



APT Petroleum Pipelines Limited
ABN 39 009 737 393

10 May 2006

Ms Patricia Pascuzzo
Director
Australian Competition and Consumer Commission
Level 7, Angel Place
123 Pitt Street
Sydney NSW 2001

Dear Ms Pascuzzo

By email

**Roma Brisbane Pipeline Access Arrangement
Further Information**

Please find the following documents attached:

Attachment 1 – additional clarity on investigations and expansions procedure, including;

- information provided to users when negotiating services;
- information on the status of requests on the queue;
- templates of letters used in making offers.

Attachment 2 – additional information on why APT was satisfied that the revised Agility price for 2005 - 2010 was efficient. This document also identifies the services that are and are not contestable.

Attachment 3 - further details of the basis of the estimate of Access Arrangement costs.

Please note that all of the attachments are confidential and/or commercially sensitive.

[Attachments to this public document have been modified to remove confidential or sensitive information].

Yours sincerely

Stuart Ronan
Regulatory Manager
02 96930038

Attachment 1 A-Additional Information on current investigations into RBP Capacity Expansion

APTPL is currently investigating expanding the RBP to accommodate new loads (**RBP Expansion**). The following description is a broad outline of this investigation.

In January 2005 [Confidential] approached APTPL to discuss a potential requirement for additional capacity of [Confidential] TJ/day to supply the [Confidential]. In January 2005 APTPL advised [Confidential] that there was not sufficient spare capacity in the RBP to meet this additional MDQ requirement and that the additional MDQ sought would not, in itself, support an expansion of the RBP. APTPL advised that it would seek expressions of interest from other shippers interested in contracting for additional firm capacity on the RBP.

On 25 January 2005, APTPL wrote to existing and potential shippers requesting expressions of interest in additional firm capacity. Suppliers were asked to respond by April 2005 Requests for expressions of interest were sent to:

- CS Energy
- Tarong Energy
- Enertrade
- Energex
- BP Australia
- Origin Energy
- Santos
- ERM Power (ie Wambo Power Ventures)
- Ergon Energy
- Arrow Energy
- Queensland Gas Company
- Mosaic Oil NL
- Tipperary Oil and Gas
- Peak Energy
- AGL Retail

In addition the Queensland Government and Queensland Major Gas Users Group were notified.

[Confidential]

By the end of April 2005 APTPL received expressions of interests from:

[Confidential]

The total MDQ sought under the expressions of interest was approximately 120 TJ / day. This MDQ was considered to include a large amount of capacity for uncommitted projects and double counting of load. For example similar loads were submitted for identical delivery points (eg [Confidential]) and prospective users identified that their projects, [Confidential], were not necessarily committed

Following receipt of the expressions of interest, in April 2005 APTPPL engaged Agility to undertake a pre-feasibility study to develop indicative tariffs for a range of expansion scenarios. The undertaking of this study was delayed due to advice from [Confidential] that its indicated volumes had changed. [Confidential]

In July 2005 APTPPL wrote to the parties that submitted expressions of interest providing proposed commercial terms including an indicative price and, in some cases, draft gas transportation agreements for the service requested. This correspondence asked the parties to indicate whether they wished to proceed and requested a commitment to contribute to part of the cost of further investigations if they failed to enter into an unconditional agreement subsequent to the commitment to proceed.

In August 2005 [Confidential] indicated an intention to proceed to detailed negotiations for a total of approximately 20 TJ on the basis outlined in the letter. [Confidential]

[Confidential] did not participate any further in the investigation.

Based on the MDQ indicated by [Confidential], in August 2005 APTPPL engaged Agility to undertake Front End Engineering and Design for the loads identified by these shippers. The indicative design and cost for the possible expansion was completed in December 2005 and APTPPL provided these shippers with proposed prices in January 2006. The current status of the expansion is:

[Confidential]

[Confidential]

The additional capacity required by shippers continues to be uncertain for these reasons. In light of this, designs and capital costs cannot be finalised, APTPPL is not in a position to commit to expansion of the RBP until all shippers finalise their responses to current offers and enter into binding agreements. The MDQ of 20 TJ / day is at the lower end of the capacity required for an economically viable expansion.

If in May 2006 shippers indicate a strong intention to proceed to the finalisation of gas transportation agreements then an indicative timetable for expansion of the RBP is:

June 2006	Finalise design assuming counterparty agreement in May 2006
June 2006	Finalise price assuming counterparty agreement in May 2006
July 2006	Execution of binding Gas Transportation Agreements (GTAs)
September 2006	Date for satisfaction of Conditions Precedents in GTAs
First Quarter 2008	Anticipated first available gas date for firm service under GTAs

Information on a typical timeframe and process

It is difficult to be definite on a "normal" timeframe for investigations as the timing and extent of the process is dependent on:

- the scope of a Request in terms of potential engineering solution – there may be more than one engineering solution and it is necessary to investigate the different designs to identify the most cost effective solution;
- the type of information provided by a prospective shipper, including whether the shipper is able to be definite in relation to timing, capacity requirements and load characteristics; and
- the timeliness of responses to questions put to prospective shippers.

While it is possible to undertake a hydraulic modelling run for a pipeline in approximately a week, this is necessarily an iterative process with several model runs required as a prospective shipper evaluates its requirements against preliminary results of the modelling. This iterative process could take over a month depending on the number of iterations, and becomes more complex where there are several potential shippers with different requirements.

Pre-feasibility and Front End Engineering Design studies require from 2 to 4 months and cannot be initiated until hydraulic modelling is completed. These involve design work by professional firms such as Worley and GHD and extensive analysis by APTPPL and Agility.

This time frame is a function of the complexity and scope of the engineering solution and response times for pricing from equipment vendors, who typically require some weeks to prepare pricing quotes that are used to develop estimated capital costs and thus indicative tariffs. Response times from vendors are longer than normal at present due to the high level of activity in the energy sector.

Attachment 1B - Information on the Status of Requests on the Queue

[Confidential]

**Attachment 1C - - Templates of Letters used in Making Offers in Relation to RBP
Expansion**

Attached are pro formas of letters as follows:

- letters sent in January 2005 to prospective shippers; and
- letters sent in July 2005 to the parties that provided expressions of interest;
- letters sent in January 2006 to [Confidential].

The exact form of the letters varied depending on the specific requests of prospective shippers.

January 2005

«Title» «Fullname»
«JobTitle»
«Company»
«Address2»
«City»

Dear «FirstName»,

**RE: Expressions of Interest (“EOI”) in Roma to Brisbane Pipeline Capacity
Expansion Project (“RBP Expansion”)**

The Australian Pipeline Trust is investigating the potential to increase the capacity of the RBP through the installation of additional compressor capacity. We are seeking EOIs from parties who are interested in contracting for additional firm capacity as part of the RBP Expansion.

Once APT has received EOIs it will undertake a preliminary analysis of the technical aspects of the RBP Expansion. Following this analysis the tariff structure for capacity under the RBP Expansion will be set out in a term sheet that will be forwarded to the parties who submitted EOIs.

The indicative timeline for the investigation and development of the RBP Expansion is:

- | | |
|--------------------|---|
| 4 April 2005 | Closing date for EOIs |
| early July 2005 | Term Sheet forwarded to parties who submit an EOI |
| early October 2005 | Execution of binding Gas Transportation Agreements (GTAs) |
| 1 April 2006 | Date for satisfaction of Conditions Precedents ¹ in GTAs |
| 1 April 2007 | Anticipated first available gas date for firm service under GTAs |

In conjunction with the analysis of the RBP Expansion, APT is willing to investigate with interested parties the construction of laterals and metering facilities that are associated with the RBP Expansion. The provision of such facilities by APT on a Build/Own/Operate basis would be under separate commercial arrangements to those for the RBP Expansion. Given the additional work involved in analysing arrangements of this nature your prompt advice to APT about the potential for this would be appreciated.

Attached to this letter is the information that APT is seeking for inclusion in EOI's to help it assess the potential to undertake the RBP Expansion. This is not an offer capable of acceptance.

Please contact the undersigned on 07 3010 9411 if you require any additional information in relation to the RBP Expansion or a copy of APT's standard Confidentiality Agreement.

Yours faithfully

¹ Conditions Precedent for APT's benefit will include, without limitation, the granting of all necessary licences and APT Board approval.

Rod J Johannessen
Commercial Manager – QLD

Attachment

RBP Expansion Expression of Interest Information Sheet

Contracting Party	
Delivery Point	
Receipt Point	
Delivery Point Pressure *	
Term	
Commencement Date	
Delivery Point MDQ *	
Delivery Point MHQ *	
Receipt Point MDQ *	
Receipt Point MHQ *	
Requirements (if any) for commissioning gas	
Brief description of project or gas usage	
GTA Conditions Precedent	

* If multiple Delivery Points and Receipt Points are listed then:

- MDQ and MHQ values need to be provided for each Delivery Point or Receipt Point; and
- Delivery Point Pressures for each Delivery Point.

[Confidential]

[Confidential]

[Confidential]

[Confidential]

23 January 2006

[Confidential]

[Confidential]

Attachment 2 - Additional Information on APT - Agility Revised Costs for 2005 - 2010

Comment on APT - Agility Renegotiation

In 2005 APT and Agility renegotiated costs in light of the PMA mechanism for the introduction of contestability from July 2005.

[Confidential]

APT commercial and operational management personnel have extensive pipeline industry experience and knowledge. Based on industry knowledge APT viewed the revised costs and services as reasonable.

APT and Agility negotiated a fixed price for Agility undertaking the specified work, including Agility now undertaking minor additional services at no cost to APT. [Confidential]

APT and Agility have agreed for the agreed costs escalate at [Confidential].

In addition, APG and Agility have also agreed specific Key Performance Indicators (KPIs) to ensure the efficient operation of the pipelines. Should Agility not meet any the required KPIs, they may lose up to [Confidential] and if Agility meets all the required KPIs, they may receive up to an additional [Confidential].

In APT's view the outcome of the process was consistent with the outcome that could have been achieved though implementation of a costly and complex contestability process.

The agreement for a reduced fee applies until 2010 when APT will be entitled to introduce contestability if it chooses to do so.

Comment on Items which are Contestable

APTPPL notes that the Commission has a copy of the Pipeline Management Agreement (PMA) which relates to the provision of services by Agility to APT. The PMA identifies which services are contestable. In the PMA agility is described by its former name “AGL Infrastructure Management Pty Ltd (AGLIM).

[Confidential]

[Confidential]

[Confidential]

[Confidential]

Attachment 3 - Further details of the basis of the estimate of Access Arrangement Costs

The Goldfields Gas Pipeline Access Arrangement, finalised in mid 2005, took 6 years to complete with costs of approximately [Confidential] (excluding ERA costs). Of these [Confidential] were legal costs and [Confidential] were consultant and internal costs (ie consultant and internal costs were approximately [Confidential] per annum).

When preparing the cost estimate for the RBP Access Arrangement the costs of the Goldfields Gas Pipeline Access Arrangement were used as a reference point. In preparing the RBP Access Arrangement cost estimates the following points were assumed, resulting in forecast costs lower than those incurred in relation to the Goldfields Gas Pipeline:

- time frames would be much shorter – a one year time frame was assumed;
- legal costs would be much lower due to the absence of joint venture issues and pipeline-specific legislation;
- economic/financial modelling costs would be much lower as the majority of financial modelling was done in-house;
- the capital base determination would be generally less contentious for RBP than for Goldfields due to the Tribunal decision on NPV DORC in the Moomba Sydney Pipeline case;
- the cost of capital determination would generally be non-contentious due to policy developments and regulatory precedent relating to the acceptance of the ranges approach to WACC.

Based on these assumptions a cost of \$500,000 has been used for the RBP Access Arrangement.