

Santos Ltd
A.B.N. 80 007 550 923
Level 14 Santos House
60 Edward Street
Brisbane Qld 4000
GPO Box 1010
Brisbane Qld 4001
Telephone: (07) 3228 6666
Facsimile: (07) 3228 6999

REF: N:\pipeline\acc_duke pipeline_2000 lcl.doc
FILE: 15.12.2

20 October, 2000

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

Dear Madam,

Santos Submission
Wallumbilla to Rockhampton via Gladstone Pipeline Access Arrangement

I refer to your letter of 12 September 2000, regarding the Australian Competition & Consumer Commission's ("ACCC") request for public comment on the Wallumbilla to Rockhampton via Gladstone Pipeline's ("Duke Pipeline") Access Arrangement.

By way of this letter, Santos is pleased to provide the following submission to the ACCC on the proposed Access Arrangement for the Duke Pipeline.

1. Introduction

Unlike other major Queensland pipelines, Santos is not a shipper of gas in the Duke Pipeline. However, Santos is a major supplier of gas into the pipeline through its Denison Trough and Surat production facilities, and the South West Queensland Producers' deliveries into the Duke pipeline through the Epic/Duke interconnect.

You will note that most of Santos' comments relate to Duke's trading policy, and specifically provision of additional receipt and delivery points. Santos believes the Duke Pipeline is the most active pipeline in Queensland with regards to trading. Duke encourages all pipeline participants (viz: producers, shippers and traders) to engage in commercial activity. Accordingly, on any day there may be multiple financial transactions for each physical gas transaction. This is different from other

Queensland pipelines where serious barriers to trading have restricted effective competition and utilisation of capacity reserved by firm shippers.

Nevertheless, while in practice Duke's approach is to encourage trading, its formal policy, and specifically the provision of additional receipt and delivery points, requires further development.

2. Services Policy

Santos understands the Firm Forward Service, Backhaul Service and As Available Service are the three Reference Services under the Access Arrangement and these services encompass a significant part of market requirements. Any ancillary service which is not gazetted as a Reference Service under the Gas Pipelines Access (Queensland) Act 1998 can be reviewed by the ACCC, if either participant elects to refer the matter to the ACCC for authorisation. Under this circumstance, Santos considers Duke's approach to be appropriate.

Whilst Santos recognises Duke's Reference Tariffs have been determined by legislation in Queensland, it is appropriate to provide some further comment on this topic. Naturally, competitive pipeline tariff arrangements are important to help foster market growth for gas in Gladstone and Rockhampton, which in turn supports expansion of Queensland's gas production facilities and encourages further exploration. For some time Santos has indicated its concerns with the high cost of transportation in the Duke pipeline. Indeed the combined reference tariffs for the Epic and Duke pipelines to transport Cooper Basin gas to central Queensland are more than twice the reference tariff for the Cooper Basin to Sydney pipeline and three times the Moomba to Adelaide pipeline tariff. This makes Cooper Basin gas significantly less viable for central Queensland customers compared to those of the Southern States.

3. Trading Policy

Overseas experience has demonstrated that as the gas market develops, there is an increasing desire by various participants to trade gas transportation capacity. Indeed, this process may involve multiple financial transactions per single physical gas transaction.

A flexible trading environment should provide mechanisms for shippers to utilise additional receipt and delivery points. To allow the Service Provider to withhold consent based solely on its own determination of reasonable commercial grounds may be inappropriate, and creates a potential conflict of interest for the Service Provider. In making this comment Santos believes that, to date, Duke has approached all requests on a reasonable basis.

Nevertheless, Santos proposes the following mechanism to provide an equitable basis for determining what is "reasonable commercial or technical grounds", rather than the judgement being at the sole discretion of the Service Provider.

The Service Provider shall provide access to an additional receipt or delivery points without consent being required where the shipper satisfies the following conditions:

- (i) The aggregate of the varied receipt or delivery point maximum daily quantities (MDQs) does not exceed the aggregate of the shipper's receipt or delivery point MDQs prior to the inclusion of the additional receipt or delivery point.
- (ii) It is technically feasible, within the constraints of the Service Provider's contractual obligations to receive or deliver the varied MDQs at the specified receipt/delivery Points.
- (iii) The shipper makes all appropriate arrangements with its customers as a result of the variation nominated.
- (iv) The Service Provider will not, as a result of such a variation, incur any additional capital cost which it would not otherwise have incurred, or will be required to advance the time at which capital costs would otherwise have been required. In the event that a new receipt or delivery point is required, an agreement by the requesting party to indemnify the service provider for the additional costs (both capital and operating) will suffice to ensure that the service provider will not incur any additional capital costs.
- (v) As a result of the variation, and where the transportation distance is equal to or less than previously provided under the shipper's transportation contract, the shipper will pay the same amount of revenue to the Service Provider. Where the transportation distance is increased, the shipper will provide additional revenue in accordance with the Service Provider's Access Arrangement to satisfy the incremental transportation distance.

In the circumstances where the shipper does not satisfy all of the above requirements, then consent will be required by the Service Provider based on reasonable commercial and technical grounds. The ACCC should adjudicate any situation where the user believes the Service Provider has rejected its request on unreasonable grounds.

4. Extensions/Expansion Policy

Santos understands that any expansion of pipeline capacity leading to Firm Forward Haul Services in excess of 25 PJ/a will result in a reduction in tariff by 8.5¢/GJ. Whilst this provides some form of revenue sharing, the extent seems relatively small given that full compression can increase pipeline capacity to in excess of 50 PJ/a.

5. Duration of Access Arrangements

The South West Queensland Producers have committed to regular price reviews (in some cases for periods shorter than five years) under a number of gas sales contracts. This ensures that gas pricing continues to be reflective of market conditions. It is also appropriate to be reactive to changing market conditions, which may involve the development of additional infrastructure. In these circumstances it is appropriate that regular reviews are undertaken of both the Reference Tariff and non-tariff elements of the Access Arrangement.

Furthermore, it would be inappropriate that regulation assisted a non review of the Reference Tariff when alternate forms of infrastructure development resulted in additional pipeline and producer competition. For example, the completion of the PNG gas pipeline or other major market development should automatically trigger a review of the Duke Access Principles.

6. Conclusion

This submission primarily seeks to highlight that in Santos' opinion, Duke's Access Arrangement is deficient in developing appropriate mechanisms which establish reasonable commercial and technical terms for the provision of additional receipt and delivery points. Whilst Duke's submission on trading policy may satisfy its legal requirement under the National Third Party Access Code, from a pipeline users prospective, Santos contends additional parameters are required to provide a formal mechanism. As we have highlighted, Duke is the most flexible transportation provider in Queensland. In no way should Santos' suggestions be interpreted that Duke has not sought to provide flexible arrangements for shippers and producers. Rather, this submission seeks to formalise a productive process of handling additional receipt/delivery points which currently exists.

If you have any queries regarding this submission, please call Mr Rod Rayner on (07) 3228 6660.

Yours sincerely,

Rod Rayner

Manager Commercial

cc: Barrie Brandt
 T C Lutton Delhi Petroleum Pty Ltd
 J Rodda Origin Energy Resources Ltd/
 Oil Company of Australia Ltd
 R A Rayner Vamgas Pty Ltd/Santos Petroleum Pty Ltd
 Santos Australian Hydrocarbons Pty Ltd