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18 May 2006

Mr. Mike Buckley
General Manager
Australian Energy Regulator
PO Box 1199
Dickson ACT 2602

Re: RBP Access Arrangement Review

Dear Mr Buckley,

Queensland Gas Company ('QGC') is pleased to be offered the opportunity to contribute to the review of the Roma-Brisbane Pipeline ('RBP') Access Arrangement.

In May 2006, QGC commissioned its first gas field development at Berwyndale South, 135km east of Wallumbilla. Its continuing construction program in satisfaction of unconditional contracts will, by the end of 2006, result in connection to the RBP of QGC-operated fields with 205 PJ of Proved Reserves, 365 PJ of Probable Reserves and a further 2000 PJ of Possible Reserves. Development drilling will allow for conversion of Possible Reserves to probable Reserves & Probable to Proved. During the period when the reviewed Access Arrangement is in place, QGC will be undertaking further appraisal of its adjacent acreage holdings with anticipated early development. The introduction by QGC of a new source of gas with 2P reserves equal to 10 years throughput on the RBP, initial processing capacity of 20 PJ per annum advantageously located in proximity to the South-East Queensland and accessible to other connected markets is representative of the need to assess the services offered by transmission pipeline operators. QGC is but one producer developing new fields that will be influenced by the costs and service structures associated with transmission via the RBP.

QGC advocates the establishment of access arrangements that provide transparency in delivery of services actively sought by the various segments of the energy market, and reflect the importance of ensuring that access to gas transmission pipelines is provided to all parties on fair and reasonable terms.

We would be happy to discuss or provide further supporting information on any of the issues addressed with yourself and other staff and look forward to reviewing the draft decision when it is available.

Yours sincerely

Clem Hodda
Portfolio Manager

AUSTRALIAN ENERGY REGULATOR
QUEENSLAND GAS COMPANY LIMITED REPSONSE
ACCESS ARRANGEMENT & ACCESS ARRANGEMENT INFORMATION
ROMA TO BRISBANE PIPELINE

GENERAL COMMENTS

The South-East Queensland region (SEQ) continues to rank first in Eastern Australia in growth of population, energy consumption and industry. Existing and prospective consumers have confidence that they can obtain reliable and competitively priced gas from developed and developable fields in SEQ. Unless those parties can obtain gas transmission services at a competitive cost-reflective price with the requisite flexible terms there will be a dampener on the growth of SEQ. Instrumental in obtaining competitive landed gas is having a properly managed gas pipeline system with clear development objectives to service the industries that have underpinned the development and expansion of pipelines in this State. QGC supports a competitive gas supply market and believes that the Roma to Brisbane Pipeline (RBP) is a strategic asset that if operated appropriately can be instrumental in the continuing development of that market. The influences of appropriate services and tariffs on the RBP extend further to the connected markets serviced by the declining conventional resources of the Cooper Basin, as well as to the electricity market by virtue of the growing output of gas-fired generation.

QGC APPROACH

In seeking to review APT's submission QGC has taken cognisance of the objective statement proposed by the Ministerial Council on Energy (MCE) for the National Gas Code (NGC); viz

The objective of the gas access regime is to promote economically efficient investment in, and economically efficient operation and use of, natural gas pipeline services thereby
promoting effective upstream and downstream competition and the long term interests of consumers of natural gas with respect to price, quality, reliability, safety and security of supply.

We have split the statement into two as we believe this assists in commenting on the APT submission. To our mind this split has the effect of highlighting two fundamental concepts, efficiency of investment and promotion of competition. QGC contends that there is an onus on APT in making its submission to demonstrate that the approach it advocates is aimed at achieving both objectives of the NGC.

Efficiency Objective:

The APT submission seeks to justify the adoption of certain parameters, viz:

- The tariff structure (postage stamp vs zonal or other variants)
- The revenue assumptions to be used in determination of tariffs;
- The capital and operating costs to be used in determination of tariffs.

However these parameters are only part of what we would consider to be the information required to establish that the APT submission satisfies the efficiency objective. We believe such an 'efficiency test' should have both quantitative and qualitative components and it is appropriate that some form of efficiency test be applied to APT's submission which should then be benchmarked against best practice.

We also note that efficiency is as much dependent on the range of services offered as it is on capital and operating cost structures. For example pipelines that offer backhaul as well as forward haul, promote active trading of capacity, gas swaps and offer risk management products deliver efficiencies to the market that should be taken into account in considering whether a pipeline is operating economically efficiently.

It would appear that APT is placing the accountability on the AER to conclude that the APT submission will result in it meeting the efficiency objective. APT should be required to demonstrate that its submission is both economically sound and achieves best practice with respect to the efficiency objective.

Competition Objective:

The APT submission does not offer any information at all as to how its proposal supports the competition objective. Importantly in considering this objective it is necessary to form a view as to what are in fact the characteristics of a competitive market and the implications of these with respect to the operation of the RBP. QGC has the view that the RBP, if operated appropriately, could serve to promote market competition. To do this requires recognition that the current minimal products proposed, the non-transparency of access arrangements and the difficult mechanisms for gaining physical connection plus accessing delivery and receipt points in transportation arrangements are totally inconsistent with the objective of promoting competition and efficient market operation. QGC's view is that APT has not given any consideration as to promoting competition in formulating its submission and this omission needs to be addressed. One of the issues for the AER is how to measure APT's performance against this objective.

Pipeline Capacity

The RBP is simply a pipeline – it must conform to the laws of physics and can be readily and rapidly modelled and assessed by common software tools. It should not be shrouded in an aura of mystery on the basis of new receipt or delivery points that render its configuration closer to other interconnected pipeline systems and networks. An annual planning process should be a feature of the access arrangement and can be achieved with the operating cost structures proposed.

As an overview, the history of the pipeline and extensive redevelopment by way of user underwritten (and in certain cases direct funded) compression and looping of the mainline means that in essence the RBP now has three distinct capacity measures these being:

(i) the capacity of the Peat-Scotia lateral;
(ii) the capacity of the looped section between Wallumbilla and Ellen Grove; and
(iii) the capacity of the remnant unlooped 30.7km metropolitan section between Ellen Grove and Murarrie.

Assigning a single capability and availability of capacity to “the” pipeline does not provide an accurate picture, nor provide appropriate pricing signals to the market. In December 2005, APT issued a notice to gas producers proposing the implementation of a higher operating pressure from 2007. The ability to inject gas at the MAOP of the 16” line has been a feature of access agreements for some time, and producers such as QGC have invested considerable sums in compression gearing up for this requirement. All Receipt Points can currently meet the 10” line MAOP and the capabilities of that line are sufficient to handle the output of the original supply points of Runs 1 & 2 at Wallumbilla. All other Receipt Points can meet the higher operating pressures. The achievement of MAOP in the 16 inch line will realise substantial unutilised uncontracted capacity between Wallumbilla and Ellen Grove. This issue has not been discussed in the access arrangement information. The incremental mainline capacity, achieved at a substantial cost to the producers, is sufficient to more than meet the projected growth in the non-generation market over the next 5 years. With the combined steady state flow capacity of the looped pipelines then in excess of 260TJ/day, it is indeed sufficient to allow some connected idle gas-fired generation assets to be employed, thus it is of fundamental importance to establish this capacity value.

The access arrangement must provide for a tariff applicable up to the enhanced mainline capacity for transmission along that section. The differences in capacity between the mainline and metropolitan sections would seem to demand the introduction of zonal service/pricing to reflect the attributes of the pipeline. Again, zonal pricing would provide appropriate signals to proponents of new industrial facilities in selecting sites for construction of those facilities.

The metropolitan section has committed projects that will require transmission capacity, yet these loads do not seem to be fully included in the load forecasts. The metropolitan section may indeed require some augmentation however the access arrangement presents a picture of nil capacity available with no plans of how to achieve requisite capacity on 30.7km of pipeline to meet the needs of the fastest growing region in the fastest growing State in Eastern Australia. It is acknowledged that APT did call for expressions of interest in additional capacity demand. This process is envisaged by the access arrangement however an efficient market process would consider public feedback via a planning statement, as occurs routinely in the electricity industry and the Victorian gas transmission system, arising out of those inquiries to be a minimum starting point for project assessment. The concept of limiting selected feedback to one-on-one negotiations does not promote economic efficiency. The gas market in Queensland is dominated by major users who have investments in their own plant that dwarf the value of the pipeline and historically demonstrated a willingness to commit to investment that provides security of supply and with system-wide benefit. The access arrangement information does not provide sufficient data for users and prospective users to form accurate views on issues that affect their own business planning processes.

In the Further Access Arrangement Information, APT proposes:
Typically users require bilateral negotiations due to the fact that their projects are confidential. Further many users are in competition with other users on the pipeline.

In addition, each user typically has particular requirements (eg MDQ, MHQ, load profile, term etc); this lends itself to separate bilateral negotiations.

It is difficult to agree with this proposition. In this high-growth State, it would be difficult to identify a confidential project. Project proponents have generally made some assumptions about anticipated energy and transmission prices before testing them by requesting prices from competing gas sources, and testing economics of site location and OEM suppliers. The project dimensions are relatively well disseminated and understood by the market to the extent that they are affected. Competing fuel suppliers derive no particular advantage from transmission costs that are generally treated and applied as pass through costs. Appropriate pricing signals will assist competing producers in determining which resource to develop – the competing suppliers are in joint ventures in various percentages and in various locations. Further, the large consumers that dominate the Queensland demand usually seek to select multiple suppliers or sources in order to manage supply chain risk. Thus for a variety of reasons requisite data relating to the fundamental aspects that influence transmission are in the public/market domain. In the absence of a healthy transparent planning process, bilateral discussions are the only option offered by the pipeline. The parameters of MHQ and MDQ will determine what capacity will be utilised and the efficiency in utilising that capacity – they are not a prime determinant of a negotiating process selection. At the initial transmission capacity inquiry stage, a prospective user should be offered the opportunity to submit their data for consideration in the periodic planning process. A planning process is indeed likely to enhance competition where producers or other users are able to assist in achieving a more economically efficient capacity increase (where augmentation is required) or may be willing to underwrite supply terms that achieve the pipeline and market's expectations.

The access arrangement information provides that the DORC process involved determining a cost for an optimised replacement of the RBP – this optimisation has regard to current capacity and contractual obligations, future growth forecasts, developments in construction techniques and technology, and changes in factors influencing the pipeline route. While not in agreement with DORC value proposed, a major omission is the absence of any proposed configuration for transparent assessment by market participants. It should reasonably be expected that the value proposed by APT and applied in later revenue calculations is by definition, and methodology discussions in their submission, sufficient to at least meet the market forecasts for the review period therefore the full optimised configuration capacity should be made available to users and the ultimately determined tariff should be available for the full capacity of the optimised configuration, as any increased utilisation in the shorter term is to the full financial benefit of the pipeline owners.

It is difficult to reconcile the ORC value with the unit construction costs demonstrated in the construction of the Peat-Scotia lateral ($16,000/inch-km) or recent regional pipeline constructions (in the current economic climate) and in the vicinity of the RBP. The ORC value is considered to be in excess of reasonable expectations, or alternatively sufficient to provide significantly expanded delivery capacities. Again disclosure of the configuration would assist in a meaningful assessment of the proposal by users and prospective users who own, operate or access high pressure transmission pipelines. Metropolitan costs under this approach are likely to demand consideration of a zonal pricing approach. It is particularly difficult to reconcile the

need for Taurus compressors on laterals and midline as the 2 Taurus units proposed for a single station have a combined horsepower rating in excess of the total installed capacity on the existing pipeline – this does not appear optimised. With compressor station costs postulated for the optimised Peat lateral in excess of the original construction cost, and in addition to the postulated construction cost of the Peat line, the ad hoc approach of ORC must as a principle be questioned including, in this instance, compression versus line diameter. In the current approach adopted by RBP, a compressor addition at 1.5 times the original recent lateral construction cost has been identified as necessary, with an associated fuel gas requirement for operation of a single unit in the order of 1.5TJ/day or 2.5% of lateral capacity - at a nominal gas cost of $3/GJ, this notionally pushes costs of $0.075/GJ on to the users. Were the pipeline operator responsible for provision of fuel gas, a different configuration may have been proposed. In developing the EAPL approach, a clear statement of diameters and capacities was provided – a similar approach may allow for a reasonable optimised capacity to be established under that approach to develop tariffs for capacities in line with market demand.

Alternate approaches, as allowed to be considered under the Code, could be for the capital expended to date to be enlarged by the necessary capital to meet future demand. QGC considers that APT's statement of actual cost of the pipeline of approximately $155 million is reasonable, before consideration of direct capital contributions made by users. The structure of the surcharges historically levied on users for compression and looping are clear and specifically recognised the users' financial contribution and have provided for payments that eventually terminated upon complete cost recovery of the compression units and that extensions of term would not incorporate levies for looping but that the gas would be transported for the base tariff alone. The RBP's proposed DORC approach specifically undermines the considered negotiated decision by users to expend additional sums of money to secure certainty in future transmission contracts.

Adopting the actual expenditure to date (some of which has been directly funded by users), and allowing for complete replacement or looping of the 30.7km with large diameter line at high unit construction costs commensurate with urban landscapes would result in an initial capital base that would be more acceptable to users. Thus capacity can be made available to users for less than the proposed initial capital base and within the economic return requested by the pipeline owners.

A sub-CPI glide path is sought on the tariff price path consistent with other access arrangements and the requirements of the market for demonstrated economic efficiency gains in increased utilization of capital investments. The 75% CPI approach has been a feature of RBP's access agreement since commissioning

Further looping of 12.5km of the metropolitan section between Ellen Grove and Runcorn would allow growth in delivery capacity of some 30TJ per day at the Murarrie terminus of the pipeline. This capacity represents a 15% capacity gain (15% of overall pipeline throughput or a 25% gain in metropolitan throughput) for expenditure approximating 5% of the proposed initial capital base and would go some way to bridging the gulf between capital expenditure to date and the proposed initial capital base. The provision of expanded capacity within the ultimately adopted initial

capital base (and hence ultimate tariff) would also defuse the potential risk of transferring capacity between delivery points and foster active trading on the pipeline.

There is an absence of meaningful discussion as to the basis of the load forecasts, developments in the gas market nor interrelated markets such as the NEM and the influence of vast increases in gas sources and resources within the pipeline catchment and how this can be met by selected expansions (to the extent that expansions are required) and the outcome on transmission and hence pricing efficiency. The load data included in the access arrangement appears to be a simple statement of contracted capacity to date with all future loads proposed to be serviced under negotiated tariffs excluded – this is an inaccurate portrayal that must be amended to assist the market and the pipeline to agree on development proposals. A starting point for meaningful market assessment of common objectives would be the dissection of deliveries by delivery point.

Receipt Points

APT has not included any detailed description of the receipt points in its access arrangement or supporting information – all receipt points should be made available to all users and not be a point for negotiation. The worst case scenario would see all gas sourced from Wallumbilla. Any Receipt Points east of Wallumbilla represent a reduction of risk for APT in meeting capacity entitlements under transport contracts.

The ability to withhold consent to a user's access to a receipt or delivery point on the basis of reasonable commercial grounds was discussed at the recent conference with AER held in Brisbane. The access arrangement should incorporate words that replicate the Code's specific exemption – it is suggested that the Code was meant to address potential variations in pipeline revenue attributable to changes in haulage distance (or zonal) tariff components and arguably did not anticipate that loss of opportunity to levy additional arbitrary charges would be considered as a sound basis.

Delivery Points

APT has supplied a table of delivery points in section 5.3. This table suggests that average throughput and peak day throughput is confidential. It is suggested that this information should not be considered confidential and capacity utilisation made continuously available to users and prospective users via a bulletin board. The current gas sellers and shippers on the RBP are generally aware of this information. The information assists in a proper determination of the number of Reference Services and the associated tariffs. Further, this will allow users and prospective users to assess and progress capacity trading opportunities, and to access unutilised contracted capacity on alternate contract bases in the interests of achieving economic efficiency in operation of the pipeline and markets serviced by the pipeline.

As the pipeline configuration provides requisite capacity at the relevant locations, all users should have access to all delivery points under the ultimate tariff structure. The magnitude and geographic location of market demand centres do not change simply because a different user is accessing the demand serviced by a particular delivery point.

Delivery pressure obligations adopted by the pipeline operator are artificially low and do not meet the market requirements. It is not possible to operate the mainline down at 1500kPa, indeed the gas turbines used in the midline compression require much higher pressures on the suction side – a more reasonable operating figure would be 50% of the MAOP, being 4800kPa for the 16" line and 3550kPa for delivery points serviced by the 10" line. An acceptable position would be 4500kPa for the 16" line that would not impair efficient operation of the mainline pipeline yet meet the requirements of modern gas turbines. This reasonableness of this delivery pressure regime is demonstrated by the maintenance of this capability at the Swanbank delivery point at the extremity of the mainline. The input horsepower to achieve this discharge pressure on the mainline over the term of the access arrangement is achieved by the delivery of gas at sufficient pressure by the gas producers at nil CAPEX and OPEX burden to the pipeline. The proviso that the user/s provides for offtake equipment, directly or by contracting the pipeline operator to install same, as may be necessary in some instances to take advantage of this pressure rating/requirement would remain. Similarly, the minimum delivery pressure at all delivery points on the existing metropolitan section should be increased to 50% of MAOP – any enhanced metropolitan line should carry with it the attendant benefit of higher delivery pressure.

Reference Services

The Code provides that:

Reference Tariffs and Reference Tariff Policy

An Access Arrangement must include a Reference Tariff for:

(a) *at least one Service that is likely to be sought by a significant part of the market; and*

(b) *each Service that is likely to be sought by a significant part of the market and for which the Relevant Regulator considers a Reference Tariff should be include*d.

In May 2006, QGC commissioned its first stage of development of its Surat Basin interests. This connected the Berwyndale South field to the RBP with an initial processing capacity of 20 PJ/annum. A continuing construction program will enable 30 PJ/annum of processing capacity by mid-2007. The fields serviced by the processing facility have independently certified 2P reserves equal to 10 years throughput on the RBP, with an additional 4 times this quantum of Possible Reserves. The impact of this gas availability and the further reserves being actively developed by QGC and other gas producers will be significant on the markets serviced directly by the RBP, those markets accessible by connected pipelines and the electricity market by virtue of the substantial gas-fired generation load in Queensland. The requirements of QGC and gas users generates demand from a significant proportion of the market for a range of reference services in addition to the forward haul Reference Service.

Since commissioning in 1969 the dynamics of the Roma to Brisbane Gas Pipeline have continually evolved. In line with increasing sales, compressor stations and looping programs enabled the flow from west to east. Over its period of operation, gas

has been sourced initially at Wallumbilla, with subsequent growth met by the Cooper Basin, then augmented by Fairview with more recent additions of Peat and Scotia introducing mid-line sources. The construction of Oakey power station represented the first substantial mid-line demand centre. In 2006, two new sources have been introduced east of Condamine and a new demand point added at Condamine to connect to the Braemar power station that can consume 120TJ/day. From 2007 the South-West Queensland gas flows into the RBP will diminish greatly with substitution from Surat Basin sources.

Another major influence on market developments is the continuing decline of the Cooper Basin. In recent years, the certified reserves have been written down by over 400PJ and latest production reports indicate a 15% decline in year-on-year comparative output. The markets of New South Wales, South Australia and, to a lesser extent, Victoria are accessed actively by eastern Queensland producers as evidenced by the commencement in 2005 of gas contracts held by Origin and an announcement by Santos in relation to an expansion of activities at Fairview over the term of the proposed access arrangement. The new supply sources in the Surat are well positioned to meet the offset in decline and the market that creates demand for additional reference services extends to the southern traditional gas markets and the National Electricity Market.

There will be greater demand for Surat Gas westward than eastward. There will be more requirements to move gas between pipeline sections (zonal) rather than the full length of the RBP. There will be more requirements for gas storage and intra-pipeline swapping. These need to be taken into consideration in determining reference services and pipeline revenue. The ability to add or change receipt and delivery points should be an automatic requirement for Reference Services and existing negotiated contracts.

The proposal that all revenue is derived from a Reference Tariff based only on a forward haul reference service, with theoretical flow from Wallumbilla eastward to Brisbane on a postage stamp basis, significantly understates the RBP's revenue opportunities over the term of the proposed access arrangement. Reference Services sought by the market include:

1. Westward Flow/Backhaul;
2. As Available Eastward Flow
3. Capacity trading;
4. Imbalance trading;
5. Zonal Service/Pricing;

These functions could be incorporated as intrinsic elements of an umbrella reference service in addition to being offered as discrete reference services.

1. Westward Flow/Backhaul

Markets with peak daily demand in excess of 800TJ are currently serviced by the Cooper Basin and can be accessed by the eastern Queensland producers via the Ballera-Wallumbilla pipeline. An additional 70 TJ of market is accessible via the Queensland Gas Pipeline. The Surat Basin producers continue to develop supply proposals in response to inquiries from the southern markets, and projects such as the proposed Wallumbilla to Newcastle are dependent on access to Wallumbilla. Any of these proposals could be developed during the term of the proposed access

arrangement upon establishment of appropriate services on the RBP. It is not proposed that the RBP is required to provide any compression facilities at Wallumbilla to allow transfer to other pipelines, but a minimum delivery pressure would need to be established to allow for co-ordination with the connected pipelines or other third party interconnection operators.

The provision of a westward flow service can be provided at an administrative cost consistent with the contractual offset of flows. Without capital expenditure, this would allow access to some 120TJ of capacity to Wallumbilla before consideration of physical flows. Given the absence of capital expenditure, there should not be a requirement for a minimum capacity commitment by users for notional westward flow over the term of the access arrangement.

In developing such a service, consideration could be given to potential modest capital expenditure to allow the Condamine compressor to be bypassable or to operate in a bi-directional manner to further boost capacity. Alternatively, if and when the eastward gas flows exceed the forward haul rates, this should trigger a price review event.

A westward flow service also allows for users sourcing gas from mid-line sources such as QGC, Kogan, Peat or Scotia to divert excess gas to Wallumbilla and the connected markets on days and for periods when their Brisbane requirements are reduced. This allows for efficiency in market operation as a user such as CS Energy has operations serviced by other connected pipelines. The inclusion of Wallumbilla as a delivery point should be an intrinsic feature of the RBP's proposed reference service. Further market benefits are derived due to producers such as QGC being able to optimise field production rates to continue to provide competitively priced gas.

2. As Available Eastward Flow

The development of the RBP capacity has been underwritten by the users by way of long term contracts. There is still substantial unutilised capacity that will become available when the MAOP of the 16" line is achieved. In the high load factor, high growth SEQ market that has fully utilised the existing capacity that has been made available, it is arguable that MDQ related charges are no longer a valid requirement and that MDQ entitlements to transmission capacity should reside with the consuming parties that have directly or indirectly enabled the various pipeline expansions. The RBP throughput is not under threat as the quantum and nature of the market is not going to change over the term of the proposed access arrangement because of a different contractual approach in this respect.

Around the existing contracting basis, there is a need for a service to meet intermittent loads such as gas-fired generation and industrial users with either fuel switching capabilities or excess manufacturing capacity that could be selectively operated to build stockpiles of their finished products (eg brickworks, refineries).

This service could initially provide incremental revenue to the pipeline and should be correspondingly priced at a discount to the firm haul service. To allay any fears that the pipeline owner may have with respect to users progressively transferring off firm commitments as contracts expire, it may be appropriate to approximate an annual

utilisation by the market and take this into consideration in setting the firm haulage tariff. The As Available service could then be priced the same as the firm haulage service with some upside revenue potential for the pipeline owner. It is not plausible that an As Available service should command a tariff greater than the firm haulage reference tariff.

3. Capacity Trading

APT has not offered intra-pipeline capacity trading to existing Shippers and new shippers. Its Bare Transfer provision does not work in practice because of current refusals to allow Shippers to add receipt points and change existing negotiated contracted delivery points in the absence of technical grounds. The proposed access arrangement should be structured to comprehensively address this issue.

The SEQ market serviced by the RBP exhibits some unutilised capacity on daily and seasonal bases. To enable users to better understand their options in accessing and utilising unutilised capacity, both contracted and uncontracted, the aggregate of nominated delivery quantities should be posted, and accessible to prospective users as well as users, prior to the start of a gas day. Historic data should also be available for download as occurs in the Victorian market. Initially, there may be two relevant capacity node points:

(a) the aggregate of all nominations for delivery downstream of ML4A – this would give some guidance as to available capacity on the metropolitan section (there is a portion of the market that has fuel switching capabilities) and for delivery to intermittent loads upstream of ML4A; and

(b) the aggregate of all nominations for transmission upstream of the Condamine compressor – this would give guidance as to potential contractual offset for flow to Wallumbilla and Braemar/Condamine;

with other points identified as the market develops.

The market should also be able to access, via a web site posting, uncontracted capacity, and when currently contracted capacity becomes available. This should be updated with each entry into a new contract or renewal of a contract.

This process can be rapidly introduced with low implementation costs and merely portrays information supplied by the market participants to the pipeline – consent for aggregate data release for this purpose and in support of the pipeline explaining capacity availability and capacity constraints could be incorporated in the reference service documentation. It is recognised that participants under existing contracts may be required to give their consent to release of aggregate data drawn from their nominations and the operators of the RBP should issue a limited release consent form for consideration by those users.

4. Imbalance Trading

The need for such a service can be largely negated by changes to relevant terms of carriage on the RBP. At present there is no avenue available to users to amend pipeline nominations within appropriate timeframes and, despite awareness of changes to characteristics of consumption or gas sourcing, are forced to incur variance or imbalance quantities that may impact on market operations. In order to mitigate

these potential impacts, the RBP must provide an additional nomination option where a user can transfer an imbalance to another user (who will have lodged a corresponding transferee nomination) to evidence an off-pipeline transaction. This is a simple mechanism that can be implemented within the current nominations structure.

Another issue that arises is the contractual calculation of imbalances on a particular contract – a user may have multiple contracts and be in overall balance on the pipeline but may have compensating imbalances reported under 2 contracts with an associated risk of incurring charges. A single imbalance quantity should be calculated for a particular user to recognise the true state of their supply and demand. Again, the addition of all receipt points and delivery points to all access agreements would allow a user to make an uncharacteristic delivery to a delivery point in satisfaction of an off-pipeline transaction designed to discharge the imbalance. In this instance the pipeline integrity would be preserved as the aggregate of all delivery nominations to the relevant delivery point would equal the forecast market demand for that delivery point and be within the maximum delivered quantity historically observed for that delivery point.

APTPPL notes that in previous Access Arrangements such as the Moomba Sydney Pipeline Access Arrangement revenue from charges relating to overruns, balancing, variance etc has not been explicitly considered in calculating tariffs.

This statement by the pipeline owners merely recognises omission of consideration of these incremental revenue streams and impacts on market efficiencies in previous access arrangement reviews. It also reinforces that adequate commercial return is demonstrated to be achieved by asset owners under simple tariff structures without need for additional onerous charge structures. Users provide certain indemnities to the pipeline owner that should be sufficient to ensure actions of a particular user do not unduly impact on other users. If there is to be an additional regime of punitive charges, they should be capable of being levied only after the pipeline owner has adequately demonstrated the impact on other users. QGC is aware of the levying of charges for notional actions of variance and imbalance, but is not aware of instances (and certainly not in comparative numbers to the frequency of application of charges) where these imbalances or variances have impacted the market. Charges that are penalties and not reflective of the actual costs incurred by the pipeline owner should not be a feature of an access arrangement. As a minimum those income streams should be considered in the revenue determination for reference services or returned to the “compliant” users by way of a rebatable service.

The current nominations timetable specified in access agreements is unrealistic and out of step with the needs of the market and physical requirements placed on the pipeline owner to respond to nominations. The Victorian market, which features a large proportion of demand subject to the vagaries of the climatic swings in that region, has been able to function quite reliably with nominations closing immediately before the start of the gas day.

Producers are is able to operate more compression than is installed on the RBP and adjust scores of receipt points (wells) to meet the needs of their contracted users. Against the backdrop of the high load factor market serviced by the RBP, the pipeline’s responsibilities extend to management of some small compression facilities

and four inlet facilities at Wallumbilla to meet predictable aggregate demand. Over the term of the proposed access arrangements, flow response times will be shortened by the emergence of receipt points closer to the SEQ market, and the elevation in operating pressure in the mainline will provide more linepack to respond to minor variations. It would be beneficial to the market if the RBP entered into an operational balancing agreement with the operators of the Ballera-Wallumbilla Pipeline to manage the flow/nominations variations that may occur for eastward and westward flow across that interconnection. This no cost option would allow the RBP operators to manage the pipeline operations with an additional insurance product. The RBP should be able to implement on a firm basis nominations submitted up to an hour before the commencement of a gas day, and should be required to use reasonable endeavours to implement intraday nominations when a user becomes aware of a significant change to its sourcing or consumption of gas.

Another source of spurious imbalances and variations arises from the allocation protocols adopted by the RBP. The proposed approach in the access arrangement has been demonstrated to be less than optimal. The correct party to configure an allocation protocol is the operator of the interconnected facility. In the case of a connected network, the operator of a network is legally required under the market business rules to provide a breakdown of quantities received on behalf of each market participant at each network inlet. In the case of an industrial facility or a receipt point, the operators of those facilities are aware of the parties with whom they have contracted and the amounts that have been contracted to have been bought or sold. This provision/process has been a feature of some negotiated contracts and should be a requirement under any access arrangement to accurately reconcile the off-pipeline contracted positions of market participants. All delivery and receipt points have real time data communication with the RBP control centre – these connections can also be used for the timely relay of allocations data by the connected producer, industrial facility or network.

5. Zonal Service/Pricing

Gas consumption growth will be sustainable and competition would increase in a transparent economically efficient manner if the RBP provided Zonal Services and Pricing as Reference Services. Zonal Pricing would provide more accuracy in the provision of cost-reflective services by segregation of market wide costs and benefits from capital investments that are of benefit to particular market segments. It is natural that metropolitan users would benefit from particular investment in expansion of the mainline, but mainline users should not be burdened unnecessarily with expenditure on the metropolitan section. Similarly, the injection of gas closer to demand centres can generate savings that should not be dissipated unnecessarily. The zonal pricing structure should be implemented in this access arrangement to enable accurate costing of short haul services using available capacity between the Surat Basin and the Oakey power station as a clear example. The structure then lends itself to development of future access arrangements where Surat Basin production centres may then allow for reduced investment in expansion with corresponding clarity in access pricing. Zonal pricing also allows for clear identification of capital burdens vs capacity in cases such as the Peat-Scotia lateral which has already been underwritten via negotiated contracts and should not have its capital added to the initial capital base for determination of a tariff by users who have no need for that pipline section. Correspondingly, users

seeking access to that section should have a transparent process for determining incremental capacity and tariff on that section.

Trigger Events

The ACCC seeks comments on trigger mechanisms. The potential introduction of a new gas source to the Eastern Australia market has been proposed as but one option, however the underlying demand within the market will cause achievement of equivalent triggers. Increases in throughput due to generation or conventional gas market can be identified in annual planning reviews as can major increases in westward flow. These changes are best addressed under a central planning process due to the efficiencies achievable under shared infrastructure development. These planning forums can identify what loads will result in efficiencies reasonably being passed on to the market and which loads exhibit truly user specific aspects that do not generate system wide benefits and warrant a user specific charge/tariff.

Comments on specific sections of the Access Arrangement Information

Section 1.2
APT states that the nominal licensed capacity is 180 TJ/day. The nominal capacity under the access arrangement information should reflect the expanded capacity (>260TJ/day) available on the mainline with the increase in MAOP; and break down the metropolitan capacity to the different delivery points. Again, the Victorian transmission network is able to develop an algorithm to assign a benefit to users who agree to transfer capacity upstream and this process can be readily implemented with the simpler RBP configuration. The access arrangement should define the contracted capacity level up to which the reference tariff will be made available. Any increases in contracted capacity above this specified amount should trigger a review of the access arrangement pricing – this is of prime importance for sending appropriate pricing signals for the mainline load centres, however an increase in capital on the metropolitan section may be offset at least in part by more efficient utilisation of the mainline capacity. Then when a prospective or existing user sought capacity there would be an established process to access or increase the capacity within an approved Reference Service Tariff.

APT has voluntarily covered the pipeline from 1 January 2006 and rolled in some underwritten pipeline that is not clearly of sytem wide benefit. This requires more information as to how it will apply the Reference Services tariff, how much spare capacity is available (not contracted) and the duration of the availability. APT should address the issue as to why it has included this pipeline and separately identify the revenue being earned and forecast to be earned on the this Lateral.

Section 3.3
There are many items of concern in this section of the discussion however a couple of large recurring items are stated to be capitalized – in particular the access arrangement review costs and the routine compressor overhauls. These are predictable periodic costs and must be recovered over the period between applications – the increase in capital base proposed will only have the effect of increasing future tariffs. In addition, clarification is required from APT as to which capital costs it will bear and which capital costs in these estimates the Shippers will bear.

The actual operating costs such as compressor maintenance/overhaul that APT may expend should be amortised ("smoothed") over the periods between occurrence by use of a sinking fund or accrual – the suggestion that they be capitalized leading to slow recovery and holding costs over periods of up to 35 years for a compressor station. This is compounded by the adopted approach of increasing the capital base which will increase the base under consideration at the next access arrangement review inherently leading to artificially inflated tariffs. APT in its last two annual reports indicated that nationwide it spent less than $5 million per annual on stay in business capital (SIB).

Section 3.5.2.2

The statement that power stations present downside risk to a pipeline seems extraordinary given that these 25 to 40 year assets are constructed after the financiers have been satisfied that adequate gas sourcing and transportation arrangements have been put in place. Again, given the extraordinary growth observed in the industry it is difficult to identify a down side risk. Particular examples in Queensland of the construction of the BP clean fuels project which result in construction of the Peat lateral, and the construction of Swanbank E which resulted in extension of a lateral to Scotia and the final looping of the Roma to Brisbane pipeline. Origin is building a lateral from its Spring Gully field to Wallumbilla. Santos has announced that it will build a lateral from the Fairview gas field to Wallumbilla. The Braemar Power Station is building a dedicated gas pipeline to its power plant taking gas from the RBP at Condamine. The Mica Creek power station and industrial load centre of Mt Isa and the northwest province provided for the construction of the Carpentaria pipeline. A recurring point in assessing the operation of the RBP is the availability of capacity hence the risk in maintaining a secure income stream can be assessed as lower than proposed.

Table 10 and Section 6.4.1

The suggested cost of $9.3 million for OPEX and attempted justification by comparing the figure to a percentage of the optimized replacement cost appears high in both instances. The rule of thumb of cross checking or comparing the costs against the actual capital costs is the most appropriate – it is reasonable to expect these costs to rise annually at the rate of inflation.

Given the extensive transmission pipeline systems operated within Australia it seems unlikely that an affiliated company is the only entity capable of managing aspects of the pipeline. Additionally, the sum contained within an invoice from an affiliated company is insufficient evidence of actual operating costs.

APT in its annual reports has indicated that nationwide the operating costs were about 21% of pipeline revenue. For the RBP this would be about $6 million per annum whereas APT is indicating an annual operating charge of $9 million. This estimate needs further clarification by APT.

Comments on specific Access Arrangement Terms and Conditions

Clause 2.1.1(c) – why are the words after “Agreement” required

Clause 2.2 – We do not understand what Non-Discriminatory Manner means when the definition neuters it.

Clause 2.3.1 – should also include administrative services in operating the pipeline.

Clause 2.3.2 (c) – the aggregate of MDQ’s does not have to be the same – this is demonstrated in many applications including the Carpentaria pipeline Access Arrangement. Transmission pipeline capacity is the service on offer not receipt point capacity or delivery point capacity – the receipt point capacity is determined by the gas field operators who cannot oversell capacity & delivery point capacity is determined by the needs of the industrial facility or network being supplied. The RBP in its earlier Wallumbilla to Ellen Grove configuration is a series of short pipelines interspaced with compressor stations, with each section having equivalent flow capabilities. Physically, one would expect the sum of delivery point capacities to exceed the sum of receipt point capacities.

Clause 2.3.3

This is an irrelevant and inaccurate provision. RBP states in its further information:

gas composition: *differing heating values of gas will result in the pipeline being able to deliver a greater or lesser amount (for example, where gas has a high heating value, the pipeline can deliver a greater quantity of gas than would be the case where the gas has a low heating value).*

Gas transmission charges are levied on an energy throughput basis. This corresponds to the needs of the market where the users have a defined need for energy, not volume. The capacity limits of a pipeline are specified by reference to the ability to transport energy, not volume. A lower heating value exhibited by a particular gas may be due to a higher percentage of methane (and lower content of heavier hydrocarbons), such as is the case with coal seam gas. Correspondingly, the coal seam gas has a lower density than some conventional sources and generates lower frictional losses to the extent that the volumetric quantities able to be transported are compensatingly higher. Conversely, a higher heating value gas will have a higher density and incur higher frictional losses such that lower volumetric amounts can be transported for a given pressure loss by comparison to coal seam gas. The net outcome for the diversity of gas sources connected to the RBP is equivalent Wobbe Indices (within metering accuracies) and hence energy throughput.

The determination of frictional loss is by a mass flow calculation & the actual measure of relative energy flows through a pipeline for different gas analyses is the Wobbe Index. This has been considered by the industry in establishing a range of permissible values of the Wobbe Index in the AS 4564, further supported by a limitation on the allowable percentage of inert components that may otherwise depreciate the energy transmission capacity of a pipeline. Coal Seam Gas has a lower HHV but also a lower Relative Density giving a Wobbe Index equivalent to gas sourced from Ballera. Yet the formula proposed, if applied would see shippers potentially and erroneously incur a 6% higher tariff in certain circumstances.

Clause 2.3.4
There is no apparent economic need for overrun charges/premiums in a stagnant or growth market – the load is at least as per projections – the application of sudden death (if a shipper is out by a GJ then charges follow ?) process is inappropriate. The only provision required for safe operation is the indemnity in the case of unauthorised overruns that impact on other users. Otherwise useage by a particular shipper represent upside for the pipeline. The pipeline also has other provisions where a shipper is required to reduce demand or supply as required to maintain balance.

Clause 3.3.3
Daily variance charges are a barrier to new entrants. They also don't seem to serve any meaningful purpose as they look at delivery point volumes and receipt point volumes separately. As long as the aggregate of delivery points and aggregate of receipt volumes are in balance over a period of three days there should be no impact on the pipeline.

Clause 3.3.4
The capital value of these assets must not be added to the asset base if they are not for system-wide benefit.

Clause 4.1
4.1 (a) (i) is not a practical consideration/inclusion as those contracts were not negotiated with the benefit of current market and capacity considerations. The Access Arrangement should provide for economically efficient outcomes of existing and projected capacity opon consideration of actual investment and existing market conditions.

Clause 4.3
We are uncertain how this clause operates if the actual capital cost is not a consideration in determining what are intended to be cost-reflective tariffs.

Clause 4.4 (d)
It is not understood how an OPEX cost become transferable to a change in Capital Base.

Clause 5
Commercial considerations must be specifically excluded as a consideration outside of the intention of the Code.
5.5(a) is a requirement that APT must agree to agree unilaterally – this is not a valid inclusion.

7.1 (b), 7.2(b) and 7.2(c)(ii) – the pipeline expansion is to be covered which would imply a Reference Service tariff but a negotiated tariff is required. ? The Reference Service tariff should be stated to be a cap. This is particularly significant since modest compression changes can yield significant capacity boosts for this pipeline.

Clause 54 of the Principles requires further consideration – the "date of execution" section is a new entrant barrier.

Clause 55 – this has been a historical problem as APT has been unwilling to accept the User's requirements.

Clause 67 of the Principles – commerciality tests/limits not tolerable; legal costs indicated in (a) can be solved by having a proforma agreement in the AA.

Schedule 3 – it is common for users to arrange for delivery points. Non-users such as gas producers or other pipelines normally cause construction of receipt points under a specific pipeline licence and its attendant conditions, legislative approvals and inspections. The proposed unspecified authorisations and unilateral satisfaction with terms do not provide certainty. A standards register/disclosure may enable the market to understand "AAPT's usual standards" which should be reasonable within the relevant standards and legislation.

Schedule 4.

Variations between gas specifications are a recognised disincentive to gas market development. QGC is opposed to the concept of nominal gas specification limits but is willing to accept the inclusion of legacy limits in excess of AS 4564 to the extent that existing shippers actually require those limits to be maintained. There is a limit on the exemption granted by the State that the exemption is not valid upon interconnection with other States. This interconnection is forecast to occur during the period of the access arrangement. Alternative nominal specifications present difficulty to new users and producers. The standard of AS 4564/QLD legislation should be adopted without tinkering (as manipulation has occurred in the table on page 47 with respect to inclusion of a CO_2 limit). The specified CO_2 limit will exclude coal seam gas from some sources. All users will benefit from the application of specifications established in an Australian standard developed by collaboration between industry participants including transmission operators, producers and end users, and further enshrined by law in all eastern Australian gas market jurisdictions as the future position for delivery into networks.

System Use Gas – if a pipeline configuration is portrayed as leading to compression being a lower capital cost to the owner than looping or early overcapacity construction, then SUG must be a logical consideration in cost structures for efficient market operation and should be the responsibility of the pipeline owner. Transferring system use gas obligations to shippers may result in an aggregate cost of line tariff + SUG exceeding the potential looping costs and impair market economies. Other pipelines have attempted to manage the nexus by capping a user's system use gas contributions as a percentage of throughput. This also provides the pipeline with flex in choosing to sell some interruptible services without all Users having to pay SUG penalty.