27 June 2012

Mr Chris Pattas
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Dear Mr Pattas

Ringfencing Exemption Application – Meridian SeamGas Joint Venture
Response to Draft Decision

I attach the Applicants' response to the AER's Draft Decision dated June 2012.

The Applicants welcome the conclusion in the Draft Decision that they should be granted an exemption from compliance with section 140 in respect of the sharing of marketing staff. The Applicants also welcome the practical approach taken in the Draft Decision, including the recognition that the absence of any current or prospective third party users of the DVP is an important consideration in identifying the possible public benefit of requiring the Applicants to comply with the ringfencing obligations in sections 139 – 141 of the National Gas Law.

If you wish to discuss this letter, please contact Mr Garth Borgelt, Commercial Manager on 07 3020 0915 or by email at garth.borgelt@westsidecorporation.com

Yours faithfully

Julie Beeby
Chief Executive Officer

RESPONSE OF APPLICANTS TO DRAFT DECISION ON APPLICATION FOR EXEMPTION FROM RINGFENCING OBLIGATIONS IN SECTIONS 139 – 141 OF THE NATIONAL GAS LAW

MERIDIAN SEAMGAS JOINT VENTURE AND WESTSIDE CORPORATION

1. ***Section 139 – related business exemption.***

The Applicants agree with the AER's conclusion that the DVP is not a significant part of the gas pipeline system in Queensland and that Rule 31(3)(a) is met.

The Applicants confirm that the estimated fees of $200,000 was not intended to be an exhaustive assessment of the costs which would be incurred in separating the transportation and gas exploration/production businesses undertaken by the Applicants. Rather, this was an indication of the level of advisory costs which would be incurred if the businesses had to be separated. In light of the conclusion in the Draft Decision that Rule 31(3)(b) is satisfied as it is likely that the costs of separation would outweigh the benefits of compliance , the Applicants will not provide further information in relation to the nature or level of costs likely to be incurred if separation were required.

The Applicants welcome the conclusion in the Draft Decision that the Protocol established by them, together with an appropriate Term Sheet, would satisfy the requirements of Rule 31(3)(c). A revised Term Sheet has been provided separately to the AER, and the Applicants consider that this revised Term Sheet establishes an appropriate "baseline" to enable the AER to assess the nature or effect of any future variation to those arrangements.

2. ***Section 140 – marketing staff exemption***

The Applicants welcome the conclusion in the Draft Decision that all Applicants be exempted from the ringfencing obligations under section 140.

The Applicants note the conclusion in the Draft Decision (page 15) that MEPAU could be an associate of each of WestSide Corporation, WestSide A and WestSide D. For the purposes of this application, the Applicants will not object to that conclusion, although this should not be regarded as confirmation by the Applicants that they do agree with the conclusion.

Similarly, while the Applicants consider the issue is unclear, the Applicants do not object to the approach in the Draft Decision on the question of whether WestSide "takes part in a related business" for the purpose of section 140 (page 15), or whether WestSide provides "pipeline services (page 16).

The Applicants note that the Draft Decision does not agree with the estimated costs for marketing activities to be undertaken if the exemption is not granted (page 18). The Applicants consider that the

estimate included in the application for exemption was reasonable; among other matters, there has been a significant change since 2007 in market conditions for skilled contractors in the energy and resources sector. However, in light of the conclusion in the Draft Decision – that the additional costs of compliance are likely to outweigh the public benefit of compliance – the Applicants will not address this issue further. The Applicants support the approach in the Draft Decision, of recognizing the impact of additional costs, even if less than estimated, on the Applicants (page 18).

3. *Accounts exemption*

The Applicants note that the Draft Decision concludes that section 141(b) *"simply requires 'a consolidated set of accounts' incorporating both regulated and unregulated segments of the company's business .. [and that] ..In the absence of any financial or regulatory reporting obligations on the part of WestSide A and WestSide D, the AER would not require the two companies to prepare their financial accounts to a particular accounting standard"* (page 22).

The Applicants also note the conclusion in the Draft Decision that section 141 is directed at ensuring that the accounting information used in an access arrangements review is *"as transparent, consistent and verifiable as possible"* (page 22). The Applicants also note the AER's view that keeping of separate accounts *"will also enable the AER to better examine the cost allocation between the regulated segment and the unregulated segment of the business"* (page 22).

The Applicants welcome the approach in the Draft Decision that the AER is willing to assess alternative arrangements which substantially achieve these public benefits without full compliance with section 141 (page 23). The attachment to this submission sets out the proposed manner in which the Applicants will prepare a set of accounts for the pipeline services provided by the DVP ("**proposed approach**").

To the extent that keeping accounts as set out in the proposed approach is not sufficient for compliance with section 141(a), the Applicants submit that the public benefit of requiring full compliance with section 141(a) does not outweigh the additional costs of such compliance.

ATTACHMENT TO SUBMISSION DATED 27 JUNE 2012

PROPOSED MANNER OF PREPARING ACCOUNTS FOR PIPELINE SERVICES PROVIDED BY DAWSON VALLEY PIPELINE

[COMMERCIAL-IN-CONFIDENCE]