

31 August 2000

Dr Ken Michael
Gas Access Regulator
Office of Gas Access Regulation
Level 6
197 St Georges Terrace
PERTH WA 6000

Dear Ken

APPLICATION FOR EXTENSION OF TIME FOR PUBLIC SUBMISSIONS ON RING FENCING DRAFT DECISION

We refer to previous correspondence in regard to the ring fencing obligations imposed by the National Third Party Access Code for Natural Gas Pipeline Systems (Code) on the Tubridgi Parties with respect to the Tubridgi Pipeline System.

BACKGROUND

On 31 March 2000, SAGASCO South East Inc (SAGASCO), on behalf of each of the Tubridgi Parties, lodged an application for waivers in respect of the ring fencing obligations set out in sections 4.1(b), 4.1(h) and 4.1(i) of the Code, in accordance with the provisions contained in section 4.15.

The Draft Decision in respect of this application for waivers was issued on 22 May 2000 and recommended the waivers not be granted. However, the Regulator acknowledged in the Draft Decision there were a number of issues requiring additional information. As a result, a period of three months was set for public submissions to enable the Regulator to acquire this further information. The deadline for public submissions on the Draft Decision is Thursday, 31 August 2000 with the final decision scheduled for 21 September 2000.

SAGASCO and OffGAR have had a number of discussions during the public submission period regarding the Regulator's interpretation of the Code's ring fencing obligations. The interpretation of conditional waivers, terms of waivers and whether ring fencing obligations are retrospective was clarified in the Regulator's notice dated 8 August 2000.

As recently as 21 August 2000, alternative proposals by OffGAR, which may assist the Tubridgi Parties to achieve the three waivers sought, arose out of discussions between SAGASCO and OffGAR. As a direct result, SAGASCO is pursuing options for separating the Tubridgi gas transmission business from the Tubridgi gas production/gas trading business along the lines proposed by OffGAR and in such a way that will likely enable the Tubridgi Parties to comply with the provisions of section 4.15(a)(ii).

REVISION TO APPLICATION FOR WAIVERS FROM RING FENCING OBLIGATIONS

SubmissionfromOrigin31Aug00.rtf

Ref: MCAR004

Based on the proposals by OffGAR, SAGASCO is considering implementing a different structure for the management of the assets than that previously proposed in order to ensure information supplied by a Prospective Pipeline User to the Tubridgi gas transmission business can be kept confidential from the Tubridgi gas production/gas trading business. The structure being considered would involve the separation of the two competing businesses at a senior level within Origin Energy in a similar manner to that which OffGAR advised has been adopted by AlintaGas.

SAGASCO is currently in the process of briefing senior management of both Origin and joint venture party Pan Pacific Petroleum NL (Pan Pac) to seek approval to the proposal, prior to providing further details to the Regulator.

Given that the Regulator's interpretation on certain aspects of the Code was only made available in the last three weeks, and the proposed solution was developed from discussions with OffGAR held just last week, the Tubridgi Parties are seeking an extension to the period of public submissions.

Pursuant to section 7.19 of the Code, the Regulator may grant extensions to any time period in the Code (that applies to a person other than the Regulator, NCC or Relevant Minister) provided that the application for extension has been received before the expiration of the time period in question.

SAGASCO, on behalf of the Tubridgi Parties, requests that the period for public submissions be extended to 31 October 2000 in order that it may fully develop an alternate structure that is satisfactory to the Regulator. Prior to the end of the extended period for public submissions, SAGASCO will lodge a submission which provides details on the proposed alternate structure aimed at allowing the Tubridgi Parties to pass the test set out in section 4.15(a)(ii) and also replicate the requirements of section 7.1 of the Code. Given the significance and magnitude of such a change and the consequent requirement to consult extensively with the senior management of Origin and Pan Pac, it will not be possible to lodge a submission in a significantly shorter time frame than the extension sought.

LEGAL ENTITY INCORPORATED PURSUANT TO THE CORPORATIONS LAW

SAGASCO is a company incorporated in Panama. The effect of section 4.1(a) of the Code is that an owner or operator of a pipeline cannot be a company incorporated in another country. A foreign company that wishes to own or operate a Covered Pipeline must establish an Australian subsidiary to own or operate that Covered Pipeline.

The National Gas Pipelines Advisory Committee (NGPAC) has considered a specific amendment to the Code to permit foreign companies to be Service Providers, given the limited benefits of not permitting such companies to be Service Providers.

SAGASCO understands that on 10 May 2000, NGPAC recommended to the relevant Ministers the following amendment to the Code:

Section 4.1 of the Code for paragraph (a) substitute:

- (a) be a legal entity registered under the Corporations Law, a foreign company within the meaning of the Corporations Law that has appointed a local agent in accordance with sections 601CF and 601CG of the Corporations Law, a statutory corporation, a government or an entity established by royal charter.

SAGASCO believes the above amendment would have the effect of enabling it to meet the requirements of Section 4.1 (a) of the Code.

SAGASCO is currently attempting to ascertain when this amendment is likely to be made to the Code and seeks in its own right an extension of time to comply with section 4.1(a) of the Code until such time as the above-mentioned amendment is made.

It may be necessary for the Tubridgi Parties to apply for a further extension of time to comply with ring fencing obligations of the Code once the Regulator has deliberated over the revised waiver applications and decisions have been reached. Additional time may be required in order to implement the Regulator's decisions.

Should you have any questions or require further information in respect of the matters addressed above, please contact either the writer on (08) 8217 5721 or Grant Macauley on (08) 8217 5729.

Yours sincerely

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