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Agência Nacional do Petróleo - ANP
Mr. José Cesário Cecchi
Superintendência de Comercialização e Movimentação de Gás Natural
Rua Senador Dantas, nº 105/10th floor
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Ref.: Public Inquiry – Draft of Administrative Rule which regulates the free access to Natural Gas pipeline transport installation

Dear Sir,

In response to the public inquiry of the Administrative Rule which regulates the free access to Natural Gas pipeline transport installation in Brazil, we take this opportunity to detach below some comments in order to assist the discussions and formation of the regulatory process on this matter.

1. It could be argued that the "supply areas" may need a slightly different handling than the "market areas" where the control of gas volume is better handled. In the supply areas, the connected production has either the option of producing, flaring (up to the 2% limit allowed) or shutting in production. The risk associated with the last option reduces the economic viability of most projects substantially and may defer or eliminate the drilling and development of some prospects. Some form of aggregation to a central point for transportation needs to be allowed, which argues for some flexibility of delivery points in the supply areas. Ideally, excess gas produced from oil production should have priority over gas produced from gas wells due to the higher impact of curtailment of the oil production.
2. In the market areas, market demands are influenced heavily by ambient conditions but a consumer of gas may have options for conversion to alternate fuel sources if supply is interrupted. However, there are cost impacts to the conversion. In the case of heavy oil production with Low GORs but high heat requirements for separation and treating, the early life of the field



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may result in surplus gas which can be used as supplies for the evolving gas market. However, at some point in the life of the field the project can and, in many cases, will become gas deficient. In those cases, in order to keep production flowing natural gas needs to be "bought back" by the field development project. Therefore, the later stages of the field development project can also be considered a market area. In the middle life of the field the produced gas may be at a much reduced volume and difficult to predict on a daily, monthly or annual basis.

3. The language used in Article 2 Section I which specifies "Delivery Contract Capacity" as "capacity of removing gas in *determinate* Point of Delivery...". Care must be taken to ensure that a "Point of Delivery" also includes capacity that is created by backhaul or displacement. In Order 637 FERC discusses the potential for creation of "virtual pipelines" in which gas can be delivered and received between two pipeline systems that are not physically connected. This is performed by exchanges and backhauls that when properly done in back-to-back deals create a "capacity" on either system. If open access is to be provided, then Article 2 Section IV definition must be expanded to include all viable alternatives for creating capacity in a system, not just the hydraulic capacity that is created by the pressure profile of the system.
4. Better definition needs to be made of the formalized Interconnection Agreement requirements that can be imposed for "necessary operation conditions to connect" as stated in Article 4. What are legitimate operational requirements, i.e. minimum or maximum operating pressures that will be disclosed? Are system maps and hydraulic network diagrams to be made available to shippers to self determine what limitations may exist? Are the transporters required to provide daily, weekly, monthly or annual notice of the capacity that is available and how that capacity is being calculated? Who acts as arbitrator to any arbitrary decisions made on pipeline operating assumptions being made in the calculation of capacity? In the case of dense phase pipeline operations, will a minimum operating pressure be defined based on the actual composition of the gas from time-to-time with a "reasonable" operating margin or will the transporting pipeline be able to establish some arbitrary minimum pressure? Will backflow from an existing interconnect "depart" point be allowed thus creating a "delivery" point on the line?

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5. A key issue is the terms "Depart and Delivery Zones" which denote a fixed area in which all points are considered to be either a "Depart Point" or supply point into the transporters pipeline or a "Delivery Point" or a point where delivery is made by the transporting pipeline to the ultimate user or an interconnecting pipeline. The flexibility to move gas in any direction is predicated on the ability to have a Depart or Delivery Point at any point on the transporter's pipeline system.
6. Article 9, which requires the owner of a Transference Installation that happens to be reclassified as a Transport Installation to transfer the operations of the installation to a Transporter, needs better clarification. Who determines what is a Transport Installation? Is there a risk or liability of operations of facilities owned by one party but operated by another? Does this operate as a forced transfer of facilities or property? Who does have the responsibility for the safety of the crew if different parties are operating facilities on the asset, i.e. who is responsible for the safe system of work?
7. Clarification is necessary in Article 3 as to how a transporter may dispose of operational stock. For example, would gas banking for buy-back scenarios be allowed?

We are available to help and contribute with further comments and studies as may be deemed necessary. Please do not hesitate to contact us in case any further clarification is needed.

Sincerely,

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