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29 October 2004

The Manager – Energy Market Reform Team
National Energy Market Branch
Department of Industry, Tourism and Resources
GPO Box 9839
Canberra ACT 2601

Dear Sir / Madam,

Re: Submission – Emergency Gas Protocol

QNI Pty Ltd owns and operates the Yabulu Nickel Refinery (“Yabulu”) near Townsville in North Queensland. It is a wholly owned subsidiary of BHPBilliton. QNI is in the final stages of securing up to 6Pj per annum of gas supply for Yabulu from the Moranbah Gas Project, which will produce 100% coal seam gas. The supply of gas for Yabulu is expected to commence in late 2005 and will be via a pipeline owned by a Queensland Government corporation. This pipeline is currently not connected to the Queensland state gas grid, although this may occur in the future.

It is in this context that we have made our comments relating to the “National Gas Emergency Response Protocol Issues Paper” of October 2004.

Our fundamental view is that the market should be left to meet the requirements of customer demand across all potential supply scenarios. This comes from a belief that the market participants are the best able to react quickly to both everyday and emergency situations as they arise. This is provided there is adequate and timely information available, and the structures are in place to allow the market to function. If the market is well structured, government need do little in terms of intervention during times of crisis. We draw these conclusions from having observed the National Electricity Market (“NEM”) in operation for a number of years.

It is in fact our opinion that the National Electricity Market Management Company (“NEMMCO”) is a logical entity to administer a national gas market in the future. The functions that it could undertake in relation to gas could be similar to that which VENCORP (Victorian Energy Networks Corporation) conducts on behalf of the state of Victoria, namely:

- the planning of gas transmission networks
- communication responsibilities during emergency gas load situations

provision of market services similar to that which NEMMCO currently provides for the NEM.

We make this statement because:

1. NEMMCO has existing infrastructure and experienced skilled personnel for dealing with an expanded national based energy market.
2. It is experienced in providing information to the market participants.
3. Its culture is about achieving the optimum balance between an uncertain demand profile including industrial, commercial, and residential customers, and a limited supply base, while still allowing the retailers/distributors to control the local effect.
4. It is already coping with transferring energy across jurisdictional boundaries.
5. The future for the gas industry in Australia would appear to be one of greater interconnectivity between networks so that the gas industry structure will increasingly resemble that of the electricity industry. NEMMCO will be able to assist in this market development.
6. The links, relationships and partial market overlap between gas and electricity are already quite apparent and the outlook would appear for them to only strengthen further therefore making an Australia-wide "energy" market appear to be a logical step forward.
7. Under the NEM it is the price signals that result in standby supply capacity being used in the event of an outage of a conventional supply source. Some of these standby supply options are quite innovative. We can foresee similar solutions being generated by the market in the gas industry in years to come, so that curtailment may be a less common occurrence. A couple of examples that readily come to mind are:
 - (i) The use of underground gas storage being justified because some market participants are prepared to pay extra for this certainty of supply.
 - (ii) The impact on the Australian energy market caused by a supply shortfall from a major gas outage being balanced by increased coal fired electricity generation.
8. Having control of supply meeting demand in the hands of an independent market de-emphasizes the political element in decisions such as supply curtailment. This could assist to defray the political exposure to conflict of interest that is inherent in the market due to the high number of government owned corporations (GOCs) that are participants.
9. Using Moomba of January 2004 as an example of a major supply outage where governments did intervene, it is interesting to note that the value of the government involvement was to smooth inter-jurisdictional barriers to ensure supply to South Australia¹. Having a well-structured market would see such issues already dealt with as standard rather than it having to be done with haste during a crisis.

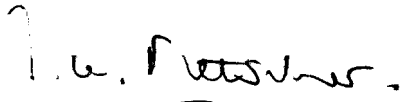
We note that other industry participants have already considered NEMMCO as potentially being an appropriate entity to participate in the gas market to some degree².

We recognise that our submission is in a form outside that requested in the Issues Paper, however we do believe our recommended approach is worth further consideration by your team. To this end, we are pleased to meet with your team to further explain our recommendation should you require it.

We also recognise that any approach resembling what we have outlined above will take time to implement and that a protocol that contemplates a body directing gas curtailment may be necessary in the meantime. Our recommendation is that such a protocol should take into account the impact on the Australian economy and communities caused by curtailment of gas supply to industrial customers.

We would further recommend that should a reduction in gas demand be necessary, that it be done via rationing (eg a 10% reduction in gas supply across all consumers) instead of targeting a particular group, such as industrial customers, to wear a total outage.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Tim Netscher', with a horizontal line underneath.

Tim Netscher

President and Chief Operations Officer

¹ Ministerial Council on Energy Gas Emergency Protocol Working Group: "National Gas Emergency Response Protocol Issues Paper", October 2004 (Page 8)

² VENCORP: "Submission on MCE Standing Committee of Officials' Consultation Paper "Draft Gas Market Principles"", 24 September 2004 (Pages 8-9)