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Mr Mike Jansen
Office of Gas Access Regulation
Level 6 Governor Stirling Tower
197 St Georges Terrace
Perth WA 6000

Dear Mr Jansen

PROPOSED ACCESS ARRANGEMENT – GOLDFIELDS GAS TRANSMISSION PTY LTD (GGT)

Apache Energy Limited (AEL) submits the following comments for the consideration of OffGAR in its assessment of GGT's proposed Access Arrangement. Apache has reviewed the document from the point of view of achieving cost reflective distance related tariffs based on realistic market outlooks.

In making our comments we presume that OffGAR will establish the financial assumptions that are appropriate to the provision of regulated gas transmission services. We have been mindful of the National Access Code, but have not benchmarked our comments against it.

Access Arrangement - General Terms and Conditions

The following issues should be addressed by OffGAR in its review.

(a) The basis for and terms of Parking and Interruptible Services

(b) The terms for procuring short-term pipeline capacity through the (interruptible) Supplementary Quantity Option.

(c) The basis for charges for Daily Overrun, Hourly Overrun and Quantity Variance.

(d) The proposed right of GGT to vary the Quantity Variation charges through notice in writing to Users without any Regulator involvement.

Access Arrangement Information

3. Overview – Goldfields Gas Pipeline (GGP)

GGT asserts in its Overview that the failure of the Economic Development Tariff to generate any firm commitments indicates that

- gas markets in the region are price inelastic; and
- there is little prospect for load growth during the (5 year) Access Arrangement Period.

The requests sought of AEL for gas supply proposals, and the emphasis on delivered gas pricing by these potential gas buyers, do not support the GGT position. Had GGT tariffs been less, there may have been more load growth.

3.3 What Makes the Goldfields Gas Pipeline Significantly Different?

The GGP may face particular circumstances by way of its location and customer base but this issue is over-emphasised by GGT in developing its case and formulating its Reference Tariffs.

(a) Fuel on fuel competition may be possible but is limited practically as:

- (i) current gas consumers are (to varying degrees) committed to GGT and to gas suppliers under medium to long term gas supply contracts;
- (ii) switching between gas and diesel is not as simple as presented given (i) and will result in significant incremental costs to the user; and
- (iii) not all customers have dual fuel capability.

(b) Competition from other pipelines is at this point largely notional and in any event is only likely to eventuate if GGT tariffs are uncompetitive and invite such bypass arrangements. With its infrastructure in place, GGT would be expected to be consolidating and growing the pipeline capacity market.

(c) The world class ore reserves existing in the vicinity of the GGP (from the Pilbara to Kambalda) and the calibre of the companies owning and operating the mines and mineral processing facilities underpin an expectation of a growing gas market for the GGP and limit GGT's demand risk, particularly if transmission tariffs are reduced.

(d) The business risk facing the GGP may be greater than that facing say a gas transmission business with a very large domestic customer base such as Victoria. However the GGP's existing and future business prospects are not, relatively so significantly different and risky from other onshore pipelines in general as to require a rate of return or discount rate which is out of line with decisions made to date under the National Third Party Access Code.

4. Capital Costs

We believe OffGAR should review the following.

(a) The validity of an Optimised Replacement Cost arrived at by the escalation of the original construction cost (from $456m. to $506.7m).

(b) The use of pipeline licence durations as an estimate of the economic life of the GGP for depreciation and other purposes. Rather than a realistic pipeline load profile, Appendix C shows forecast throughput falling to around 20 TJ/day from 2017, implying that many of the GGP's existing contracts will not be renewed and new demand will be very limited. Presumably the original investors in the Goldfields Gas Pipeline and more importantly the recent purchasers of the pipeline would not have based their respective investment decisions on forecast throughput and earnings as represented by Appendix C.

7. Access and Pricing Principles

In its consideration of GGT financial assumptions, OffGAR should review the following.

(a) GGT's Beta value. This is at the high end of the range. AEL would not expect such a difference between the Beta applying to the Parmelia pipeline and that of the GGP given the arguments outlined above with respect to the riskiness of the GGT business.

(b) The proposed debt margin of the GGT Joint Venture companies.

(c) Tax Rate. A tax rate of 30% needs to be factored in to the Access Arrangement period.

Conclusion

Apache is of the view that the prospects for increasing gas demand and hence utilisation of pipeline capacity are good provided the delivered price of gas encourages that growth. For this to be the case, the assumptions used to derive the proposed tariff need careful review. We look forward to OffGAR addressing our concerns on the proposed Access Arrangement.

Yours sincerely

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