



TRI-STAR PETROLEUM COMPANY

THREE RIVERWAY
3 RIVER WAY, SUITE 1930
HOUSTON, TEXAS 77056
PHONE: 713 222 0011
FAX: 713 622 6812
houston@tri-starpetroleum.com
Incorporated in Texas, USA

RIVERSIDE CENTRE
LEVEL 35, 123 EAGLE STREET 4000
PO BOX 7128 BRISBANE Q 4001
PH: 61 7 3236 9800
FAX: 61 7 3221 2146
brisbane@tri-starpetroleum.com
ARBN #050 415 739
ABN #80 050 415 739

25 May 2012

Greenfields applications
National Competition Council
Level 21, 200 Queen Street
MELBOURNE VIC 3000

Copy by email: APLNG@ncc.gov.au

Dear Sirs

**RE: APPLICATION FOR 15 YEAR NO-COVERAGE DETERMINATION FOR
AUSTRALIA PACIFIC LNG GLADSTONE PIPELINE PTY LIMITED**

I refer to the application dated 1 May 2012 made by APLNG Australia Pacific LNG Gladstone Pipeline Pty Limited (**APLNG**) under the National Gas Law for a 15 year no-coverage determination for the proposed APLNG pipeline (**APLNG Application**). We note that the Applicant is a wholly-owned subsidiary of Australia Pacific LNG Pty Limited ACN 001 646 331.

Tri-Star Petroleum Company ARBN 050 415 739 together with its related corporations Tri-Star Australia Holding Company ARBN 109 075 078 and Tri-Star America Trading Company ARBN 082 870 371 (**Tri-Star**) oppose the APLNG Application for the reasons set out in this letter.

❖ Background

Tri-Star is a group of coal seam gas (CSG) exploration companies with long standing and experience in the CSG exploration and development industry in Queensland. The Tri-Star companies have been at the forefront of CSG exploration and development in Queensland, including the exploration for, appraisal and development of the Fairview CSG field (currently operated by Santos Ltd), the Spring Gully field and Durham Ranch field (currently operated by APLNG or an affiliate).

Along with the applicant's parent corporation, APLNG, Tri-Star is jointly venturing for the production of CSG from interests in a number of current and prospective gas fields in Central Queensland, and holds both current working interests and post-reversion interests in those fields and the associated joint venture operations.

APLNG has referenced and acknowledged several of those CSG interests in a number of public statements¹.

The relevant CSG joint ventures are being operated by APLNG or a related corporation pursuant either to a Feb. 2002 Deed for the farmout of a number of Tri-Star tenures or pursuant to one of a number of joint operating agreements (**JOAs**) in which other CSG industry participants are involved, including:

- AGL Energy Ltd ACN 115 061 375

¹ See for example Important Notices, 'Prospectus, Origin Energy Notes', Origin Energy Ltd, Nov.2011

- Santos QNT Pty Ltd ACN 083 077 196
- Stanwell Corporation Ltd ACN 078 848 674

In addition to its current working interests in the developed Spring Gully and Durham Ranch gas fields and the developing Combabula/ Ramyard fields, Tri-Star has significant post-reversion interests subject to farmout in Queensland, and these have been recently estimated on a post-reversion basis at approximately 3,000 PJ of 2P reserves and 10,000 PJ of gas in place.

APLNG has been approached in relation to access for working interest gas from those fields to existing pipelines owned and/or controlled by APLNG or its shareholder Origin Energy Limited, but that access has not been provided to date.

Access to a pipeline to markets for Tri-Star gas is critical to the proper economic development of the Tri-Star CSG interests, as it is for all joint venture participants, and the approval of the APLNG Application is likely to put further at risk the economic development of those interests for currently available markets or may result in the CSG being reserved exclusively for APLNG's use or acquisition on uncompetitive terms favourable to APLNG.

❖ Application

In addition to the submissions made in this letter, Tri-Star respectfully adopts and relies upon the following statements from submissions dated 15 February 2010 made by Blue Energy Limited in response to the QCLNG Pipeline Pty Ltd application for a 15 year no-coverage determination for its proposed pipeline:

- *"...unless the QCLNG pipeline is covered by the access provisions of the National Gas Law, QGC will have strong incentives to deny junior CSG producers access to the QCLNG pipeline. This is because denying access allows QGC to prevent juniors from delivering gas or selling their exploration permits for full value to other buyers. Denying access therefore maximizes the likelihood that QGC, and not another producer, will ultimately have the opportunity to exploit those reserves. It also suppresses the prices QGC may ultimately have to pay for those reserves. It is for this reason that the Parer Report recommended that no-coverage determinations should not be available to owners of vertically integrated pipelines such as the QCLNG pipeline.*
- *If follows from the issues described above that access, or increased access, to the QCLNG pipeline will be likely to promote competition in a range of markets. These include the market for wholesale supply of CSG, a 'tenements market' for sale of CSG exploration permits or interests in permits, and a market for toll manufacture of LNG.*
- *QCLNG argues that producers such as Blue Energy would not use the QCLNG pipeline, preferring to use the QGP or RBP instead. This is clearly wrong. Neither the QGP nor the RBP can be used to transport gas to any proposed LNG plant². Even if they could, both the QGP and RBP are capacity constrained and could not meet Blue Energy's requirements without very large investment. By contrast, the QCLNG pipeline would meet all the foreseeable demand of Blue Energy and other similar producers with comparatively modest investment.*
- *QCLNG asserts that the QCLNG pipeline is economic to duplicate on the basis that the service it provides will be to transport of gas from across the whole of the Surat and Southern Bowen basins. In reality, connection costs mean that the area from which foreseeable demand for the QCLNG pipeline will be drawn is much narrower than this. The QCLNG pipeline should be assessed on a 'point to point' basis. Assessed on this basis, the pipeline has sufficient available*

ie, because the RBP doesn't go near a proposed LNG plant, and both the RBP and QGP carry a mix of CSG and conventional gas which means gas delivered from these pipelines will not be suitable for use in any proposed LNG plants.

capacity to meet foreseeable demand at far lower cost than construction of a duplicate pipeline.

- *BG and QGC's decision to construct the QCLNG pipeline is based on QGC's anticipated internal tied demand for the services of that pipeline, not on any need to recover any given return on capital through third party access revenues. As a result, there appears to be no suggestion, even in QCLNG's Application, that BG's decision to construct the QCLNG pipeline will be in any way affected by whether or not no-coverage exemption is granted. The decision to build this pipeline is instead likely to rest on the broader business case for LNG production and export. Since granting exemption will have no material effect on BG and QGC's investment decision, granting this exemption creates no public benefit - indeed, it will have no effect other than to lock junior CSG producers out of the Gladstone LNG market.*
- *By contrast, third party access to the QCLNG pipeline would give rise to substantial public benefits. These include more efficient utilization of infrastructure and the enablement of CSG projects that might not otherwise proceed, creating jobs, export earnings and investment for Australia.”³*

Tri-Star sees the above comments as equally applicable to the APLNG Application as if reference to BG and QGC were a reference to APLNG, reference to Blue Energy were a reference to Tri-Star, and reference to the QCLNG Pipeline were a reference to the APLNG Pipeline.

Tri-Star comments on certain statements made in the APLNG Application, by paragraph number as follows:

1. Para. 3 – the gas fields operations referred to are, in large part, operated under joint ventures which are not referred to in the APLNG Application.
2. Para. 7 – the statement that the Applicant is making the application “*in order to provide certainty for the APLNG Project*” appears contrary to prior statements made without reservation or qualification by APLNG that “*gas will be delivered to a coastally located LNG plant via a gas transmission pipeline where it will be liquefied prior to export.*”⁴
3. Para. 15 – Tri-Star endorses the application in this case of the consideration by the NCC in its Final Recommendation dated 5 May 2010 (in response to the no-coverage application by QCLNG) of whether the foreseeable demand could be satisfied by the services to be provided by means of the APLNG pipeline.
4. Para. 16 – Tri-Star understands the point to point service described by the Applicant is intended in fact to carry all gas available to APLNG from gasfields throughout Central Queensland, and is scaleable for that purpose.
5. Para. 30 – See the comment above regarding the absence of any prior indication by APLNG of the need for or significance of a no-coverage determination. It appears that APLNG has previously announced the decision to proceed to FID on Train 1 of the APLNG Project without making the materiality of the present application a qualification on or reservation from that decision of great economic significance.
6. Para. 31 – Tri-Star submits that access to the APLNG Pipeline would promote a material increase in competition in a dependent market i.e. both the upstream gas production market and the market for domestic downstream gas in and from Gladstone. In the absence of any present pipeline of the same capacity for joint venture gas interests, no access to this market for currently available quantities of gas, far less the post-reversion quantities mentioned above, is apparent to Tri-Star.

³ Letter, Blue Energy Ltd to NCC dated 15 Feb. 2010, page 1.

⁴ Exec. Summary (Item 1), Australia Pacific LNG Project Initial Advice Statement (27 Mar. 2009). No reference to any need for any NCC determination or no-coverage application appears in that advice to the Co-ordinator General of the State of Queensland.

7. Para. 32 – Tri-Star is of the opinion that access to the APLNG Pipeline is in the public interest for reasons, including ensuring that an alternative competitive supply is available in the Gladstone domestic gas market. No alternative CSG pipeline involved in an integrated project is offering such access at present.

❖ **Summary of Criteria**

We address each of the four coverage criteria in summary as set out below.

1. Criterion (a) - Promotion of competition

- a. Access to APLNG's pipeline will promote a material increase in competition in either upstream or downstream markets. [cf. Application, para 28]

2. Criterion (b) - Uneconomic to duplicate

- a. It is not economically feasible for others in the market place to develop alternative pipelines such as the QCLNG Project and the Santos Project [cf. Application para 22]
- b. The APLNG pipeline will have sufficient capacity to satisfy the reasonably foreseeable demand for pipeline services and it is therefore economic for another entity to build another pipeline [cf. Application paras 24 & 25]

3. Criterion (c) - No undue risk to human health or safety

- a. Tri-Star is unable to comment on undue risk to health and safety.

4. Criterion (d) - Not contrary to public interest

- b. Access to the APLNG pipeline would be in the public interest because access would not derogate from positive realizations flowing from the project. [cf. Application, para 30]

I trust this information is of assistance to the Council. I look forward to discussing our submissions with you once you have had the opportunity to review them in due course.

Yours Sincerely



John Sweep

**General Counsel
For TRI-STAR PETROLEUM COMPANY**