

Offshore Australia Facsimile: 08 8224 7162

8 June 2001

*Ref:* 2575/06/01

Mr Kanwaljit Kaur  
General Manager  
Regulatory Affairs – Gas  
Australian Competition and Consumer Commission  
P.O. Box 1199  
DICKSON, ACT 2602

Dear Mr Kaur,

**Draft Decision re Access Arrangement by N.T. Gas Pty Ltd  
for the Amadeus Basin to Darwin Pipeline**

Santos herein provides a response to the Draft Decision Paper issued by the ACCC on 2 May, 2001. The attached document should be read in conjunction with Santos' 1999 submission regarding Access Arrangements for the ABDP.

Any questions regarding either of our submissions should be addressed to the undersigned via telephone (08) 8224 7281.

Yours sincerely

Andrew Winter  
**Manager Commercial – Offshore Australia**

*Attachment*

# **ACCESS ARRANGEMENT BY N.T. GAS PTY. LTD FOR THE AMADEUS BASIN TO DARWIN PIPELINE (ABDP)**

**Submission on behalf of Santos Offshore Australia Business Unit**

**8 June, 2001**

*Non - Confidential Version*

## **BACKGROUND**

Santos' Offshore Australia Business Unit (OABU) holds a material interest in gas reserves and resources located in the Timor Sea.

Santos' ability to commercialise these reserves and resources is largely contingent upon satisfactory agreements being secured for:

- Gas sales contracts with domestic customers that are sufficient to underwrite the commercial development of the fields; and
- Long term gas transportation arrangements to supply these domestic markets. Obviously the Access Arrangement is vital in this regard.

Depending on the gas markets ultimately secured, a Northern Australia Gas Project that injected gas into the ABDP could substantially alter the operation of the pipeline. The Draft Decision's wording highlights the importance of the Access Arrangements to future developments:

".....the Draft Decision will be an important reference point for future negotiations on gas haulage services in the NT especially with uncertainty about delivery of Timor Sea gas to Darwin".

## **FURTHER SUBMISSIONS AS REQUESTED**

The Draft Decision attempts in part to take account of the potential gas transportation issues associated with an offshore NT gas development, and further submissions have been requested regarding the issues of back haul and zonal pricing.

### **Zonal Tariff Structure**

The Draft Decision (page 81) seeks further comment from interested parties relating to the potential benefits and costs associated with distance based pricing.

The cost of transporting gas from an injection point anywhere within the Zone 3 area to Darwin under the Draft Decision terms would be \$0.51/GJ (ie "postage stamp"). Under this structure the same tariff applies for gas transportation 407km from Mataranka to Darwin as would apply for a much shorter sector from an

injection point near Darwin. In the case of a Petrel Tern development, where one concept would involve connection to the ABDP close to Darwin, such a tariff proposal would have a significant negative impact upon project cash flows.

Zonal tariffs do not provide maximum flexibility and will potentially create a disincentive for the development of new projects and for the use of the ABDP for Timor Sea gas. This could give rise to the potential stranding of the ABDP. Santos reiterates that the best solution would be for the Access Arrangement to propose a tariff on a \$/GJ/km basis. In this way users would pay for use of the pipeline on a basis consistent with the length of the pipeline used.

Santos recognises that under the existing supply source and customer base, “the majority of ABDP’s customers are located towards the end of the pipeline, the practical difference between distance and zonal pricing is likely to be minimal”. However this may no longer be the case as Timor Sea projects are developed. If distance inequalities are resolved at this point in time, then the Access Arrangements will be better placed to deal with new developments and the entry of Timor Sea Gas, thus providing a better “reference point for future negotiations”.

### **Back Haul in ABDP**

The Draft Decision (page 104) seeks commentary on a number of back haul issues, each is dealt with below:

- (i) Whether it is likely that Timor Sea gas will come onshore.

Based upon the numerous press releases relating to market and development status of Timor Sea gas it is highly likely that Timor Gas will be sold to the onshore domestic gas market.

- (ii) Whether to include a section 3.17 trigger in the access arrangement.

A Section 3.17 trigger should be included in the access arrangement in order to reflect the likely event of Timor Sea gas coming onshore, and the potential for utilising the ABDP as part of that development.

- (iii) If so, how to define a “significant major event” for purposes of that trigger.

A “significant major event” should be defined as being a good faith, bona fide request for back haul services that can be appropriately supported by the requestor.

- (iv) Whether the regulator’s scope for review of the access arrangement should be limited, for example reviews of the tariff structure only.

The regulator’s review should not be limited at this point as it would seem too difficult to accurately foresee those issues that may or may not be relevant at the time of a “significant major event”. In addition, it would be expected that the regulator would need to take account of a wide range of commercial and related issues at that time.

## **CONCLUSION**

Santos appreciates the opportunity to provide further comments in relation to the Access Arrangements for the ABDP. We request that the comments and concerns expressed herein be incorporated into the revised Access Arrangement in order to assist with the commercialisation of the Timor Sea gas resources.