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Date 22 September 2000

Our reference  
SZR:12742645

From Stephen Ridgeway  
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To Ms Kanwaljit Kaur  
Acting General Manager  
Regulatory Affairs Division - Gas  
Australian Competition and Consumer  
Commission  
Fax: (02) 6243 1205  
CANBERRA ACT



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**Application for Authorisation of Joint Marketing by PNG Gas Producers**

Please see attached.

*Blake Dawson Waldron*

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22 September 2000

Ms Kanwaljit Kaur  
Acting General Manager  
Regulatory Affairs Division - Gas  
Australian Competition and Consumer Commission  
Fax: (02) 6243 1205  
CANBERRA ACT

Dear Ms Kaur

**Application for authorisation of Joint Marketing by PNG Gas Producers**

We refer to your facsimile dated 12 September to Tarong Energy Corporation Limited ("TEC") requesting comment on Application A40081 relating to authorisation of joint marketing by participants in the Papua New Guinea Gas Project (the "PNG Project").

We act for TEC in this matter and present the following submission on its behalf.

1. **Summary of comments**

TEC considers that:

- it is strongly in the public interest that the PNG Project proceed;
- the PNG Project cannot proceed without the involvement of Santos and ExxonMobil;
- it is necessary for Santos and ExxonMobil to participate in the joint marketing of PNG Project gas;
- Santos and ExxonMobil may, however, be competitors of the PNG Project in Queensland and other states; and
- Santos and ExxonMobil should have limited access to information contained in gas supply agreements entered into by TEC and other customers of PNG Project gas.

2. **Importance of PNG Project**

Most of Australia's onshore gas is located in the Cooper-Eromanga Basin and the Gippsland Basin. At current rates of production both these basins are expected to be depleted in the next twenty years. This will require either discovery of new gas fields or transportation of gas from Papua New Guinea.

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TEC owns and operates the electricity generating stations at Tarong and Wivenhoe in Queensland. TEC has proposals for involvement in a number of gas projects including development of gas fired power stations in Queensland.

TEC wishes to purchase substantial quantities of gas from the PNG Project. TEC wants to ensure that there is a competitive supply of gas both in Queensland and in all other Australian States and Territories, irrespective of whether gas is supplied from the PNG Project or from any other source.

Development of the PNG Project is necessary for increased competition in Queensland's gas supply market. The PNG Project is also likely to have an effect on competition in gas supply markets in other states.

3. **Involvement of Santos and ExxonMobil**

TEC accepts that the gas reserves of the original applicants would not be sufficient of themselves to meet the requirements of foundation volumes necessary for the PNG Project.

4. **Need for Participation in Joint Marketing**

TEC accepts that it is necessary for Santos and ExxonMobil to participate in the joint marketing of PNG Project gas because separate marketing is not feasible in the circumstances.

5. **Santos and ExxonMobil as competitors of PNG Project**

TEC notes the statement in the application and in the ACCC's request for submissions that Santos and ExxonMobil cannot be considered competitors of the PNG Gas Project. With all due respect, this cannot be correct. After the PNG Gas Project is finished, the major sources of gas in Queensland will come either from the PNG pipeline or from the Cooper-Eromanga Basin, both of which have major Santos and ExxonMobil interests.

Santos and ExxonMobil already have substantial interests in natural gas production and marketing in Australia. Most of South Australia's natural gas is produced from the Cooper-Eromanga Basin by a joint venture in which Santos is both the dominant partner and the joint venture operator. In addition to this, the gas processing plant at Moomba is owned by the joint venture and operated by Santos. Santos has an interest of approximately 60% in the Cooper-Eromanga gas production.

Santos also has significant interests in Queensland gas fields. These include:

- an approximately 85% interest in fields in the Roma shelf of the Surat Basin;
- 50% interests in southern sectors of the Surat Basin; and
- 50% interest in the Denison Trough gas projects which supplies the Gladstone Queensland Alumina Refinery.

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ExxonMobil similarly market natural gas from joint venture operations in the Cooper-Eromanga and Gippsland Basins.

On 5 August 1999 the ACCC decided not to oppose the Mobil/Exxon merger which was announced in December 1998. The Commission identified gas production and marketing as the main area of competitive overlap between the companies. One of the factors noted by the ACCC in deciding not to oppose the merger was that neither party was directly involved in the proposed marketing of PNG Project gas in Australia.

Applications for the previous interim authorisation for the PNG Project were grounded on the basis that development of the PNG Project would result in increased competition in the Queensland gas market. Statements to this effect were present in the application for interim authorisation lodged by Dunhill Madden Butler dated 24 June 1998, as follows:

*"... the Applicants believe that the Project will result in, at least, the following benefits to the public ... increased competition in relevant markets, including specifically Australian energy/gas markets"*

*"We do not believe that the current negotiations impact adversely on competition. In fact, they are likely to contribute to competition in relevant markets, by adding a major new source of gas supply to the Australian energy/gas markets."*

*"PNG Gas will not initially compete directly against any of these existing gas businesses. However, the Project will introduce a major new competitor into Australian gas markets generally, which can be expected to have a pro-competitive effect."*

The involvement of Santos and ExxonMobil in the PNG Project in addition to their current position as partners in the Cooper-Eromanga Basin production, creates the potential for these companies to consolidate their position as the dominant gas suppliers in the Queensland market.

This potential was previously recognised by the ACCC in its letter to Dunhill Madden Butler dated 3 December 1999 granting the previous interim authorisation.

In fact, the ACCC specifically noted that Santos was to be separated from the PNG Gas Project for this very reason:

*"While the Commission welcomes the PNG Gas Project as a potential new and lower priced source of gas, it is mindful of the precarious nature of competition in Queensland. The Commission considers maintaining separation between Santos and the PNG Gas Project is important if significant competition in the supply of gas in Queensland is to continue to develop."*

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**Access to Contractual Information**

TEC is concerned that Santos and ExxonMobil will obtain access to confidential information contained in gas supply agreements for the PNG project. The areas of most concern would be customer, pricing and volume information, as well as key contractual terms. TEC believes that if Santos and/or ExxonMobil are given such information, they may be able to affect the price and timing of PNG gas to protect its existing market.

TEC submits that some form of ring fencing of marketing information between Santos' PNG Project gas marketing and its other gas sales is necessary. The form of ring fencing needs to be robust and reliable but commercially practicable from the perspective of Santos.

TEC would welcome the opportunity to discuss with the ACCC appropriate forms of ring fencing but recognises that Santos and ExxonMobil should have the major input into this consideration so that the arrangements are commercially practicable.

Yours faithfully

Blake Dawson Waldron