

2 March 2001

Ms A Witty
The Executive Officer
NGPAC Secretariat
L13, Wakefield House
30 Wakefield St
Adelaide SA 5000

By Facsimile: 08-8226-5866

Dear Ms Witty

Phillips Petroleum (91-12) Pty Ltd is operator of the Bayu-Undan gas field in Area A of the Timor Gap Zone of Cooperation. Through other affiliates, Phillips also holds significant interests in the Greater Sunrise fields, operated by Woodside Energy.

As a member of the Australian Production and Petroleum Exploration Association (APPEA), Phillips received a copy of their submission to NGPAC dealing with certain amendments to the National Third Party Access Code for Natural Gas Pipeline Systems ("Code"). These amendments, proposed by the Australian Pipeline Industry Association (APIA), are intended to reduce regulatory uncertainty in the context of prospective gas transmission pipelines. Specifically, they have been advanced as a means of addressing regulatory uncertainty associated with Epic Energy's proposed Darwin to Moomba Pipeline.

Phillips has been working closely and successfully with Epic Energy since late 1999 to progress Timor Sea gas supplies to markets served from the Moomba hub. This is one of the most significant infrastructure projects ever undertaken in Australia involving the establishment of a new gas supply hub and the creation of a major link in a national gas transportation grid. A Darwin to Moomba transmission pipeline link is critical to the development of Timor Sea gas reserves and to preserving and growing long-term gas markets in south and southeastern Australia.

We wish to advise that the views expressed in the APPEA submission will, if accepted, impact adversely on Phillips and on the prospects for establishing a national gas supply and transportation system using Timor Sea resources. As an affected "third party", Phillips offers the following comments on the APPEA submission.

Phillips does not support the broad conclusions of the APPEA submission. The submission does not acknowledge the fundamental needs of developers of Timor Sea gas resources or of Epic Energy as the proponent of a new gas transmission pipeline from Darwin to Moomba. If decisions relative to the Code fail to address these needs, Timor Sea gas will not be available to the customers in southeastern Australia at the time major users are seeking to replace their existing Cooper Basin gas contracts. Consequently a significant opportunity for inter-basin competition, and for new supplies of economically priced gas in the south east, will be lost.

The Darwin to Moomba pipeline project is being developed in response to strong signals from the market that a new source of gas is needed for southeastern Australia from 2004. This is in contrast to the traditional development of gas projects in Australia, which have tended to be driven by governments and producers to facilitate market development.

Accordingly, market forces are determining the price for both gas and transportation for the Darwin to Moomba project. A market price for gas is developing in Darwin where local industrial projects, LNG and supply to the southeastern markets are competing for reserves. The proposed pipeline will deliver gas into the Moomba gas province where markets already exist and where gas has to be priced to compete in that market. The transportation charges for the proposed Darwin to Moomba Pipeline have therefore been developed in recognition of these market forces at each end of the pipeline. A pricing structure that disregards these natural and rational market forces is doomed and with it opportunities for greater energy security and economic growth.

A project of this scale carries many elements of risk. It is the responsibility of project developers and regulators to manage those risks responsibly to ensure that such projects can attract the necessary long-term financing. Revenue certainty over the long-term – derived from applicable tariff rates and throughput volumes – is an important risk to be managed to enable this major infrastructure investment to proceed and particularly in relation to a pipeline whose volumes are expected to expand over time. Achieving long term revenue certainty to enable financing has been a basic and guiding principle in the development of Phillips Timor Sea gas resources and the Darwin to Moomba Pipeline.

Phillips and Epic Energy are working cooperatively with customers to achieve an acceptable level of certainty in regard to throughput. Tariff certainty, which is dictated by the applicable regulatory regime, is the issue that suggested amendments to the Code seek to address.

As the Darwin to Moomba pipeline is the first significant gas transmission pipeline to be committed and developed during the operation of the Code, it is natural to expect that uncertainties or ambiguities will be identified and amendments to address these legitimate concerns will be offered for consideration and adoption. The objective of this effort is to secure a more

rational regulatory environment that delivers the maximum benefit for all stakeholders.

The Code as it has been applied by the ACCC to date does not provide for the long-term certainty necessary for significant investments of this type. As Epic Energy has demonstrated in its submissions on this matter, the current regulatory environment provides the very real risk of regulatory overlap between the Part IIIA undertaking regime and the Code. The potential uncertainty that is created confuses gas customers and fails to provide for investment security.

It may be expected that this issue will be addressed in the overall review of the Code proposed by the Federal Government. However, as such review is possibly several years away and the Darwin to Moomba pipeline project needs additional certainty before June of this year, Phillips strongly supports the proposed Code change.

Yours sincerely

Stephen R. Brand
President