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Our Ref: CMS/GAR-006

1 June 1999

Dr Ken Michael
Acting Independent Gas Pipelines Access Regulator
Office of Gas Access Regulation
22 Floor, St Martin's Tower
44 St George's Terrace
Perth WA 6000

Dear Dr Michael

RE: SUPPLEMENTARY INFORMATION

**CMS ENERGY AUSTRALIA SUBMISSION
IN RESPONSE TO OFFGAR NOTICE OF 7 MAY 1999**

**APPLICATION FOR EXTENSION OF TIME FOR SUBMISSION OF THE
ACCESS ARRANGEMENT FOR THE GRIFFIN PIPELINE (WA: PL 19)**

I write in response to recent telephone conversations between your Peter Kolf and our Suzy Tasnady regarding CMS' submission to you regarding the application by SAGASCO South East Inc. for a 90 day extension for the submission of an Access Arrangement for the Griffin Pipeline.

Please find attached supplementary information which is intended to clarify the rationale for CMS' submission and elucidate the benefits associated with earlier knowledge of the terms and conditions and tariffs for Reference Services on the Griffin Pipeline.

Please do not hesitate to contact me:

telephone: (08) 9353-7502 (direct)
(08) 9353-7500 (switchboard)

e-mail: daking@cmsenergy.com

or Suzy Tasnady, who is handling the details of our submission:

telephone: (08) 9353-7506 (direct)
(08) 9353-7500 (switchboard)

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if you, your staff, or consultants have any queries on any of the issues raised in this submission.

Yours faithfully



DAVID A KING
Manager of Operations

SUPPLEMENTARY INFORMATION
CMS GAS TRANSMISSION AUSTRALIA
SUBMISSION

RESPONSE TO OffGAR NOTICE of 7 MAY 1999

**APPLICATION FOR EXTENSION OF TIME FOR
SUBMISSION OF THE ACCESS ARRANGEMENT
FOR THE GRIFFIN PIPELINE (WA: PL 19)**

INTRODUCTION

This brief paper seeks to clarify the rationale for the earlier submission made by CMS Gas Transmission of Australia (CMS) to the Office of Gas Access Regulation (OffGAR) regarding the application by SAGASCO South East Inc. (SAGASCO) for a 90 day extension for the submission of an Access Arrangement for the Griffin Pipeline.

It also seeks to elucidate the benefits associated with earlier knowledge of the terms and conditions and tariffs for Reference Services on the Griffin Pipeline.

BACKGROUND

When CMS purchased the Parmelia Pipeline from West Australian Petroleum Pty. Limited (WAPET), it entered into a gas purchase contract with the WAPET joint venture participants (Chevron, Texaco, Mobil (formerly Ampolex), and Shell) for the receipt of associated gas from WAPET's production operations on Thevenard Island. This contract was a part of the overall WAPET sale process. The purchase contract facilitates the environmentally acceptable disposal of associated gas from the Roller and Skate fields. In the past, this gas would have been flared.

The rationale for the gas purchase contract was to provide continuity of gas disposal arrangements for WAPET at the time of the sale of its Perth Basin assets.

Gas is exported from Thevenard Island to the Western Australian mainland via a subsea pipeline constructed and owned by WAPET. Landfall is at Tubridgi. There, the gas is processed utilising the BHP Petroleum (BHPP) gas plant. It then enters the Griffin Pipeline, which transports the gas from Tubridgi to Compressor Station 2 on the Dampier to Bunbury Natural Gas Pipeline (DBNGP). The DBNGP transports the gas to Mondarra, where it enters the Parmelia Pipeline for storage in the Mondarra storage facility and / or transport to the point of sale.

Associated with this gas chain are a number of contracts:

- 1) the gas purchase contract with WAPET,
- 2) the gas processing contract with BHPP,
- 3) the gas transport contract for the Griffin Pipeline,
- 4) the gas transport contract for the DBNGP, and
- 5) the gas sales contract to the end user of the gas.

This gas chain is one of the most complex in Australia.

NATURE OF GAS PURCHASE, TRANSPORT AND SALES CONTRACTS

Gas purchase, processing, transport, and sales contracts are typically characterised by defined durations.

These typically long periods provide certainty for buyers, processors, transporters, and sellers. Such certainty is required to underpin the substantial capital expenditures associated with the production, processing and transport of gas, and the similar capital expenditure associated with industrial plant which ultimately consumes the gas and / or the distribution systems which deliver the gas into the residential and commercial markets.

The beginning and end of gas contracts constitute obvious milestones for all involved. However, gas purchase, processing, transport and sales contracts may incorporate other milestones which mark specified changes to contractual terms and conditions.

Regardless of the specific nature of these milestones, they represent critical watersheds which require significant strategic decisions to be taken.

CMS' CURRENT POSITION

The discussion above has identified the complex nature of the gas chain which delivers associated gas from Thevenard Island to the wider Perth area. It also has identified that contractual milestones within the gas chain require CMS to make far reaching strategic decisions.

CMS is bound by confidentiality agreements in a number of the contracts to which it is a party. Therefore, it is prohibited from disclosing specific aspects of these contracts, or discussing the specific impact of any of the terms and conditions of these contracts.

Thus, the following discussion is, of necessity, presented in general terms.

A milestone event in one of the contracts to which CMS is a party for the receipt, processing, transport, and sale of Thevenard Island gas occurs in November 1999. The impact of this event is substantial. It forces CMS to re-evaluate its overall position in the purchase, gas processing, transport, and sale chain.

SIGNIFICANCE OF THE GRIFFIN PIPELINE ACCESS ARRANGEMENT

At present, the cost of transport in the Griffin Pipeline constitutes a significant proportion of the cost of transporting gas from Tubridgi to Mondarra. In turn,

transport costs comprise a substantial portion of the total costs faced by CMS in delivering Thevenard Island gas to market.

Therefore, the decisions regarding the future use of the Griffin Pipeline and the consequential effects on associated contracts carry considerable importance.

It is possible that the Access Arrangement submitted by SAGASCO may offer terms and conditions, including transport tariffs, which may be materially different from those prevailing in the current Griffin Pipeline transport contract. Therefore, CMS could stand to either gain or lose by seeking access to the Griffin Pipeline under the Open Access regime.

Such gain or loss could constitute the deciding factor in CMS' future strategy regarding Thevenard Island gas.

TIMING ISSUES

If a 90 day extension is granted to SAGASCO for the submission of its Access Arrangement for the Griffin Pipeline, and the OffGAR evaluation and approval process runs to the schedule nominated in the Code, a Final Decision for the Griffin Pipeline would not be handed down by the time CMS must make its (critical) decisions. Thus, the opportunity for CMS to be certain of future Griffin Pipeline transport costs under Open Access by November has already passed.

However, partial knowledge is preferable to complete lack of knowledge.

If SAGASCO were to submit the Access Arrangement for the Griffin Pipeline prior to November, CMS (and indeed other potential new shippers) would have an indication of the terms and conditions applicable under the Open Access regime.

Knowledge would be further improved if a Draft Decision were to be delivered by November. At that point, CMS and potential new shippers on the Griffin Pipeline would be in a position to make more informed judgements as to what the ultimate terms and conditions (including tariffs) under the Open Access regime might be.

However, in order that a Draft Decision might be delivered by November, a number of steps must be completed. A 28 day public consultation period is required (under the Code) prior to the handing down of a Draft Decision. Following this period, OffGAR needs time to assimilate, analyse, and evaluate the content of any public submissions made prior to delivering the Draft Decision.

Thus, it can be seen that if SAGASCO were to submit the Griffin Pipeline Access Arrangement on 8 August (as sought), it is unlikely that a Draft

Decision could be made by November. Consequently, earlier submission would be of definite advantage to CMS and potential new shippers.

REVISED SUBMISSION

As a pipeline operator which faces direct pipeline on pipeline competition from the Dampier to Bunbury Natural Gas Pipeline and the AlintaGas distribution system, CMS seeks to be in the best position possible when it makes strategic decisions regarding its future business which involve the use of the Griffin Pipeline.

CMS therefore requests that OffGAR give consideration to implementing a revised schedule for the date of submission of the Griffin Pipeline Access Arrangement which would permit the delivery of the Draft Decision on that Access Arrangement by November 1999.