



QUEENSLAND ALUMINA LIMITED

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Ref: PNG Gas Authorisation Application to ACCC

15 February 2005

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

Dear Mr Buckley

RE: Submission to ACCC on the Application for Authorisation of Joint Marketing by PNG Gas Project Participants

Queensland Alumina Limited (QAL) operates the world's largest alumina refinery based in Gladstone on the Central Queensland coast. Energy is a significant input cost to the alumina refining process. Today, QAL is the largest single user of gas in Queensland consuming in excess of 12 PJ per annum.

The Queensland gas market has been dominated by a small number of major conventional gas producers with declining reserves with both buyers and producers having limited access to pipelines at expensive tariffs. There are a number of relatively small coal seam gas producers emerging in the market at present but their ability to provide large quantities of gas reliably over a long period has not been proven at this stage. Therefore, QAL has been supportive of the Project as it provides an alternative source of conventional gas with significant proven reserves for the industrial market of Queensland into the future.

In October 2004, QAL entered a conditional agreement with the PNG Gas Project (the "Project") to supply between 12-30 PJ of gas per annum over a term of 20 years for a potential cogeneration facility.

QAL has traditionally sourced coal for making process steam, and gas for drying purposes. QAL is currently assessing the feasibility of using gas to fuel cogeneration facilities to produce steam and electricity in place of coal-fired steam boilers and electricity purchases from the grid. The capital and contractual commitment associated with cogeneration requires

a significant investment commitment from the Owners of QAL. Consequently, switching costs in the future would be prohibitive, thereby effectively locking QAL into using gas for the economic life of the cogeneration facility.

Accordingly, QAL is responding to the invitation from the ACCC for interested parties to comment on the application by the PNG Gas Project Participants ("Applicants") for authorisation to:

- Negotiate the common terms and conditions (including price) under which gas produced by the Project will be offered for sale;
- Jointly market that gas to a common buyer or common buyers; and
- Enter into and give effect to contracts, arrangements and understandings between the Applicants relating to common terms and conditions (including price and price arbitrations/determinations) upon which gas will be offered for sale and sold by the Applicants to buyers.

The Applicants have requested that this authorisation be granted for the life of the Project and that it apply to future Participants in the Project.

In summary, based on the information provided in the application, QAL is:

- Not supportive of an authorisation covering any future Applicants in the Project, which may sell gas to customers on the pipeline network that the PNG gas pipeline may connect into. Further, if a new Participant or an existing Participant wishes to separately market other gas through these pipelines then a new authorisation should be sought;
- Of the view that insufficient evidence has been provided to support an authorisation being approved for the life of the Project; and
- Supportive of the existing authorisation continuing until Financial Close of the Project, conditional on the ACCC requiring appropriate ring-fencing arrangements similar to those required for the interim authorisation of October 2000 being in place.

In closing, QAL supports the Project. However, QAL is of the view that the evidence provided in the Application does not adequately support an authorisation being granted in the terms requested for the life of the Project. QAL would also like to emphasise that the competition impacts of this application should not be considered in isolation from those that may apply in the Access Principles for the Australian section of the PNG gas pipeline. QAL appreciates the opportunity to comment on the Application. If you would like any further information regarding our comments please contact me on email mounap@qal.com.au or phone 49762775.

Yours faithfully



Peter Mouna
Principal Buyer
Raw Materials & Energy
Queensland Alumina Limited