Mr John Feil
Executive Director
National Competition Council
GPO Box 250B
Melbourne VIC 3001

29th November 2005

Dear Mr Feil

Application for Revocation of Coverage National Gas Access Regime Tubridgi and Griffin Pipelines

We refer to the application by BHP Petroleum (Ashmore Operations) Pty Ltd ("BHPB") (dated 28 October 2005), as operator of the Tubridgi Pipeline (PL16) and Griffin Pipeline (PL19) (collectively the "Pipelines") for revocation of its coverage under the National Gas Access Regime (the "Access Code").

Apache's Interest
Apache Energy Ltd ("Apache") is a significant gas producer in WA with interests in the Harriet gas fields, East Spar gas field, John Brookes gas field, and the Macedon gas field, as well as in over 50 exploration and production Permits offshore WA.

Apache's Position on the Application for Revocation
Apache does **not** support the application for revocation and requests that the NCC reject it.

From Apache's perspective, a pro-competitive outcome would be for both the Pipelines to remain covered by the Access Code.

The Potential for Competitive Outcomes
Apache believes there is significant long term potential for the Pipelines to be used by both Apache and other third parties in the region to supply gas into the WA gas market.

Apache also supports BHPB's previous statements made in its own "reject revocation" submission in 1999 that there is also the potential that either or both Pipelines could ultimately be used for gas commingling, for backhauls and/or for reversible gas flows from the DBNGP or the Goldfields Gas Transmission Pipeline (GGT) to utilise the depleted Tubridgi gas fields as gas storage reservoirs. If the Pipelines remain open for use by either Apache or any other third party shippers, there is likely to be more options for upstream competition, including gas supplies into the GGT, the DBNGP, and potentially other nearby new industrial projects.

Test – Is it Economic to Duplicate?
It is **not** economic to duplicate the Pipelines.

The fact that there is currently substantial spare capacity in the Pipelines reinforces the view that it would make no economic sense to duplicate the Pipelines simply because access to existing facilities could not be facilitated. It is unreasonable to expect companies to have to spend potentially in excess of A$50 million to duplicate a new pipeline when existing Pipelines in the same vicinity have unutilised capacity that could have been accessed had the Access Code been in place to ensure a sensible outcome prevailed.

APACHE ENERGY LIMITED ABN: 39 009 301 964
Level 3, 256 St Georges Tce, Perth, Western Australia 6000
PO Box 477, West Perth, Western Australia 6872
Telephone: (08) 9422 7222 Facsimile: (08) 9422 7444

As BHPB rightly advised in their submission, gas fields in the offshore Exmouth region, including the Macedon gas discovery, are likely to be economically marginal at current gas prices. This marginality is however also influenced by a lack of existing gas infrastructure in this region, which has a negative impact on the number and types of gas discoveries that can be successfully commercialised. Any additional, unwarranted capital expenditure exposures artificially imposed on potential new gas projects could very likely result in an economic, albeit marginal, gas development becoming uneconomic and therefore remaining undeveloped. This is clearly not in the interest of the WA gas customers, nor is it consistent with the State and Commonwealth Governments desire to create a genuinely competitive gas supply environment in WA.

In addition, trying to build a third pipeline in the vicinity of the existing Pipelines would bring with a whole raft of additional issues, including access to land, Native Title issues, indemnity and liability issues with the existing Pipeline owners etc etc. The time and cost in addressing these issues would merely serve to frustrate new offshore WA gas supply developments, which could in turn put at risk new demand gas projects throughout WA.

Apache is also of the opinion that its ultimate ability to achieve access to capacity in the Pipelines would be significantly enhanced were this type of negotiation to take place under the Access Code. Apache is concerned that BHPB's pre-eminent position as an existing gas supplier into the WA gas markets, as well being a major down stream purchaser of gas in WA, and now also as a gas pipeline infrastructure owner, will put BHPB in an unfair position which could result in an uncompetitive outcome that is not in the best interests of the wider WA public interest.

Would Access Promote Competition?
As noted above, it is Apache's view that if coverage and third party access is revoked, the likelihood of future gas supplies in the area (including the Macedon field) entering the WA domestic gas market will be decreased.

Is Anyone Seeking Access?
It is relevant, as we understand the operation of the Code, that there are in fact parties that may seek access to the Tubridgi pipeline. Apache is actively marketing gas into WA gas markets, which could require the development of the Macedon gas field, which could potentially contain up to a Tcf of recoverable gas supplies.

BHPB's view that the only economic way to develop the Macedon gas field will be at flow rates in excess of 150 TJ/d is questionable as required rates will be determined by the gas price. Apache, as a part owner of the Macedon gas field, believes that it may be possible to develop the field at various flow rates, and at initial flow rates below those quoted by BHPB, subject only to appropriate gas markets being secured. However, any Macedon development decisions would certainly be aided if Apache had the ability to contract capacity in the Pipelines on an on-going throughput basis without having to burden this marginal gas development further by being forced to build our own onshore pipeline.

In addition to the known Macedon gas discovery, Apache is currently very active in the surrounding offshore exploration permits and intends to drill over six exploration wells next year alone. The probability of therefore finding hydrocarbons that could potentially require access to the Pipelines to underpin their development into various WA gas markets is a realistic scenario. Apache is not confident that in this type of scenario it would be able to easily gain commercial access to the Pipelines from BHPB outside of a regulated Access framework.

It is also interesting to note that BHPB in its submission for revocation fails to make mention of the circa 8+ Tcf Scarborough gas discovery in the offshore Exmouth area, in which BHPB has 50% equity. BHPB has publicly stated its intention to develop this massive gas resource via an LNG development at Onslow, and it is highly likely that some of this gas could also be sold into the WA gas market via the Pipelines.

<u>Continued Coverage is not contrary to the Public Interest</u>
Revoking the existing coverage of the Pipelines would clearly not be in the public interest. Deterring third party access to the pipeline will limit the market options available to new gas developments (or make them more expensive). This can only reduce WA's security of gas supply (by discouraging new sources of supply).

The potential for reduced gas supplies in the near future needs to put in the context of WA's long term gas supply requirements. Apache estimates that over the next 25 years WA is going to require in excess of 6 Tcf of new gas supplies to satisfy its ever increasing gas demand. This potential gas supply shortfall will only be compounded if potential new gas supplies are prevented from entering the WA domestic gas market through an inability to access vital gas supply infrastructure.

Conclusion

It is Apache's submission that the NCC does not have before it any evidence that would allow it to recommend a revocation of coverage under the National Gas Access Code.

Yours sincerely

Chris M Harding

Chris M Harding
Business Development Manager