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14 August 2001

Dr Ken Michael
Gas Access Regulator
Office of Gas Access Regulation
Level 6
197 St George's Terrace
PERTH WA 6000

Dear Dr Michael,

OffGAR'S DRAFT DECISION ON THE DBNGP ACCESS ARRANGEMENT

I refer to the recent draft decision by OffGAR on the Dampier to Bunbury Natural Gas Pipeline Access Arrangement ("Draft Decision") and your invitation to interested parties to submit comments. ARC Energy NL ("ARC") is an active participant as a gas producer and marketer in the WA gas industry and we are therefore accepting the invitation to comment and express our views on the Draft Decision.

This submission is not based on any particular aspect of the Draft Decision nor the adherence or otherwise to the principles of the *National Third Party Access Code for Natural Gas Pipeline Systems* upon which the Draft Decision has been based. Rather, our submission is intended to comment on the impact that the Draft Decision is likely to have on the WA gas industry in terms of achieving a competitive as well as fair and equitable market environment. Western Australia must have a form of regulation which encourages and provides market incentives for sustainable investment, both in the upstream and downstream sectors of the market. Clearly, these have, and continue to be, the key stated underlying objectives of the WA gas market deregulation process and, indeed, represent the primary focus for the associated regulatory regime.

ARC's primary concern in regard to the Draft Decision relates to the effect of the suggested reduction of current DBNGP transmission charges. I refer specifically to the overall competitiveness of alternative, non-DBNGP related energy sources such as Perth Basin gas production, coal and renewable energy developments. The alternative energy sources have played a key role in achieving a highly competitive energy market in the South West of WA in recent years and this should receive serious consideration and not be jeopardised.

As you will be aware, in the case of Perth Basin gas production, the primary available market is in Perth and parts of the Southwest accessible by the Parmelia Pipeline. These markets are effectively at the “doorstep” of the Perth Basin similar to the Pilbara region for North West Shelf (“NWS”) gas. You will also be aware that the current Parmelia Pipeline access tariffs (ie \$0.58/GJ) as approved by OffGAR last year, are not comparable to the present DBNGP tariffs of \$1.00/GJ on a relative distance basis. However, the absolute lower tariff on the Parmelia Pipeline nevertheless provides Perth Basin gas producers with a transport cost advantage over NWS gas in a similar way that NWS gas has a clear transport cost advantage to Perth Basin gas for regional customers/projects that are at the NWS’s “doorstep”.

We respectfully submit that the suggested \$0.25/GJ tariff reduction, if confirmed as part of your final Decision, substantially erodes the transport cost advantage available to Perth Basin gas producers for their primary market and will seriously affect the viability of this alternative energy source in light of the already marginal nature of these operations.

In the absence of an equivalent tariff reduction for the Parmelia Pipeline, (which we accept must be considered unlikely in the short to medium term) the suggested DBNGP tariff reduction will directly impact the Perth Basin’s wellhead price. As a consequence of this, the ability and preparedness of companies within the Perth Basin to commit further high-risk investment funds towards sustainable exploration and development activities will be seriously jeopardised. Conversely, the wellhead price of NWS gas producers will not be affected by the Draft Decision and, over time, can be expected to increase due to the reduced competitiveness of the market with fewer viable alternative energy sources.

The Perth Basin, as an alternative gas source to the NWS, has played a vital role in recent years in driving the gas market deregulation process. This has provided substantial benefits, not just to the larger gas consumers, but also to small to medium sized businesses. Until recently these have been exclusively subject to the existing monopolistic regime and hence considerably higher gas prices. The continuance of this competitive element will clearly be a function of the availability of sustainable alternative energy sources which, as discussed, would be considerably impacted upon in the future by the Draft Decision.

As I am sure you will appreciate, ARC Energy and its shareholders has borne the brunt of deregulation to date, with little support or understanding from the various regulators. It now appears that ARC will again be put at a disadvantage if the suggested price regime is, after further consideration, formalised.

ARC strongly supports the views expressed by EPIC Energy and others that the Draft Decision will provide disincentives for future pipeline infrastructure developments in WA. This will inevitably lead to a disproportionate sharing of benefits and costs associated with the proposed reduction of DBNGP tariffs across different users of the pipeline as well as WA gas producers and retailers.

In conclusion, the Draft Decision may well provide short term benefits to some market segments, but it is the longer term effects of the decision upon smaller and medium producers which must also be considered. I strongly urge OffGAR to

consider, as part of its final decision, the wide ranging negative impact of a substantially reduced DBNGP tariff as set out above. ARC's concerns are based on the primary objectives of achieving a fair and equitable competitive market environment in WA for all suppliers and consumers as well as providing incentives for sustainable exploration and infrastructure investment to ensure long term security of supply. It is our considered view that the Draft Decision has not adequately addressed these specific aspects, nor properly taken these objectives into consideration.

I appreciate that OffGAR's Draft Decision was issued to seek comments and views from various market segments, and that such responses would be further considered as part of formulating OffGAR's final decision. This opportunity is very much appreciated and will no doubt be very helpful to you and your officers. I would very much welcome the opportunity to further discuss with you our concerns as set out in this submission in regards to the Draft Decision.

Yours sincerely,

PETER V. JONES
Chairman