



The Australian Gas Light Company  
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Petroleum Nasional Berhad  
Kuala Lumpur, Malaysia  
(20076-K)

21 February, 2005

Mr Mike Buckley  
General Manager  
Regulatory Affairs – Gas  
Australian Competition and Consumer Commission  
PO Box 1199  
Dickson ACT 2602

Dear Mr Buckley

### **PNG Gas Producers' Authorisation Application for Joint Marketing**

Thank you for the opportunity to comment on the PNG Producers' authorisation application.

From previous submissions you will be aware that the AGL-Petronas Consortium (APC) is one of the key stakeholders in the PNG Gas Project. APC was selected to build the PNG pipeline as a result of a competitive tender process run by the Project Sponsors (ie the PNG Producers) in 1998.

APC continues to work with the PNG Producers to bring the project into being. The dynamic position of the gas market in Queensland and south eastern Australia over the past six years has resulted in deferral of the project from the original timetable. However, recent developments in upstream arrangements and the gas market mean that the PNG Producers and APC believe that the project can be brought into being at the present time. However, for the project to proceed market conditions must be optimised so that the project is bankable.

A key market condition is establishing supply agreements with customers. Joint marketing by the PNG Producers is essential to meeting this objective. Removal of any uncertainty about compliance with the Trade Practices Act arising from undertaking joint marketing is essential because of the significant financial commitment required for the project. APC submits that the granting of an Authorisation for joint marketing by the PNG Producers is in the public interest and APC supports the application.

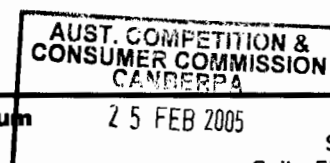
We will briefly address the issues that APC considers most relevant raised in the Commission's Issues Paper.

#### **Market**

APC believes that the market relevant to gas from this project is the eastern Australian (Queensland, NSW, ACT, SA and Victoria) market for energy (both gas and electricity). We anticipate that gas from the PNG project will be supplied to each of the eastern states into both traditional gas segments of residential, commercial, and industrial use. It is also highly likely to be used in power generation for peak and intermediate load purposes. There is considerable potential for gas to be used for base load power generation as a consequence of

Sydney Office:  
AGL Centre,  
111 Pacific Highway North Sydney  
Telephone (02) 9922 0101 Facsimile (02) 9954 0180

**PNG- QLD Pipeline Consortium**



Sydney Office  
Suite 5006, Level 53  
19 Martin Place Sydney  
Telephone (02) 9233 3400 Facsimile (02) 9231 0636

policy developments that will encourage lower greenhouse gas emissions in power generation. There is also increased scope for direct gas substitution for energy use where electricity is currently used, such as in residential hot water production with further potential greenhouse gas reduction benefits.

The project introduces a major new gas supply into the east Australian energy market which will compete with sources in Queensland (both conventional and coal bed methane), NSW (coal bed methane), Victoria and South Australia. It will supplement and compete with existing sources of supply and will be an essential part of the gas source mix.

The addition of gas from a completely new source/basin will enhance competition and expand the rate of market development.

### **Joint Marketing**

APC is of the view that a joint marketing approach is essential for a project of this nature to be able to proceed and succeed. The project will involve major capital investment over \$4 billion for the upstream component and over \$2 billion for the pipeline. Financing such a significant development is not possible without high levels of confidence about both the initial foundation contracts and for further contracts that are necessary to sustain the project for its economic life.

As a significant number of large contracts must be completed prior to financial close and the "chicken or the egg" nature of the establishment of those contracts a single marketing approach is necessary to provide clarity of commitment. There must be alignment of interests in producing, processing, transporting and selling gas from the fields to the customers with each producer participating in the costs and risks of the project over the entire term of the gas sale and gas transportation agreements. A fragmented approach that would result from each Producer having to compete with the others for contracts would prevent completion of commercial arrangements in a rationale and timely fashion. In essence an approach other than joint marketing is simply not practical.

### **Public benefit and anti-competitive detriment**

APC submits that there is a clear public benefit from the PNG Gas Project which includes:

- introduction of PNG Gas as a major new source of gas supply into the east Australian energy market;
- the addition of a major piece of energy infrastructure;
- the associated benefits to the economy of the construction project; and
- increased competition between basins, introducing a new supplier into the Australian market.

APC submits that there is, at most, only limited potential for loss of benefit from lack of competition between the PNG Producers. To the extent that there is an anti-competitive detriment this is more than readily offset by the competition with other sources of supply in eastern Australia that is created by the entry of PNG gas into the market.

In summary, APC is of the view that:

- there are very significant public benefits from the PNG Gas Project proceeding which greatly outweigh any uncertain potential reduction in competition; and
- that without the PNG Producers being able to jointly market the project cannot proceed.

APC therefore supports the PNG Producers' Authorisation application and would be happy to provide further information and clarification by contacting Chris Harvey of AGL on 02 9921 2601.

Yours sincerely



**Ross Gersbach**  
Group Manager Infrastructure Investments  
AGL  
For and on behalf of the AGL-Petronas Consortium