



20 March 2013

Mr Ross Campbell
National Competition Council
Level 21, 200 Queen Street
MELBOURNE VIC 3000

Dear Mr Campbell,

Coverage Application – South Eastern Pipeline System (SEPS)

As you may be aware, APA is required, under the terms of the section 87B undertaking that it gave to the ACCC when it acquired Hastings Diversified Utilities Fund, to sell the Moomba to Adelaide Pipeline System (MAPS). As part of this divestment process, APA will also be selling the SEPS. The two pipelines are therefore to be sold as a package to a new owner.

The sale process for MAPS and SEPS is currently underway. Although APA cannot disclose details of bidders and potential purchasers, it will be the case that upon conclusion of the sales process, SEPS will no longer be owned by APA.

In its submission to the NCC's Draft Recommendation, KCA contended that APA has, by virtue of its interests in the SEA Gas and SESA pipelines, 'a clear commercial incentive to discriminate in favour of Origin' *vis-à-vis* Beach when negotiating access to the SEPS.¹ APA rejects this proposition. In particular:

- APA has offered KCA access to the transportation services provided by the SEPS on identical price (adjusted for CPI) as those offered to Origin; and
- even if Beach was to displace some of the gas supplied by Origin, any consequential reduction in the volume of gas transported on the SESA and SEA Gas pipelines would have little effect on APA's revenue in the short to medium term, because the charges payable by Origin on both of these pipelines are capacity based and fixed for the remaining term of its transportation contracts.²

Following completion of the sales process, the new owner will own both MAPS and SEPS. Under the terms of the ACCC Undertaking, the new owner of MAPS (and by virtue of the common sale process, therefore SEPS) must be independent from and have no direct or indirect interest in APA. Excluding MAPS (which will be sold), APA owns and/or operates (as a proportion of total length) 2/3 of the gas transmission pipelines in Australia. In terms of dealings with Origin as a shipper on gas pipelines, it is likely that the new owner of SEPS will have more limited dealings with Origin than APA does. Accordingly, KCAs assertion that APA (and by inference the owner of SEPS) has an incentive to discriminate in favour of Origin due to dealings on other pipelines further falls away with the change of ownership.

¹ KCA, Response to draft recommendation regarding coverage of the South Eastern Pipeline System, 14 March 2013, pp. 3, 11-13, 18

²

Further, APA does not consider that common ownership of both the MAPS and SEPS will accord the new owner with an incentive to discriminate in favour of Origin, because Origin is a large shipper on the MAPS. In particular:

- Beach has significant upstream interests in the Cooper Basin, which in the future it may seek to supply into South Australia via the MAPS. Given this potential, the new owner would have no incentive to favour Origin over Beach when negotiating access to either the MAPS or the SEPS; and
- Origin currently has a long term transportation agreement on the MAPS. Given the terms of this contract have already been agreed, the new owner will have no incentive to favour Origin over Beach or any other prospective shippers when negotiating access to the SEPS for the foreseeable future.

In terms of the overall sales process, the value of the SEPS is small compared with the value of MAPS. This means that any increase in the prices paid for transport on the SEPS would have a negligible effect on the price that prospective buyers are willing to pay for the two assets.

Finally, KCA asserts in its response to the NCC's Draft Recommendation that APA's original submissions contained a number of factual inaccuracies and gave a 'misleading impression' although specific details of purported inaccuracies were not provided.³ Information relating to matters within APA's knowledge was provided based on that knowledge. Information relating to areas outside of APA's knowledge (such as relating to upstream gas production) was based on publicly available information. We would be happy to provide the NCC with any of the extrinsic material we have relied upon if it would be of assistance.

If you would like to discuss any of this further, please feel free to call either Nevenka Codevelle, APA's General Counsel on 02 9693 0035 or me on 02 9693 0053.

Yours sincerely,



Peter Bolding
General Manager Strategy & Regulatory

³ KCA, Response to draft recommendation regarding coverage of the South Eastern Pipeline System, 14 March 2013, p19.