the 2001 WUGs injection into PTS is a closer average figure. Using this amount the SWP tariff would need to climb to $1.20/GJ for every GJ of gas flowing!

8. In its submission, GasNet has stated that SWP is needed for peak injections of gas and to transport gas from Otway into the Victorian market. The above observations cast considerable doubt on the use of SWP for transporting Otway gas into the Melbourne market. However, the apparent need for SWP and WUGS is a recent phenomenon, as prior to 2000, all gas demand was satisfied from Longford. Esso/BHP have demonstrated that Longford has greater capacity[9] than the current ability of GasNet to transport the gas into the Melbourne market. Based on the projected demand for the Victorian gas market, GasNet will have to provide additional capacity from Longford to Melbourne and in doing so will add line pack to the system. Should it be needed, peaking underground storage can be provided in the Gippsland basin, and this can supply the required peaking demand, using the enlarged GasNet Longford delivery system.

[6] 2003 value. This is calculated from the discounted $75.5M SWP base allowance (page 35 GasNet submission) escalated in accordance with table 5.2 of GasNet submission.
[7] Sum of costs in table 8.1 of GasNet submission. This excludes the pass through charges separately detailed by GasNet.
[8] Saturn report point 33, page 13.
[9] Longford is currently able to provide gas into the NSW market and proposes to provide gas to the Tasmanian market

The use of SWP for transport of gas for more than the occasional peak injection into the PTS is seen as nothing more than a remote possibility during the term of the access arrangement.

There are also real concerns that in the medium to long term SWP is unlikely to deliver significant volumes of gas into the PTS.

Notwithstanding our statements in our submission on SWP roll-in on 17 January 2001, the real cost to transport gas from Otway to PTS is assessed as uneconomic and at best partially, if not fully, redundant, based on new pipelines being proposed to convey Otway gas to South Australia. Therefore, we do not believe that GasNet has made a case for inclusion of SWP on the basis of economic feasibility. Furthermore there are significant concerns that GasNet is attempting to cross subsidise SWP using GasNet's profitable gas transport operations, specifically the Longford- Melbourne elements.

D. Economic life of South West Pipeline

In its access application, GasNet attempts to make a case that SWP assets should be depreciated over a longer life than Longford related assets. The purpose for this longer depreciation is to reduce the capital recovery rate needed on SWP and thus reduce the true annual cost the SWP should recover

1. GasNet has submitted that the SWP be accorded a longer life due to its recent construction date and BHP Billiton would be in agreement with the fact that the SWP should have a longer technical life, based purely on the age of the asset.

2. However, consistent with the principles of GasNet's submission that the depreciation of the asset should be based on economic life, we do not see any reason that the SWP should have a longer economic life than the Longford injection system.

3. All the literature on remaining reserves referenced earlier suggests that the remaining reserves in the Gippsland Basin are 2 to 3 times larger than remaining reserves in Otway. Further, there will be two pipelines to convey Otway Basin gas to South Australia, with the second pipeline well advanced in its planning stages. This, together with the potential for Otway Basin to meet gas demand in the rest of the Eastern Australian states would indicate that the reserves in the Otway Basin would be depleted as fast, if not faster, than reserves in the Gippsland Basin. Consequently, the economic life of both assets should be at least the same, if not longer for the Longford-Melbourne assets.

4. Another justification used by GasNet for extending the life of the SWP is that there is long term value in the connection between the metropolitan area and WUGs. This is a weak argument as it is unlikely that the SWP will be in use for anything other than a peak injection into

the PTS system **and** it is just one of many potential scenarios. BHP Billiton could postulate a scenario where some of the Gippsland Basin producers would serve as gas storage in competition with WUGs, thus forcing WUGs to only serve the other eastern Australian States, in which instance, the WUGs and consequently the SWP would not have any peak injection role.

While the SWP may have a longer technical life than other PTS assets, there is no justification for the SWP to have an economic life for depreciation any different from that of the other GasNet assets.