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Shell Development (Australia) Proprietary Limited
Legal Department



Facsimile Message

Date: 22 September, 2000

Queries and replies

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Number of pages: 3 (incl cover sheet)



D00/33827

RAC0006R2Z

Subject : Application for Authorisation of Joint Marketing by PNG Gas Producers

Please find following facsimile.

Regards,

Shane B. McCarthy
Senior Counsel (Resources)

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- (c) While we are aware of certain gas marketing by Santos in Queensland and believe it is possible that Santos's involvement in the PNG Project might diminish gas to gas competition in Queensland, if it were assumed that the PNG Project could be developed without Santos's participation. However, we consider that assumption may not properly be made and that the diminution (if any) of competition will be outweighed by the public benefit derived from the establishment of the Project, as already outlined above.

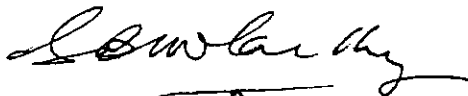
We do not consider that ExxonMobil would be an effective competitor for the Project in Queensland.

Finally, we agree with the proposition that neither Santos nor ExxonMobil could determine the negotiating stance of the Project with customers. Our experience is that marketing joint venture gas is a process which depends on consensus. The point of offtake of gas from the joint venture (normally defined in the joint venture agreement) is the last point at which the voting rules of the joint venture could apply. Beyond that, marketing and sales are legally separate, even if gas streams or shipments are commingled, and cannot proceed in the absence of consensus, or to put it another way, agreement on all issues on a unanimous basis.

- (d) The application seeks an interim authorisation to cover co-operative marketing up to financial close. Since executed conditional Gas Sales Agreements to the identified foundation customers will be required in order to achieve financial close, the initial marketing effort will be largely over by that time. This suggests that if any detriment arises from co-operative marketing (which we doubt) it will be largely irreversible by then. In turn this suggests that the interim authorisation ought only to be granted if the Applicants satisfy the Commission that the public benefits of establishing the Project are sufficient to outweigh any detriment to competition which the Commission concludes would result from the co-operative marketing. We consider, by analogy with the North West Shelf authorisations granted in 1977 and 1998, that the Applicants ought to be able to so satisfy the Commission on this point. On that basis, the transition to a final authorisation ought to be relatively straightforward.

Please let the writer know if any clarification of these comments is required.

Yours sincerely,



Shane B. McCarthy
Principal Counsel (Resources)