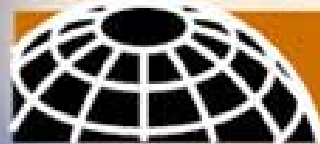


OUTLOOK[®] 2001



Capturing Growth Opportunities

ABARE

Innovation in Economic Research



Gas Supply and Transmission

The Issues

Jim McDonald



A Caveat

“ Economists possess their full share of the common ability to invent and commit errors Perhaps their most common error is to believe other economists.”

George J. Stigler



- **Competition reform is work in progress**
- **Government should make policy**
 - Regulators should monitor compliance
- **We do not have it all wrong**
 - We do not have it all right
- **Government should do a sanity check**
- **What should we do next**



"Gas for all and greater use of Gas"

■ Focus must shift to

- ➔ Efficient use of capital
- ➔ Encouragement of system expansion
- ➔ Encouragement of new pipelines
- ➔ Research to lower capital cost
- ➔ Reliability and integrity of existing pipelines



Hear the Tom Toms

- **Cracks in reliability of G & E systems**
- **Foreign investors exit - disillusioned**
- **Impact of OPEC pricing - Oil and LPG**
- **Capacity overhang in power absorbed**
- **Energy price volatility**
- **California**



Lynne Korsky - Acting Minister for Energy and Resources

“.....with regulation that gives us the power to regulate prices (to the consumer) set by the companies if necessary.”



A perfect world

- **Government(s) make policy**
- **Regulator(s) monitor compliance**
- **Commerce drives commercial outcomes**



The way it is

- **Government(s) make regulators**
- **Regulator(s) make policy**
- **Commercial forces fight regulator(s)**
- **13 involved separate government agencies or creations**



The missing link in gas reform is competition between a large number of gas producers.

**APPEA plan is
“self-regulation.”**



Producers test the risk appetite of other investors

■ **Sub-contracting**

- ➔ Pipelines offshore
- ➔ Floating production systems
- ➔ Plants

■ **Increased net-back rent to wellhead**



The regulator

- **Independent economic regulator**
- **Balance the legitimate interests of**
 - Service providers
 - Customers
- **Friction due perceived consumer focus**



Industry concerns

- **The cost and process time of regulation**
- **Inconsistency of decisions**
- **Multi jurisdictions**
- **Discretion**
- **Limited appeal rights**
- **Existing contracts**



For mature pipelines, the issues are political

- Purchasers of government owned assets deal with real not theoretical balance sheets
- Real dollars were paid for assets
 - \$4.5 Billion
- AMP and Hastings Funds Management



The future looks good

- Major new gas supply - PNG, Timor
- Review of Part IIIA of TPA
- Review of Pipeline Access Code
- Central West decisions



Re-write of Part IIIA TPA

- **Guidance stressing the importance of ongoing efficient investment**
- **Constrain access regimes to services where there is demonstrable market failure**
- **Clear access and pricing principles**
- **Strengthened appeal provisions**
- **TPA to punish monopoly abuse**



Re-write of Part IIIA TPA (cont')

- **Guidelines to assess presence of competition**
- **Regulators not to have conflicting roles**
- **Voluntary undertakings for greenfields projects**
- **Time limits on decisions**
- **Upstream competition initiatives**



“National significance test”

- **Victorian major system**
- **Moomba - Adelaide**
- **Dampier - Bunsbury**
- **Ballera - Brisbane**
- **PNG - QLD**
- **Timor - Moomba**



National Energy Policy Initiative

- **Need incentives to switch to environmentally friendly gas**
- **Value and create trade in emissions**
- **Consider greenhouse in power generation**
- **Remove or minimize impediments to gas fired generation**



Negotiations for new pipelines

- Shell
- Woodside
- Exxon
- Chevron
- Phillips
- BHPP
- Santos
- AGL
- Petronas
- EPIC
- Duke
- Origin
- APT

Commercial decisions should prevail.



Jim McDonald

Australian Pipeline Trust