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RAC0006R2W

Ayres Lisa

From: Ross, Garry [RossG@qal.com.au]
Sent: Friday, 29 September 2000 1:07 PM
To: 'lisa.ayres@accc.gov.au'
Subject: FW: ACCC

ACCC submission.doc

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> From: Johnson, Jan
> Sent: Friday, 29 September 2000 11:45
> To: Ross, Garry
> Subject: ACCC
>
> Lisa,
> I spoke with David Hatfield on Tuesday of this week and advised him
> that QAL would be sending through a submission on Fri 29/09 on the
> intermin authorisation application from Exxon /Mobil & Santos to
> participate in the joint marketing of PNG gas prior to financial close. I
> also received via Chris Indermaur this morning a copy of your e-mail on
> Santos ring fencing dated 27/09. It is our intention for us to call you
> and David to discuss same. Regards, Garry Ross.
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> <<ACCC submission.doc>>
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Ref: h:\word\garryross\accc submission.doc

29 September 2000

Australian Competition & Consumer Commission
P.O. Box 1199
DICKSON ACT 2607

Attention: Mr. David Hatfield

Dear David,

Re: Submission to ACCC on the Application for Interim Authorisation of Joint Marketing by PNG Gas Producers – Exxon/ Mobil and Santos

Queensland Alumina Limited (QAL) operates the world's largest alumina refinery at Gladstone, Queensland. The plant produces approximately 7% of the world's alumina production. Alumina is produced in many countries and is traded as a global commodity.

Energy is a significant input into the refining of bauxite into alumina and in QAL's case this represents approximately 23% of our total costs. To remain internationally competitive our energy inputs must be benchmarked against world energy input prices.

QAL is currently Queensland's largest consumer of natural gas at 16.6PJ's per annum. Whilst QAL's current gas supply from the Denison Trough (J/V Oil Company of Australia and Santos) is adequate to meet our short term needs, in 2006 QAL will be seeking a new supply of natural gas.

QAL is also currently undertaking a plant expansion study which could potentially increase our gas demand by a further 35%, this increased demand would coincide with the likely first gas delivered date for the PNG project.

Queensland's gas market development for the past 10 years has been limited by a small number of market controlling major suppliers, inadequate gas reserves, limited access to interconnecting pipelines, expensive transportation tariffs and failure of CSM gas to reach its potential.

Revised ACCC Application for Authorisation for Pre-Financial Close Joint Marketing for PNG Gas by Exxon/Mobil and Santos

1. **Public Benefits Associated with the PNG Project**

QAL is generally supportive of the PNG gas project as it provides an opportunity to deliver a large volume of gas reserves into Queensland to meet the future demands of the current industrial customer base and provides an opportunity for new industrial development utilising gas as an energy source for industrial process heating or drying, process feedstock or power generation.

This project therefore will deliver against the majority of the "public benefit" tests.

- Reduce harmful greenhouse emission levels.
- Encourage capital development throughout Queensland and potentially the other eastern seaboard states.
- Increase employment during construction and from the flow-on industrial development in Queensland.
- Dependent on appropriate pricing, may promote business efficiencies and enhance international competitiveness of the State's outputs.
- Promote competition by the interconnection of several gas markets via an expanded pipeline network.

2. **Effect of Inclusion of Exxon/Mobil and Santos as part of "Joint Marketing" approval for PNG Gas**

QAL accepts that to underpin the initial supply contracts for the "foundation customer" base, that unitisation of the Hides PDL1 reserves with the Chevron led Kutubu/Gobe PDL2 reserves is necessary. Therefore, interim authorisation for joint marketing of PNG gas by the PNG reserves owners prior to financial close is appropriate to determine if there is sufficient demand to underwrite their significant up-front capital investment, subject to the following:

- The applicants must be willing to offer and tailor individual GSA's to individual large customers, this is in addition to their intention to pursue conditional GSA's with Ergon and Energex who will then on-sell to end use customers. This will allow large customers like QAL to gauge whether the role of Energex or Ergon acting as aggregrators, actually adds value.

- Large customers are free to enter into joint purchasing arrangements.

- Both Exxon/Mobil and Santos have extensive gas interests in South West Queensland and unless both these parties are required to "ring fence" their marketing activities for PNG gas, it could be a detriment to effective future gas on gas competition and not provide the appropriate pricing signals that will promote further industrial development in Queensland.

- For this project to secure the necessary foundation load, which will contain a mixture of large industrial gas customers and power generators, the applicants should market the gas to customers as a true commodity and avoid price differentiation based on end use. This pricing approach has been utilised to date by the existing applicants led by Chevron; that is, other industrial customers are expected to pay higher gas prices than electricity generators. This has double effect on QAL as we are also the State's largest single site electricity consumer at 660GWh per annum.

- Whilst it is accepted that foundation customer contracts must have long supply terms and high levels of "take or pay" to satisfy the financial backers of the project, these terms and conditions should be kept to a minimum duration and have definite "sunset clauses" to allow for a true future gas market to develop within Queensland.

3. **Santos and Exxon/Mobil cannot be considered competitors of the PNG Project in Queensland**

Both Santos and Exxon/Mobil are majority stakeholders in the SWQ gas province, however, it is difficult to envisage them being direct competitors for the foundation customer load of the PNG project as their market behaviour to date suggests their price settings for SWQ gas exceeds the economic gas prices necessary to make the foundation customer projects viable, otherwise these projects would have already been developed. In addition, it is difficult to assess the full potential of the SWQ reserves due to the development strategy that has been utilised by Santos to date; that is, to maintain minimum processing capability and field development to match the market led demand. It is feasible that SWQ reserves are not sufficient to compete with the foundation customer base requirements.

However, SWQ would be a competitor to additional and incremental gas sales beyond the foundation base load. This extension of the gas pipeline network with it open access regime should assist in the development of field on field gas competition for all interconnected markets throughout eastern Australia.

4. Recommendation

QAL's overall position is one of support for the PNG project as it offers a "once off" opportunity to stimulate industrial development in Queensland provided the pricing arrangements are appropriate to secure the foundation customer load. The project has significant public benefits that are in excess of any anti-competitive detriment.

QAL, therefore, supports the interim application for the inclusion of Santos and Exxon/Mobil into the "joint marketing" arrangement for the period up to financial close of the project.

Yours faithfully,

G.B. ROSS
PRINCIPAL ADVISER – RAW MATERIALS & ENERGY