



INDEPENDENT
MARKET
OPERATOR

Gas Services Information Submission to Rule Change Proposal

GRC_2014_01 GSI Fee Arrangements – Inclusion of Registered Production Facility Operators

Submitted by

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Submission

Submissions for Gas Rule Changes should be submitted to:

Independent Market Operator

Attn: Group Manager, Development and Capacity

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Email: market.development@imowa.com.au

- Please provide your views on the proposal, including any objections or suggested revisions.**

Background

Apache Energy Limited (AEL) is the principal Australian subsidiary of Apache Corporation, an independent energy company that explores for, develops and produces oil and natural gas. Apache has been operating in Western Australia since 1993 and recently became the largest domestic gas producer in Western Australia.



It currently operates the Varanus Island and Devil Creek facilities and it is a participant in the recently commissioned Macedon facility.

It has also been actively involved in conversations regarding the State's energy future for several years and welcomes the opportunity to discuss changes which impact our industry.

Our view on the proposed changes

AEL and other subsidiaries of Apache Corporation (together, the **Apache Group**) are party to many long term Gas Supply and Purchase Agreements (**GSPAs**) whereby it has agreed to supply gas to Buyers. We understand that these Buyers are "Registered Shippers" (as that term is defined in the GSI Rules).

Over the last four weeks, AEL's legal department has undertaken a review of its GSPAs to determine who will be liable for its portion of the GSI fees (which will be imposed on it as a Registered Production Facility Operator).

Our legal department is of the view that the Apache Group's portion of GSI fees as well as any incidental or administrative costs incurred by the Apache Group as a result of the changes may be passed on to its Buyers (ie the Registered Shipper) under the GSPAs. This pass through is provided for in the "Change of Law" and "Change of Impost" provisions in each GSPA.

These provisions are standard provisions included in GSPAs in this industry, which means the GSI Fees will likely be passed through to Registered Shippers in GSPAs entered into with other Registered Production Facility Operators.

The net effect of the proposed changes is that Registered Shippers will retain 100% of the total GSI fees. It also means that the Registered Shippers will more than likely be liable for more administration costs than it would be liable to pay if the GSI Rules had not been changed (ie the Registered Shippers will be liable for its own administrative costs as well as the administrative costs passed to it by the Apache Group or other Registered Production Facility Operators which have similar pass through provisions in their GSPAs.

Apache also endorses the submission on this matter made by the Australian Petroleum Production and Exploration Association (APPEA).

2. Please provide an assessment whether the change will better facilitate the achievement of the Market Objectives.

Due to our reasons set out in item 1 above, AEL does not consider that the proposed changes to the GSI Rules will facilitate the achievement of Market Objectives.

These changes will likely result in:

- a) more of an administrative burden being placed on Registered Production Facility Operators (including the Apache Group); and
- b) more costs being borne by Registered Shippers.

3. Please indicate if the proposed change will have any implications for your organisation (for example changes to your IT or business systems) and any costs involved in implementing these changes.

If the GSI Rules are amended to split the costs between Registered Shipper and Registered Production Facility Operators, AEL will need to amend its business systems to ensure that the GSI invoices it receives from IMO are paid within the required timeframe. This will require an update to AEL's internal compliance procedures.

4. Please indicate the time required for your organisation to implement the change, should it be accepted as proposed.

Due to the reasons set out in item 3 above, we estimate that we will need a short period of time to implement the changes to the GSI Rules. The impact will come in the form of monthly management of these costs amongst all our shippers from a billing perspective.
