

12 April 2000

Mr Ed Willett
Executive Director
National Competition Council
Level 12, Casselden Place
MELBOURNE Victoria 3000

Dear Mr Willett

APPLICATION FOR REVOCATION

Envestra seeks to have National Third Party Access Code for Natural Gas Pipeline Systems ('the Code') coverage revoked for the Palm Valley to Alice Springs Pipeline. The Pipeline is described in section A of the Code as follows:

Pipeline Licence	Location/ Route	Operator	Length (km)	Pipe Diameter (mm)	Regulator
NT:PL1	Palm Valley to Alice Springs	NT Gas Pty Ltd	146	200	ACCC

Envestra's view is that access to the services of the Palm Valley to Alice Springs Pipeline would not promote competition in other markets and would be contrary to the public interest. Consequently the Palm Valley to Alice Springs Pipeline does not satisfy the criteria set out in paragraphs (a) and (d) of section 1.9 of the Code. Therefore, Envestra recommends that the National Competition Council revoke Coverage of the Palm Valley to Alice Springs Pipeline under the National Third Party Access Code For Natural Gas Pipeline Systems.

A detailed submission outlining Envestra's position is attached.

A cheque for \$7,500 is enclosed to cover the fee for this application.

Yours sincerely

O G Clark
Managing Director

SUBMISSION FOR REVOCATION OF COVERAGE OF THE PALM VALLEY TO ALICE SPRINGS PIPELINE

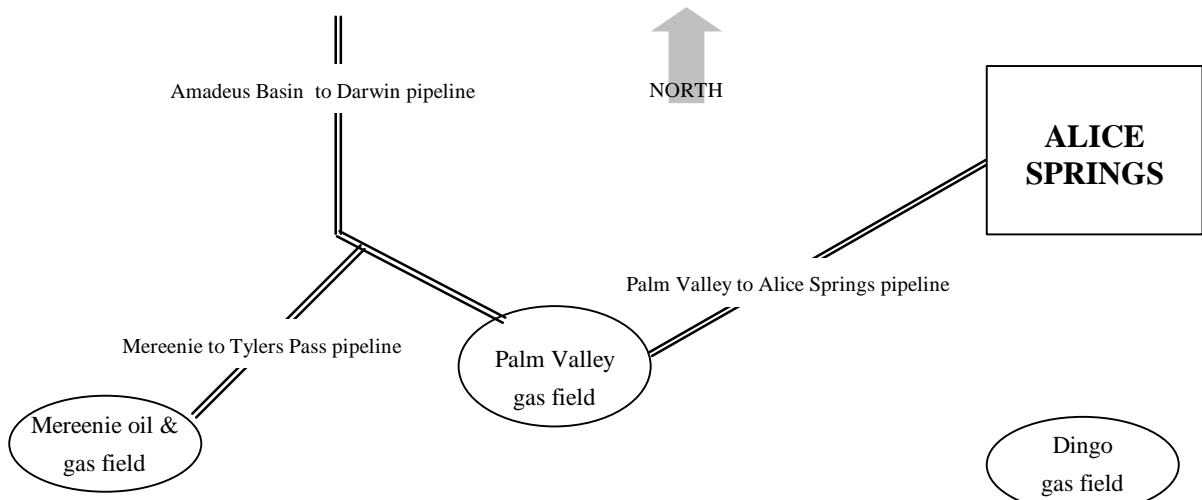
This submission is structured as follows. Section 1 provides background information on the Palm Valley to Alice Springs Pipeline. Section 2 addresses the reasons why Envestra believes coverage of the Palm Valley to Alice Springs Pipeline should be revoked and Section 3 sets out contact details and other administrative information in relation to the application.

Section 1 Background on Palm Valley to Alice Springs Pipeline

Natural gas has been produced in the Northern Territory since 1983. The primary producing areas are the Palm Valley and Mereenie gas fields which are located approximately 150 kilometres and 270 kilometres, respectively, south west of Alice Springs. There are three main natural gas transmission pipelines in the Palm Valley region:

1. ***Amadeus Basin to Darwin Pipeline.*** This pipeline was commissioned in 1986 and extends approximately 1,512 kilometres from the Palm Valley production area to Darwin, via Tennant Creek, Daly Waters and Katherine. Annual throughput is in the order of 15 PJ.
2. ***Mereenie to Tylers Pass Pipeline.*** This pipeline is owned by the Mereenie producers joint venture, has an annual throughput of around 10 PJ and extends approximately 116 kilometres from the Mereenie production area to the Amadeus Basin to Darwin Pipeline. Most of the gas produced from the Mereenie fields is delivered to customers in Darwin.
3. ***Palm Valley to Alice Springs Pipeline.*** This pipeline was commissioned in 1983 and extends approximately 146 kilometres from the Palm Valley production area to Alice Springs carrying around 3 PJ annually.

The diagram below shows the relationship of the gas transmission pipelines and gas fields in the Alice Springs region.



The Palm Valley production facilities and gas reserves are owned by Magellan Petroleum Australia Ltd (51%), Santos Ltd (48%) and Kufpec Australia Ltd (1%). Gas sales to Alice Springs commenced in 1983 and to Darwin in 1986. The remaining proved gas reserves at 30 June 1999 were 165 PJ (191 Bcf) with the field currently producing sales gas at the rate of approximately 22 TJ per day¹. At current production levels the Palm Valley gas field has a life of 20 years. If Proved and Probable reserves of 215 PJ (250 Bcf²) are taken into account the gas field life is extended to 26 years, without any further discoveries.

The Mereenie production facilities and gas reserves are owned by the Santos (65%) and Magellan Petroleum Australia Ltd (35%). The remaining proved and probable recoverable reserves at 30 June 1999 were 150 PJ (175 Bcf) with the field producing sales gas at the rate of around 30 TJ per day³. At current production levels the Mereenie gas field has a life of 14 years. If Proved and Probable reserves of 320 PJ (371 Bcf⁴) are taken into account the gas field life is extended to 29 years, without any further discoveries.

The Palm Valley to Alice Springs pipeline has a capacity of approximately 10 PJ per annum with current throughput of approximately 3 PJ per annum. The Palm Valley to Alice Springs pipeline transports gas 146km from Palm Valley gas field to the Alice Springs gate station for one customer, the Northern Territory Power and Water Authority ('PAWA'). PAWA uses the majority of the natural gas (2.7 PJ per annum) for power generation in Alice Springs and sell small amounts to Energy Equity Ltd (0.2 PJ per annum.⁵) for power generation and to Origin Energy for its Alice Springs retail operations (0.1 PJ per annum⁶).

Given the capacity of the Palm Valley to Alice Springs pipeline and the current throughput, there is a significant amount of un-contracted capacity (50% – 70% per annum). As noted above the Palm Valley to Alice Springs pipeline is owned by Envestra Limited ('Envestra'), which purchased the pipeline from Holyman Limited in January 1999. The pipeline is currently subject to the National Third Party Access Code for Natural Gas Pipeline Systems ('the Code') and is regulated by the ACCC. An extension of time to submit an Access Arrangement until 30 June 2000 has been granted by the ACCC.

¹ Magellan Petroleum Australia Ltd 1999 Annual Report
² Magellan Petroleum Australia Ltd 1999 Annual Report
³ Magellan Petroleum Australia Ltd 1999 Annual Report
⁴ Magellan Petroleum Australia Ltd 1999 Annual Report
⁵ Energy Equity Ltd 1999 Annual Report
⁶ Envestra Ltd 1999 Annual Report

Section 2 Reasons for revocation of coverage of the Palm Valley to Alice Springs Pipeline

Section 1.31 of the Code provides that the National Competition Council must recommend that Coverage of a Pipeline be revoked if the National Competition Council is not satisfied of one or more of the following criteria:

- (a) that access (or increased access) to services provided by means of the pipeline would promote competition in at least one market (whether or not in Australia), other than the market for the services provided by means of the pipeline.
- (b) that it would be uneconomic for anyone to develop another pipeline to provide the services provided by means of the pipeline.
- (c) that access (or increased access) to the services provided by means of the pipeline can be provided without undue risk to human health or safety.
- (d) that access (or increased access) to the services provided by means of the pipeline would not be contrary to the public interest.

The reasons why the coverage of the Palm Valley to Alice Springs pipeline should be revoked are set out below.

CRITERIA (a)

That access (or increased access) to services provided by means of the pipeline would promote competition in at least one market (whether or not in Australia), other than the market for the services provided by means of the pipeline.

Access to the Palm Valley to Alice Springs pipeline could only promote competition in other markets to the extent that those other markets benefited from the source of energy provided by gas transported in the Palm Valley to Alice Springs pipeline. It is Envestra's view that access to the Palm Valley to Alice Springs pipeline would **not** promote competition in the energy market or other markets. The reasons underlying are:

- 1) No third parties have sought access, or indicated a desire to seek access, to the Palm Valley to Alice Springs pipeline;
- 2) The market for natural gas in the Alice Springs region is miniscule on a national scale and not expected to grow significantly for the following reasons:

- (a) Tourism is the key driver of the Alice Springs economy and is expected to be for the foreseeable future⁷. Major industrial gas users do not exist in the vicinity of the Palm Valley to Alice Springs pipeline. Furthermore, large industrial gas users are not forecast to locate in the vicinity of the Palm Valley to Alice Springs pipeline or the Alice Springs natural gas distribution system⁸;
 - (b) The only shipper of gas through the Palm Valley to Alice Springs pipeline is PAWA. PAWA provides electricity, water and sewerage services throughout the Northern Territory. PAWA uses gas from the Palm Valley to Alice Springs pipeline to generate power for the Alice Springs region. The current and medium term regional power generation requirements will be satisfied by the existing system of four generators (three owned by the PAWA and one owned by Energy Equity Ltd). Additional generation capacity has not been planned for Alice Springs in the short term⁹;
- 3) There are three natural gas fields in the Alice Springs region; Palm Valley, Mereenie and Dingo (refer to diagram in Section 1). Virtually all of the gas transported in the Palm Valley to Alice Springs pipeline is sourced from the Palm Valley field. Mereenie gas is used as a secondary supply source for periods of maintenance shutdowns and extraordinary occurrences. The current proved and probable reserves for both Palm Valley and Mereenie indicate the fields have economic lives in excess of 25 years at current production levels. This extent of production coverage discourages further exploration. Consequently, in the medium term all gas transported through the Palm Valley to Alice Springs pipeline will be provided by the current producers. The Dingo field is located 75 kilometres south of Alice Springs. Its location and relatively small size has made it uneconomic to develop.

⁷ *The Face of Alice Springs in Ten Years Project*, Public Discussion Paper March 1999

⁸ Australia's Northern Territory, *Major Projects June 1998*, produced by the Department of Asian Relations, Trade & Industry and the Ministry of Regional Development

⁹ Australia's Northern Territory, *Major Projects June 1998*, produced by the Department of Asian Relations, Trade & Industry and the Ministry of Regional Development

CRITERIA (d)

That access (or increased access) to the services provided by means of the pipeline would not be contrary to the public interest.

Regulatory costs do not vary greatly between transmission pipelines due to the requirements of the Code. Envestra estimates that regulatory costs associated with preparation and administration of an Access Arrangement and Access Arrangement Information would be in the order of \$150,000 to \$250,000 for itself and a similar cost to the Regulator and the Northern Territory Government. These costs are ultimately recovered from the end users of transportation services. For pipelines with large throughput and large customer bases third party access costs are generally not material relative to a customer's total gas cost, and the benefits of access outweigh the costs. The Palm Valley to Alice Springs pipeline has a relatively low throughput (3 PJ/a) and only one customer (PAWA). This means that all of the regulatory costs would be recovered from PAWA. Envestra is of the view that the additional regulatory costs are material given the specific characteristics of the Palm Valley to Alice Springs Pipeline.

In response to Criteria (a) no third party has requested access to the Palm Valley to Alice Springs pipeline and no other significant user(s) of transportation services are likely to commence operations adjacent to the Palm Valley to Alice Springs pipeline in the medium term. Envestra therefore believes that the anticipated preparation and compliance costs on Envestra, the customer, the Regulator and the Northern Territory Government associated with an Access Arrangement and Access Arrangement Information would far outweigh the benefits of access to the Palm Valley pipeline. Envestra is of the view that negotiated access would be the most efficient form of access for small pipeline systems such as the Palm Valley to Alice Springs Pipeline.

CONCLUSION

Formal third party access to the services of the Palm Valley to Alice Springs Pipeline would not promote competition in other markets and would be contrary to the public interest. Therefore, the Palm Valley to Alice Springs Pipeline does not satisfy the criteria set out in paragraphs (a) and (d) of section 1.9 of the National Third Party Access Code For Natural Gas Pipelines. Accordingly, Envestra requests that the National Competition Council recommends to the Australian Competition and Consumer Council revocation of Coverage of the Palm Valley to Alice Springs Pipeline under the National Third Party Access Code For Natural Gas Pipelines.

Section 3 Contact Details and Administrative Information

The owner of the Palm Valley to Alice Springs pipeline system is Envestra Limited (ACN 078 551 685).

Contact details for Envestra are as follows:

Mr Des Petherick
Manager Corporate and Public Affairs
Envestra Limited
Level 10, 81 Flinders Street
Adelaide SA 5000
Phone: (08) 8227 1500
Fax: (08) 8227 1511

email: des.petherick@envestra.com.au

Should you have any questions or require further information in respect of this matter please contact Mr Des Petherick at the above address.