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Santos

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15 December 2000

Ms Kanwaljit Kaur
Acting General Manager
Regulatory Affairs – Gas
Australian Competition & Consumer Commission
GPO Box 1199
DICKSON ACT 2602

Dear Sir

Revisions to the Principal Transmission System Access Arrangement - Victoria

Thank you for your letter of 17 November and the opportunity to comment upon GPU GasNet Pty Ltd's submitted revisions to the access arrangement.

In principal Santos Limited supports the proposal by GPU GasNet to expand the capital base of the principal transmission system to include the costs of the Southwest Pipeline, on the basis that it passes the system wide benefits test contained in the Code.

System Security

It is clear that in the event of a further interruption of gas supply from Longford, the interconnect which allows Moomba gas to be supplied to the Victorian Principal Transmission System would be inadequate to meet the Victorian gas demand. It is noted that when the Longford incident occurred, concern quickly arose about the supply to essential services and potential technical difficulties with the system if sufficient gas could not be injected. The Southwest Pipeline is essential to assist to overcome such concerns in future. New sources of supply for system security therefore need to be found and the Southwest Pipeline and its connected sources of supply provide additional security for the whole system. The danger of interruption to supply in Victoria is exacerbated by the fields supplying the Longford Plant now also being used to supply New South Wales via the Eastern Gas Pipeline.

With regard to the costs and design of the pipeline Santos suggests that the pipeline has been designed to be expanded at minimal cost. This encourages further exploration and development in the Otway Basin. It allows peaking gas to be quickly injected into the Principal Transmission System. Those benefits add substantially to system security and should be contributed to by all beneficiaries of the security.

The Victorian Government supports this view and gave that support concrete effect with a contribution of \$7.3 million to the construction of the new pipeline. Supply security was their stated reason for the contribution at the time of making it. In addition to possible supplies from the Otway Basin, the pipeline also gives access to the Western Underground Gas Storage (WUGS) Facility at Iona which performs vital supply functions in the event of Longford being unavailable and provides vital peaking capacity in times of high demand in Victoria. These features add to security.

Competition

Santos Limited notes that a high tariff would reduce incentives for gas exploration and development in Western Victoria. New smaller gas discoveries in the region will not be able to compete at high transport costs and will not be brought into production, thus depressing exploration and development expenditure in the region. If the cost of the Southwest Pipeline was not rolled into the Principal Transmission System, all gas in Western Victoria will be put at a competitive disadvantage to other gas injected into the system. The high tariffs may dissuade Santos Limited from further investment in its gas plant at Heytesbury.

Matching Costs and Benefits

The Principal Transmission System in Victoria has already acquired the benefits of gas exploration and development in Western Victoria by the construction of the Southwest Pipeline. Santos Limited suggests that it is illogical and inequitable for the system as a whole to acquire the benefits without having to contribute to the cost of those benefits. It is therefore suggested that the costs of the pipeline should be rolled into the costs of the Principal Transmission System.

Santos Limited looks forward to the decision of the ACCC.

Yours faithfully



J.H. Anderson

Manager Legal & Business Services