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Mr Lyndon Rowe
Chairman
Economic Regulation Authority
Level 6, Governor Stirling Tower
197 St Georges Tce
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Attention:
Mr Michael Soltyk

Dear Lyndon

Gas Exchangeability in Western Australia

DBNGP (WA) Nominees Pty Limited ("DBP") seeks to make comment on the revised *Gas Exchangeability in Western Australia* consultation paper (paper) and associated submissions released by the Economic Regulation Authority (the Authority) on 20 December 2007.

DBP is particularly concerned at the lack of recognition accorded to its earlier submission, bearing in mind that it will be the party most affected by any further regulated change in gas specification. DBP believes that the revised paper fails to provide an adequate justification as to why further regulation of gas quality is preferred when a commercial solution exists that is capable of delivering a fair, flexible and economically efficient outcome for accommodating new fields with lower specification gas. A regulated approach appears inconsistent with the Government's aim to promote a deregulated energy market which is driven by commercial agreement rather than the imposition of further regulation.

The revised paper remains focussed on providing the least cost avenue for producers to supply gas to the market, with little acknowledgement of the costs which would be imposed on DBP and shippers. Submissions from upstream participants obviously support this approach; however, DBP believes that the Authority should remain focussed on the most economically efficient approach – i.e. the one which would deliver the least cost solution across the whole gas supply chain. In DBP's view this is best achieved through commercial negotiations between relevant parties.

With the exception of DBP's submission, all other submissions received by the Authority on the draft report were from upstream participants or representatives. DBP considers that it is important that the ERA obtain a greater diversity of views across the gas supply chain or broader market given the implications a regulated change to the gas quality specification could have.

DBP would like to take issue with some of the statements made in submissions provided by BP Developments Australia (BP), Australian Petroleum Production and Exploration Association (APPEA) and Woodside Energy Ltd (Woodside):

Adopting Australian standard will provide access to new domestic gas supplies

The Woodside, BP and APPEA submissions all assert that the adoption of the Australian Standard on the Dampier to Bunbury Natural Gas Pipeline (DBNGP) will provide access to new domestic gas supplies. With the exception of Macedon, DBP is not aware of any other fields which:

(1) fall outside the existing DBNGP specification but could meet the Australian Standard with minimal processing (AS 4564);

(2) are likely to be commercially viable in the short – medium term (3-7 years); and

(3) have explored the possibility of transmission access to the DBNGP.

It should be noted that the ERA itself acknowledged the limited opportunities for the entry of broader specification gas as recently as 2005 when it assessed the revisions to the DBNGP access arrangement. DBP believes that it is quite misleading to convey the impression that the adoption of the Australian Standard on the DBNGP will lead to an early and material supply of new gas to the domestic market. Macedon appears to be the only field that would currently qualify for access under the Australian Standard. As indicated in our earlier submission the introduction of lower regulated gas specification for transmission pipelines on the basis of Macedon alone would not lead to the most economically efficient outcome as it would mitigate against a project specific response.

Woodside itself advised in a presentation to the Australian Institute of Energy (15 August 2007) that the quality of remaining reserves in the Carnarvon Basin is poor, with fields such as Gorgon, West Tryal Rocks and Wheatstone so high in nitrogen, carbon dioxide or both that the cost to develop is too prohibitive under current conditions. DBP argues that even if the gas transmission specification was changed to the broader range set under the Australian Standard, the cost to process gas from these fields will not be materially different and will present the same investment and development barriers that exist today. It is therefore, misleading to convey the impression to the market that adoption of the Australian Standard will lead to the early development of new domestic gas supplies.

As indicated above, with the exception of BHP Billiton (Macedon), DBP has not been approached by any prospective producers seeking transmission access – or even to discuss the possibility of future access – for gas fields that materially fall outside of the existing specification.

Costs of Adopting Australian Standard should be met by transmission operator

Both Woodside and APPEA argue that the cost to meet a broader standard should come at the expense of the transmission operator because there was some expectation of declining gas quality at the time the consortium purchased the DBNGP in 2004. DBP strongly contests this notion as being both inequitable and unlikely to result in the most economically efficient outcome.

At the time of acquisition the capacity of the DBNGP was determined on the basis of the average quality of gas passing through the pipeline. Provision was made to compensate for a gradual decline in gas quality as a consequence of a gradual reduction in LPG levels over time.

Since acquisition three things have happened:

(1) The decline in the LPG content of gas delivered into the pipeline has been faster than anticipated;

(2) There has been a greater variability in the quality of gas delivered into the pipeline; and

(3) The ERA in its final decision on DBP's Access Arrangement in 2005, required a reduction in the lower HHV limits of the gas specification envelope (from 37.3 to 37.0).

DBP's response to these new circumstances has been to design and construct the current Stage 5A Expansion project on the basis of throughput capacity being determined at the new minimum HHV requirement, rather than at average gas quality, which has historically been the practice. These changes have been made at the expense of DBP and of shippers and have already resulted in a substantial lowering of the acceptance criteria for gas into the DBNGP. As indicated above, for producers to call for a further lowering in gas specification without appropriate compensation to DBP, is unreasonable and inequitable.

Further, in the absence of a demonstrated need, DBP does not believe that this would be the most economically efficient approach to accommodating gas from low quality fields. As argued in its submission to the Authority on 29 November 2007 DBP believes the imposition of a broader standard is unnecessary when commercial negotiations between relevant parties can deliver a more cost effective and timely solution to accommodating broader specification gas on the DBNGP transmission system.

DBP urges the Authority to assess the merit of commercial negotiations as the least cost solution for the end user as opposed to the adoption of a broader standard which has little regard for economic efficiency.

Compensation for providing mixing space

In any discussion about "providing mixing space", it is necessary to consider the whole contractual gas sale and delivery chain. This is as follows:

- The gas producer sells gas to its customer (who is a shipper on the pipeline) at a point upstream of the pipeline inlet point.
- The shipper then delivers that gas into the pipeline at the inlet point.
- The pipeline takes custody of and title to the gas and delivers it to an outlet point where custody and title are returned to the shipper.

There is, therefore, no contractual relationship between the producer and the pipeline, so any "mixing space" would, theoretically, be provided by the shipper and not the producer. However, gas transportation contracts, on very sound logic, clearly define "Gas" as being any composition which meets the prevailing specification, and further make it clear that the shipper is not entitled to receive any particular gas composition - but rather it will receive whatever blend of gas which exists in the pipeline at the relevant outlet point. Given these provisions, there can be no case for compensation to a producer or shipper for "providing mixing space".

It is the responsibility of producers to deliver gas to their customers at a specification within the range of the prevailing gas transmission standard. To the extent that any producer believes that its gas quality is superior to another producer's gas, then it is quite entitled to seek a premium for that product in its negotiations with its customers.

Inevitably in any transmission pipeline system a blended stream is created as a consequence of the different inherent gas qualities in individual fields and of daily fluctuations as a result of natural field variability and operational impacts. To the extent that this blended stream presents further opportunities for mixing, it is clearly in DBP's interests to facilitate such mixing, in order to maximise the supply of gas to the domestic market. Given that DBP provides the services and equipment for gas accessing the DBNGP - including measuring and control equipment for managing the blending of different gasses under its control and custody and to which it has title and related services - and ultimately bears the risk of providing such access (if the quality of the blended stream deteriorates), it is not unreasonable that it should derive the benefits.

Pipeline Interconnection

A number of the submissions refer to differences between the quality standards applicable to various pipelines in Western Australia and suggest that there could be significant benefits to be gained from interconnection. The reality is that the pipeline system in WA is already fully interconnected with linkages – and significant gas flows - already taking place between the DBNGP and the BEP, PEPL, GGP and Parmelia pipelines, notwithstanding differing gas quality standards.

As indicated above, DBP is not aware of any prospective new gas supplier which has been inhibited from entering the domestic market on account of any differences in applicable quality standards. What is important is to be able to deal flexibly with any emerging situations on a case-by-case basis.

Concluding Statements

As conveyed in its submission to the Authority on 29 November 2007, DBP believes:

- Commercial negotiations are capable of delivering a fair, flexible and economically efficient outcome for accommodating lower specification gas. To this end DBP is actively engaging with BHP Billiton at present to facilitate access to new domestic gas supplies from the Macedon field.
- This case-by-case approach provides;
  - the optimum balance between the modification of gas specification through processing and supplementing the capacity of the DBNGP system;
  - offers the greatest chance of reaching an expedited solution which enables new gas supply to commence in a timeframe which coincides with first gas production;
  - recognises the costs and benefits to each party and to end users of gas; and
  - ensures that capital is not spent unnecessarily or in advance of it being required.

Should you wish to discuss further please do not hesitate to contact me on 9223 4302.

Yours sincerely,

Stuart Hohnen
Executive Chairman