



**BALLERA TO WALLUMBILLA NATURAL GAS PIPELINE  
(South West Queensland Pipeline)**

**SUBMISSION#2  
RESPONSE TO THIRD PARTY SUBMISSIONS ON  
ACCC ISSUES PAPER**

**PUBLIC VERSION**

**AUGUST 2004**

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## 1. Introduction

- 1.1 On 16 August 2004, the ACCC issued the following notice to interested stakeholders:

*The ACCC has recently received a submission from Epic in addition to two submissions from other stakeholders (see attachments). The ACCC is seeking to test the submissions through further public consultation and therefore invites interested parties to comment by COB Monday 23 August 2004.*

- 1.2 On 17 August 2004, Epic Energy met with staff of the ACCC to discuss particular aspects of Epic Energy's Submission #1, filed with the ACCC on 6 August 2004.

- 1.3 On 18 August, a further submission was made – by Energex.

- 1.4 The purposes of this submission is therefore twofold:

- (a) to respond to particular statements made in the submissions made by BHP, Xstrata and Energex; and
- (b) to provide further information as foreshadowed in the 17 August 2004 meeting.

- 1.5 Before doing so however, Epic Energy questions the appropriateness of creating a further public consultation period simply to "test the submissions". While it is acknowledged that the Code allows the Regulator to have public consultation periods additional to those expressly provided for in the Code, Epic Energy submits the following reasons as to why the ACCC's additional public consultation period is inappropriate in these circumstances:

- It is the proposed revised access arrangement that is to be assessed and submissions should primarily be made on it. It is inappropriate for parties to delay the making of a submission and in effect make submissions on submissions just because the Service Provider's submission was not made immediately when the revised access arrangement was lodged.
- The fact that parties do not make submissions within the prescribed consultation periods does not mean that any "late" submissions are unable to be considered. The ACCC has the discretion to consider them. In the interests of efficient regulatory assessment processes, parties should be encouraged to make submissions within the time frame envisaged by the Code.
- The fact that few submissions are received should not be a justification to extend the public consultation process. Rather, it should be seen for what it is – the relative lack of stakeholder involvement should mean that there is little concern in the market with the proposed revised access arrangement.

- 1.6 Notwithstanding the above, Epic Energy understands from discussions with staff of the ACCC that 2 other parties have indicated their intention to make submissions in connection with the proposed revised access arrangement. Given that the public consultation process has only been extended until 23 August 2004 and as at the date of this submission, these other submission are yet to be made publicly available, and that these submissions are likely to directly affect Epic Energy's legitimate business interests, Epic Energy reserves its right to make a further submission in response to these other submissions within a reasonable time following the closure of the extended public consultation process if these other submissions are made publicly available.
- 1.7 Epic Energy would be pleased to discuss this submission or any aspect of the proposed revisions with the Regulator.

## **2. Response to BHP Submission<sup>1</sup>**

2.1 The BHP Submission raises the following issues:

- It opposes the proposed removal of all AFT services on the basis that it *may* prove to be important in developing coal seam methane resources which are expected in the future (*perhaps* the near future).
- It is inappropriate to wait until competitive gas in significant volumes is available before implementing AFT Services in the access arrangement because this gives rise to price uncertainty for the North West Queensland Market, therefore curtailing or even eliminating the ability of these new sources to compete with existing sources.
- It does not support amendments to the terms and conditions to the extent that they are consequential to other amendments which it does not support
- any extensions or expansions of the SWQP should be covered under the Code, given the strategic positioning of the SWQP potentially connecting northern, western and eastern markets. It seeks to justify this position by claiming that:
  - previous experience has shown the absence of regulation of any key extension or expansion would permit anti-competitive outcomes; and
  - the derogations are limited by reference to the capacity of the pipeline.
- It opposes the removal of the major events review trigger for the following reasons:
  - There are predicted to be substantial changes to pipeline systems over the access arrangement period, particularly as a result of potential gas suppliers from the North West and from Papua New Guinea.
  - Epic Energy invested on the basis of the current arrangements (presumably the AFT Services and tariffs)

2.2 Epic Energy comments on each of these issues in turn.

*Removal of AFT Services as reference services and its impact on the development of coal seam methane resources*

2.3 As a preliminary point it is noted that the submission contends (although it is noted that there is no evidence to substantiate or rebut this contention) that

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<sup>1</sup> BHP Minerals Pty Ltd Submission to the ACCC in relation to the proposed revisions to the SWQP Access Arrangement, dated 10 August 2004.

there is a very low probability of the development of coal seam methane reserves in the near future, particularly during the access arrangement period. Furthermore, it is noted that the submission asserts (once again without substantiation) that presence of AFT Services “may” be important in developing these gas reserves. Epic Energy submits that this is not relevant to the test for determining whether a service should be a reference service – the test is whether a service is likely to be sought by a significant part of the market not whether the service is important to the development of gas reserves in an upstream market.

- 2.4 However, even if it is relevant (which Epic Energy disputes), the test for a reference service is not satisfied because the submission asserts there is only a low probability (by use of the term “may”) of the ability of these services to develop the coal seam methane
- 2.5 There has been a substantial degree of independent supply side analysis undertaken in recent times, including the ABARE report and analysis undertaken by Epic and its owners. It is generally acknowledged that Australia’s coal seam methane gas reserves could play an important role in the ability to meet projected growth in demand. However, it is also acknowledged that the role it will play is likely to be temporary in nature, to bridge the gap between the decline in production of the Cooper Basin reserves and the commissioning of commercial gas flows from at least one northern Australian gas reserve (expected by many analysts to occur between 2011 and 2015).
- 2.6 In addition to the above, all of these reports conclude that the key to the development of Queensland’s coal seam methane reserves will be its pricing competitiveness against other reserves such as the Cooper Basin.
- 2.7 By way of background, concerted efforts to explore for and exploit CSM reserves commenced in the Bowen Basin in the late 1980s. Australia’s level of production of CSM is small (relative to other gas and also relative to other jurisdictions such as USA). While production has grown strongly in recent years, particularly in Queensland where around 30PJ/a (approximately 30% of State demand) is currently sourced from coal seams, the industry has had a sometimes-difficult history. There are several reasons for this:
- The Australian CSM industry has not enjoyed any major tax concessions like was the case in the USA (which was the predominant driver for the growth in CSM production in the USA).
  - Different fundamental geological conditions (coal type, rank, permeability, stress regimes, post-depositional history) in Australia compared to the USA have meant that techniques routinely used in the US have not always achieved the same performance levels in Australia.
  - Basic cost structures associated with drilling and production are not as favourable as in the US.

- CSM has had to compete against traditional Cooper Basin reserves which have had in place large volume, long term contracts supplying small immature markets, particularly in Queensland.
- 2.8 While there is no doubt that the coal measures of eastern Australia contain large quantities of methane gas, it is not yet clear how much of this resource can ultimately be translated into certified reserves able to be produced economically.
- 2.9 Estimated proven and probable (2P) reserves of CSM in Eastern Australia are presently limited to around 2,000PJ, with about 900PJ currently subject to some form of sales agreement<sup>2</sup>.
- 2.10 There are currently seven CSM projects in Queensland that are selling, or have contracted to sell, commercial quantities of gas. Other CSM explorers have entered into conditional gas sales agreements subject to further technical evaluation and feasibility studies (See the table below). This is so based on the current position with AFT Services and the AFT Tariffs, [deleted – confidential].
- 2.11 Estimating possible future levels of CSM production is subject to significant uncertainty and critically dependent on commercial viability of expansions to current projects and of undeveloped but identified resources. A wide range of technical and commercial factors impact on the viability of CSM production, including well capital and operating costs, average production rates, gas content of the coal, porosity and permeability of the seams, depth and pressure regimes; well-head production pressures; geographic location, particularly proximity to markets and infrastructure; amount and quality of water for disposal.

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<sup>2</sup> Information compiled from company reports and other published sources.

#### Current and prospective CSM projects

Project	Principal participant companies	Current status/contracts	Estimate of current/(future sales)
<b>Queensland</b>			<i>PJ per annum</i>
<i>Bowen Basin - Comet Ridge (Fairview)-</i>	Tipperary Corporation/Origin	Commenced production in 1996. Contract with Energex – does not use the SWQP	5
		Contract with Origin for supply to AGL from 2007 – Delivered via the SWAP.	(15 from 2007).
		Contract with Origin for supply to QAL for 15 years, from 2007 – does not use the SWQP	(11 to 13P from 2007)
		Contract with Energex for supply to Comalco Alumina Refinery, for 10 years from late 2004 – Does not use the SWQP	(4 from late 2004)
<i>Bowen Basin - Dawson Valley</i>	Origin/OCA	Energex for supply to Dyno Nobel ammonia nitrate plant at Moura and other markets in the Gladstone Rockhampton area – does not use the SWQP.	4
<i>Bowen Basin - Peat</i>	Origin/OCA	Commenced in 2001. Supply to BP Bulwar Island cogeneration plant – does not use the SWQP.	8
<i>Bowen Basin - Scotia</i>	Santos	Commenced in 2002. CS Energy for supply to Swanbank power station – commenced in May 2002 – does not use the SWQP.	10
<i>Bowen Basin - Moura</i>	Mitsui Coal Holdings/Anglo Coal	Sells gas into the Alinta pipeline to customers in the Gladstone/Rockhampton area – does not use the SWQP.	3 (6)
<i>Bowen Basin – Moranbah</i>	CH4/BHP Coal	Contract with Enertrade to supply Yabulu Power Station in Townsville from 2005 and other customers through Enertrade – does not use the SWQP.	Up to 20 with first sales commencing in 2005.
<i>Surat Basin</i>	QGC	Testing underway in several areas in the basin. QGC has provided CS Energy with an entitlement to purchase around 4PJ per annum for 15 years from its Berwyndale south development.	4-6 commencing around 2005.
<i>Surat Basin – Kogan South</i>	Arrow Energy	Pilot production project at Kogan North between Dalby and Chinchilla underway.	

Data source: Based on published reports.

#### Current CSM 2P Reserves, Production and Contracted Volumes

Company	2P Reserves (PJ)	Commercial Production (PJ/a)	PJ subject to Sales Agreement
OCA/Origin	471	11	295
Tipperary	1051	7	195+
CH4 Gas	106	9.5	145
Sydney Gas	65	1	145
Queensland Gas Company	79	Nil	90
Sunshine Gas	Nil	Nil	Nil
Molopo	74	Nil	Nil
Arrow Energy	83	Nil	16
Eastern Star	9-11	Nil	9
<b>TOTAL</b>	<b>1940</b>	<b>20.5</b>	<b>895</b>

- 2.12 Notwithstanding the above, Epic Energy is of the view that it is the signing of the SWAP agreement between the Cooper Basin Producers and Origin Energy that has the potential to act as the most significant barrier to the development of coal seam methane gas by producers other than Origin for supply to the South East Australian market via the SWQP. This is outlined in detail in Epic Energy's submission #1.
- 2.13 To the extent that there is a likelihood that a significant amount of coal seam methane gas reserves are to be delivered to markets via the SWQP during the access arrangement period, Epic Energy considers that its ability to exert undue market power is negated to a large extent by the further potential for bypass risk materialising with the construction of a pipeline from Wallumbilla to NSW and the connection of a northern Australian gas supply connecting at either Moomba or Ballera. While Epic Energy does not believe that these possibilities are likely to eventuate during the access arrangement period, they will act as a substantial threat to Epic Energy thus making it difficult if not impossible for Epic Energy to exert any market power.

*Inappropriate to wait for competitively priced gas to become available before setting AFT Services as Reference Services*

- 2.14 In addition to the comments above in relation to the SWAP agreement, Epic Energy submits that there exists another issue beyond its control which will need to be overcome before competitively priced gas can become available and that this must be overcome regardless of whether there is a backhaul service as a reference service or not. This relates to the capacity of the interconnector between the SWQP and the CGP.
- 2.15 The following is important to understand in connection with the interconnector:
- The interconnector is not part of the covered pipeline of the SWQP. It was built by Epic Energy but funded by [deleted – confidential]. Attachment 1 is a schematic of the Ballera facilities, including the interconnector.
  - The current capacity of the interconnector is fully contracted to [deleted – confidential] until 2005. In addition, Energex has 2 options over the capacity of 5 years each. [deleted – confidential]. Accordingly there was no purpose in including it as part of the covered pipeline during the original access arrangement.
  - Moreover, the firm capacity of the interconnector has been severely compromised in the past because of the pressure differential between the CGP and the interconnector. This differential has been caused by the SWQ Producers who are able to ensure that the pressure at which gas enters the SWQP (and hence the interconnector), is most of the time lower than the pressure at which gas enters the CGP. As a result, [deleted – confidential], as user of the interconnector, can only rely on interruptible capacity on the interconnector and therefore is severely compromised in its ability to enter the Mt Isa market. In the past, it has only been able to operate at a 50% level of reliability.

- The following options exist in order to “firm up” the capacity in the interconnector.

Option	Cost to Implement	Impact on Operation of Ballera Plant	Desirability Rating
Install Compressor on Ballera Interconnector	High	Med	Low
Install Pressure Control Valve on CGP	Med	Low	Low/Med
Commission. MLV1 Back Pressure Control Valve	Low	Med	Low/Med
Transfer Control of Flow into SWQP and Carpentaria Pipeline to Independent Party	Low	Low	High
Santos to Provide a Redirection Service	Low	Low	High

- The first is by building compression at the receipt point to the interconnector. Naturally, this is a significant cost which Epic Energy has been prepared to build but only if it is economic to do so. To date, no user has been prepared to pay for the cost of compression.
- The cheapest option is for the installation of a back pressure control valve at MLV1 which is immediately upstream of the delivery point for the interconnector. However, the reliability of flows will only be ensured if there are sufficient forward haul flows on the SWQP. As outlined previously in connection with the SWAP arrangement, there is likely to be a significant drop off on forward haul flows such that this option will not provide the appropriate level of reliability in the medium to long term.
- There are additional operational complications which complicates the ability to provide a firmer capacity on the interconnector – the interconnector is located on Santos owned land and Epic Energy’s occupation rights require Santos approval required for any modifications to existing facilities.
- In order to promote utilisation of the SWQP, Epic Energy has installed a back pressure control valve. It is currently undergoing commissioning accordingly, Epic Energy is unable to advise as to the level of additional reliability that has resulted.

2.16 Accordingly, these physical and upstream limitations and the fact that [deleted – confidential] has contracted the entire capacity of the existing interconnector are the most significant barriers to the development of additional gas/CSM reserves and to the ability of new retailers to enter the Mt Isa market. The setting of the AFT Services as reference services will not achieve any benefit to customers.

*Expansions and extensions should be covered*

- 2.17 BHP has also sought to have all extensions and expansions to the pipeline covered under the extensions/expansions policy. Its reasoning however, ignores the fundamental principle of national competition policy – that is, that a service provider can not be compelled to fund an augmentation of infrastructure.
- 2.18 BHP also refers to the fact that the scope of the derogations is limited to a particular capacity of the pipeline. While this is correct, the capacity and volume forecasts for the foreseeable future (well beyond the duration of the derogations) do not envisage that capacity limitation being exceeded.

*Need to retain trigger events*

- 2.19 Given the duration of the access arrangement period, Epic Energy queries how it could reflect a proper application of the Code for a trigger event similar to the one in the original access arrangement to be included in the revised access arrangement.
- 2.20 Notwithstanding the duration of the access arrangement period, Epic Energy considers it has provided an overwhelming case to demonstrate that it is not able to exert any form of market power in connection with services for existing capacity and also for developable capacity or extensions to the SWQP. While there are a number of potential new sources of gas that might lead to a new connection with the SWQP, Epic Energy does not envisage that these would be during the proposed access arrangement period.

### **3. Response to XStrata Submission<sup>3</sup>**

3.1 The Xstrata submission raises the following issues:

- Xstrata acknowledges that the South West Queensland Gas Producers exercise significant influence over their competitors in the Mt Isa market both physically and through gas swaps.
- Recent enhancements to the interconnection with the Carpentaria Gas Pipeline will facilitate reliable flows from the SWQP into the Carpentaria Gas Pipeline and provides the prospect for a reliable source of alternative gas supply. The provision in the access arrangement for a backhaul service as a reference service will further facilitate that alternative gas supply. It is not acceptable for the access arrangement to simply only refer to this service being offered on a negotiated basis
- The extensions and expansions policy must provide for an extension to be part of the covered pipeline given the important role the most likely interconnector would play in the market.
- The interconnector with the Carpentaria pipeline should also be covered and a service should be defined and a tariff developed for it.
- It supports a two year access arrangement period.
- The forward haul service will need to be reviewed if the pipeline operations substantially changed.
- It does not support the trigger mechanism being removed because the forward haul service will need to be reviewed.

3.2 Some of these issues have been dealt with in section 3 and accordingly Epic Energy refers to these submissions.

*SWQ Producers exert significant market power in connection with the Mt Isa market*

3.3 Epic Energy has already identified (in section 2) the various means by which the Producers exert market power over users and the Service Provider.

3.4 Epic Energy also submits that these producers' market power is not limited to the Mt Isa market. In the case of the market for the delivery of coal seam methane reserves to the south east Australian markets, their market power is potentially significant as the only means by which these reserves can access these markets is by one of the following:

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<sup>3</sup> Submission by XStrata Queensland Limited to the ACCC dated 11 August 2004

- By way of a swap agreement with the producers. This will only be achievable if the SWQ Producers have a market to supply at the eastern end of the SWQP that is to be met from reserves over and above those being used to service existing contracts (which are being relied upon for the current swap arrangement with Origin). Market analysis undertaken by Epic Energy management suggests that there is no such market;
- By way of securing a back haul service on the SWQP and securing access to the Producers' existing pipeline linking the Ballera processing facilities with the Moomba processing facilities. There are a number of difficulties with this proposal. The first being that the existing pipeline linking Ballera with Moomba flows unprocessed gas and therefore any user seeking to have processed gas will have to pay for processing costs because it would be mixed with the unprocessed gas. This leads to an additional cost. In addition, the pipeline is not a covered pipeline and so there is no threat of arbitration that exists with a covered pipeline (which is a real issue when the owners of the pipeline have upstream and downstream interests that give rise to a conflict.
- By way of building a parallel pipeline linking Ballera with Moomba. Epic Energy has been a proponent of such a pipeline and is aware that other proponents exist for a similar pipeline. However without a foundation load such as Origin, the economics of the project become very difficult to justify. Without any pipeline servicing northern Australian gas likely to be commissioned in the short to mid term, Epic Energy does not envisage there being any prospect of a foundation customer emerging other than Origin. Accordingly, Epic Energy considers that there is a remote possibility of the pipeline being constructed in the short to medium term.

*Enhancement of Interconnector and the provision of a backhaul service as a reference service will promote the development of alternative gas supplies to NW Queensland market*

- 3.5 Once again, no party has provided any evidence to substantiate their claim that there is likely to be a significant part of the market seeking any AFT Service. Moreover, Epic Energy has provided significant uncontradicted evidence to show support its claim that there will not be a significant part of the market which is likely to seek the back haul service due to factors beyond Epic Energy's control.

*The Interconnector should be a covered pipeline*

- 3.6 There are at least 2 reasons why this should not or can not occur.
- 3.7 First, Epic Energy understands that because the extensions/expansions policy at the time the interconnect was built did not provide for extensions or expansions to be part of the covered pipeline, the Law does not allow for the extensions expansions policy to be amended on review of an access arrangement so as to have retrospective effect to such expansions or extensions.

- 3.8 Second, as has been previously outlined by Epic Energy, the interconnector as it is currently configured, is fully contracted to a single user. Accordingly Epic Energy is unable to exert any market power in respect of a user.
- 3.9 Epic Energy refers to the reasoning of the Australian Competition Tribunal decision in connection with Epic Energy South Australia Pty Ltd's application for a review of the ACCC's decision to draft and approve its own access arrangement<sup>4</sup> whereby the ACT concluded that in the absence of specific evidence of Epic Energy's ability to exert market power, this can not be used to justify the inclusion of an expansion as part of the covered pipeline. Furthermore, to the extent that there must be demonstrated that the benefits of coverage must be "not trivial". Epic Energy submits that this has not been demonstrated by any of the submissions to date.

*The trigger event must be retained to allow for review of the forward haul service*

- 3.10 Epic Energy submits that as a matter of law, this can not be a reason for the retention of the trigger events. The trigger event can only relate to revisions relating to AFT Services. The derogations provide that all other revisions can not be reviewed until December 2016.
- 3.11 Even if Epic Energy is wrong on its interpretation of the law, as Epic Energy has submitted earlier in this submission, the projected capacity and volume forecasts are such that the demand for forward haul services is such that there will not be a level of demand during the period of the derogations that would enable a review of the tariff for the forward haul tariff.

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<sup>4</sup> Epic Energy South Australia Pty Ltd, Application for review of decision to Australian Competition Tribunal- decision dated 10 December, paras 43 – 56 and 100 - 121

## **4. Response to Energex Submission<sup>5</sup>**

4.1 The Energex submission raises the following issues:

- In the case of the SWQP, there has been a market failure due to the presence of a monopoly service provider and this in itself warrants the setting of reference tariffs for AFT Services.
- It is inappropriate to discontinue the provision of AFT Services as Reference Services or at least the Back Haul Service (and possibly the Back Part Haul Service) during the access arrangement period because these are likely to become sought by a significant part of the market. In the case of Back Haul, it is likely to be sought by the majority, if not all, of the market comprising retailers who are capable of supplying Mt Isa by shipping gas through the SWQP using Back Haul Service. In addition, it is likely to be sought by a significant part of the market comprising end customers at Mt Isa.
- There is anticipated growth in demand at Mt Isa which will facilitate entry by new retailers.
- Operational issues associated with the interconnect between the SWQP and the Carpentaria Gas Pipeline are likely to be resolved, the result of which will see the Mt Isa retail market becoming increasingly accessible by retailers who need to access the SWQP.
- It is expected that Back Part Haul Service will be demanded by a significant part, if not all, of the market comprising retailers on the Gilmore to Barcardine Pipeline and so, it too, should be included as a reference service.
- Without reference tariffs for at least Back Haul and Back Part Haul Services, competition will not be allowed to flourish in both the Mt Isa market and the market north of Gilmore.
- Without the AFT Services being made available as reference services:
  - prospective users will not be able to access these services on fair and reasonable terms and conditions;
  - the terms and conditions that the service provider might offer for these services may not be transparent and consistent with the Code, and in particular, they might not be offered on a non discriminatory basis; and
  - this will act as a barrier to the entry by retailers into the Mt Isa and Gilmore markets.

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<sup>5</sup> Energex Retail submission to the proposed revised access arrangement, dated 18 August 2004.

*Rationale for AFT Services*

- 4.2 The initial logic Energex's submission appears to use in order to justify the retention of at least some of the AFT Services as reference services is that they have always been in the access arrangement and therefore should not be removed.
- 4.3 This logic ignores the historical basis for the inclusion of the AFT Services in the Original Access Arrangement. This was outlined in Epic Energy's Submission #1 filed on 6 August 2004. Epic Energy does not intend repeating its arguments, suffice to say that it is wrong to assume that these services should continue to be reference services just because they were included in the original access arrangement as a result of the derogations

*There has been a market failure due to the presence of the monopoly service provider on the SWQP*

- 4.4 Energex states that the service provider is the cause for a market failure.
- 4.5 Epic Energy rejects this unsubstantiated allegation. Moreover, as has been outlined in earlier parts of this submission, the market power rests with other users and the producers.
- 4.6 [deleted – confidential]. As a result, regardless of the reliability of the interconnector, any new entrant in the Mt Isa market that relies on gas being sourced via the SWQP will have to negotiate access to the following in order to enter the Mt Isa market or pay for the cost of compression on the interconnector.

*Anticipated growth in Mt Isa market*

- 4.7 Epic Energy understands that the majority of the Mt Isa market is supplied by gas sourced from the SWQ Producers ex Ballera under long term supply contracts. Accordingly, the ability of a new retailer into the market for the duration of these contracts will prove difficult.
- 4.8 To the extent that any anticipated growth is not secured by these long term supply contracts, Epic Energy understands that the potential growth in the Mt Isa market is minimal and moreover there is real capacity for the SWQ Producers to discount their price for gas in order to retain the Mount Isa market.
- 4.9 Moreover, there is an expectation that any supply source from Northern Australia, if it eventuates, will be connected via the Carpentaria Pipeline from Mt Isa, thus further reducing **any** market power that the service provider of the SWQP may be able to exercise.

*Likelihood of demand for part back haul services in the market north of Gilmore*

- 4.10 Epic Energy understands that this market is supplied by long term supply contracts and that any incremental growth in the market is covered by these contracts.

*Without the AFT Services as reference services, users can not access them on fair and reasonable terms nor may they be on a basis which is transparent and consistent with the Code. Particularly, there is a risk that access will not be on a non discriminatory basis.*

- 4.11 As an independent service provider which has no involvement in the upstream or downstream markets, Epic Energy's only means of securing revenue is to contract for capacity. Therefore the threat of arbitration is a significant threat for Epic Energy.
- 4.12 In addition given that the pipeline is underutilised and is subject to significant market power of other stakeholders, Epic Energy has significant incentives to offer services at competitive rates in order to stimulate utilisation of the pipeline's capacity.
- 4.13 [deleted – confidential]
- 4.14 Accordingly, the claims that users can not access services on fair and reasonable terms are unfounded and in fact there is compelling evidence to the contrary.
- 4.15 Furthermore, there is no evidence to suggest that access may not be able to be gained on terms that are transparent and consistent with the Code. Rather, given that the threat of arbitration is a real threat for a service provider that has no connections whatsoever to upstream or downstream markets, it is submitted that there is everything to suggest that Epic Energy must negotiate access in a manner that is consistent with the Code, otherwise the arbitrator will require it.
- 4.16 As a final matter, the claim that access may not be granted on a non discriminatory basis is not inconsistent with the Code – the Code itself recognises prudent discounts to users or a particular class of users.



# SWQP PROPOSED REVISED ACCESS ARRANGEMENT

*PUBLIC VERSION*

*SUBMISSION #2 – RESPONSE TO 3<sup>RD</sup> PARTY SUBMISSIONS*

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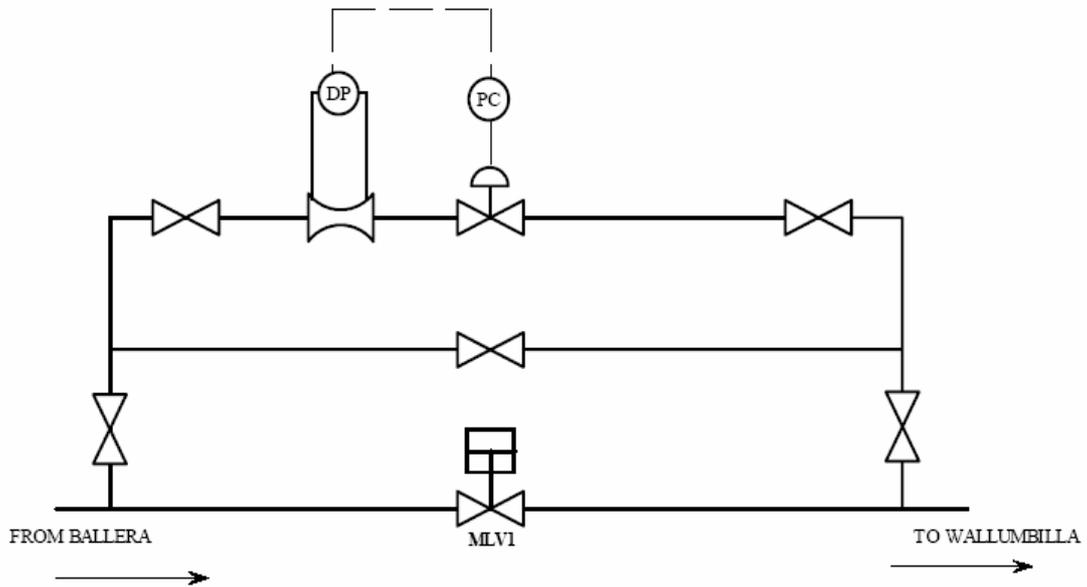
## **5. [Deleted – Confidential]**

5.1 [deleted – confidential]

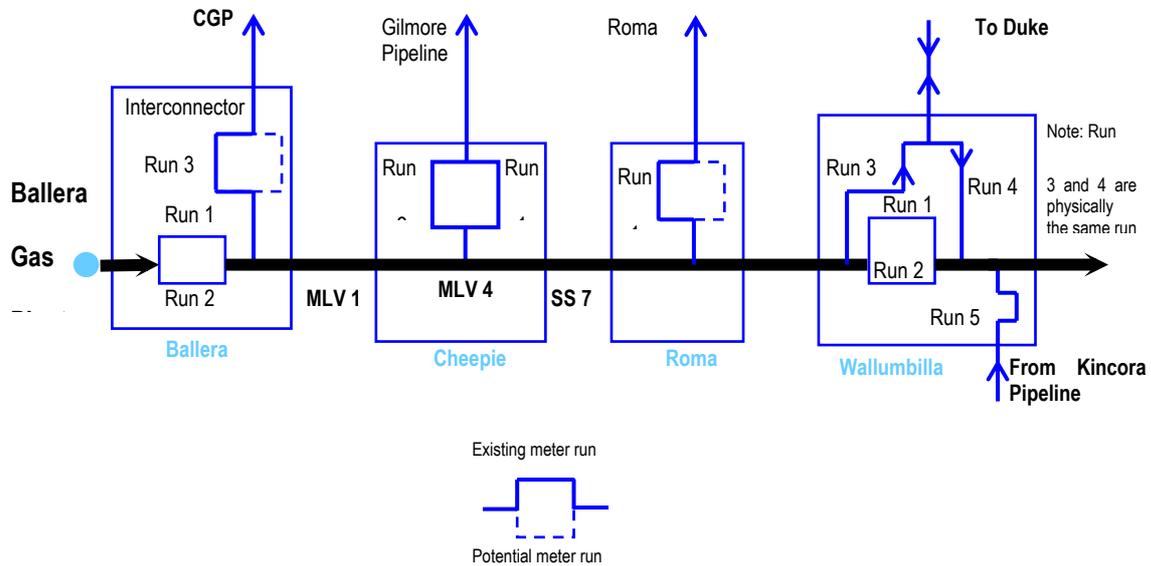
## **6. Further information – Interconnection with other Pipelines**

- 6.1 The submissions made to date contain an alarming level of misinformation about the role of interconnections between the SWQP and other pipelines and what impact they have on the ability to foster competition in downstream markets.
- 6.2 This has been highlighted in sections 2-4 of this submission.
- 6.3 Accordingly, to assist the ACCC, it is important that Epic Energy provide the relevant facts so that these other submissions can be given appropriate weight.
- 6.4 Epic Energy's SWQP already interconnects with 6 other main pipelines:
- The Roma to Brisbane Pipeline
  - The Alinta Wallumbilla to Gladstone pipeline
  - The Kincora pipeline
  - The Cheepie pipeline
  - The Carpentaria Gas Pipeline
  - The pipeline connecting the Ballera processing plant with the Moomba processing plant
- 6.5 It also connects with a pipeline feeding the Roma power station. A schematic of the pipeline showing these interconnections is attached as **Attachment 2**.
- 6.6 The number of pipelines that interconnect with the SWQP demonstrates the preparedness of the service provider to facilitate the growth of the market for natural gas in Queensland.
- 6.7 There are also a number of pipelines that interconnect with each other at Wallumbilla. A schematic of the Wallumbilla compound is attached as **Attachment 3**. Therefore, there is a significant potential for any new source of gas – in particular CSM – to be supplied to the SE Queensland market by bypassing the SWQP.

## Attachment 1 – the Carpentaria/SWQP Interconnector



**Attachment 2 - Schematic of SWQP interconnections**



#### Attachment 3 - Wallumbilla Interconnection facilities

