

Australian Pipeline Trust



Investing in New Infrastructure to Secure Gas Supplies

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Agenda

- The Issues
- The Challenges
- Changing Dynamics
- Future Supply Options
 - ▶ Existing Fields
 - ▶ CBM
 - ▶ Northern Gas
- Regulation
- Policy Issues



The Issues

- ABARE indicates a shortfall in supply from existing gas fields by early next decade.
- Australia has an abundance of natural gas, but not close to existing markets.
- Customers are concerned about availability, security and prices from existing gas supplies.
- Work on alternative supplies is required now to address future shortfall.
- Natural gas no longer has a “champion”.



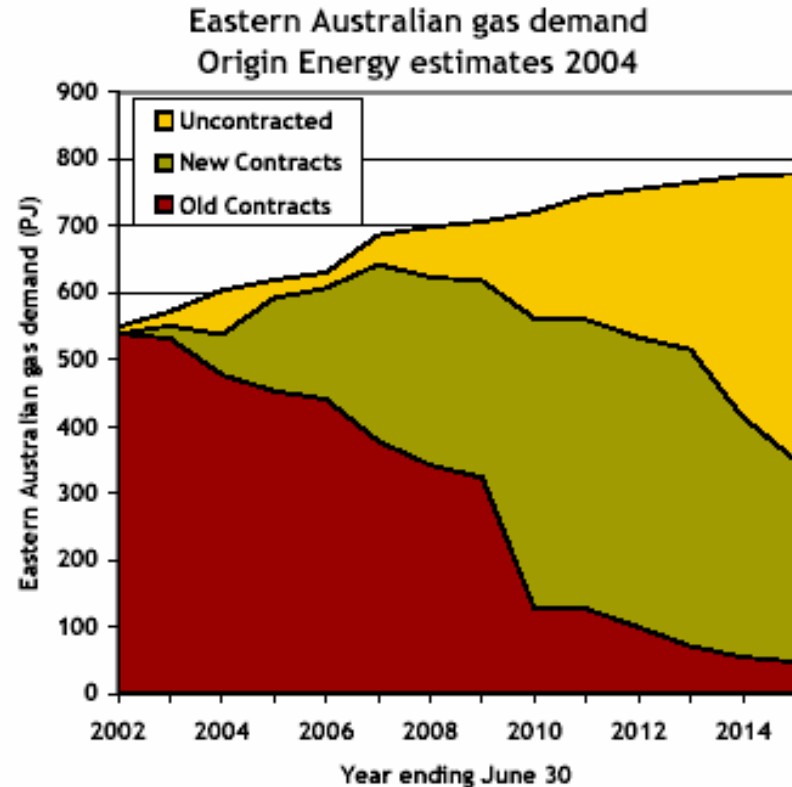
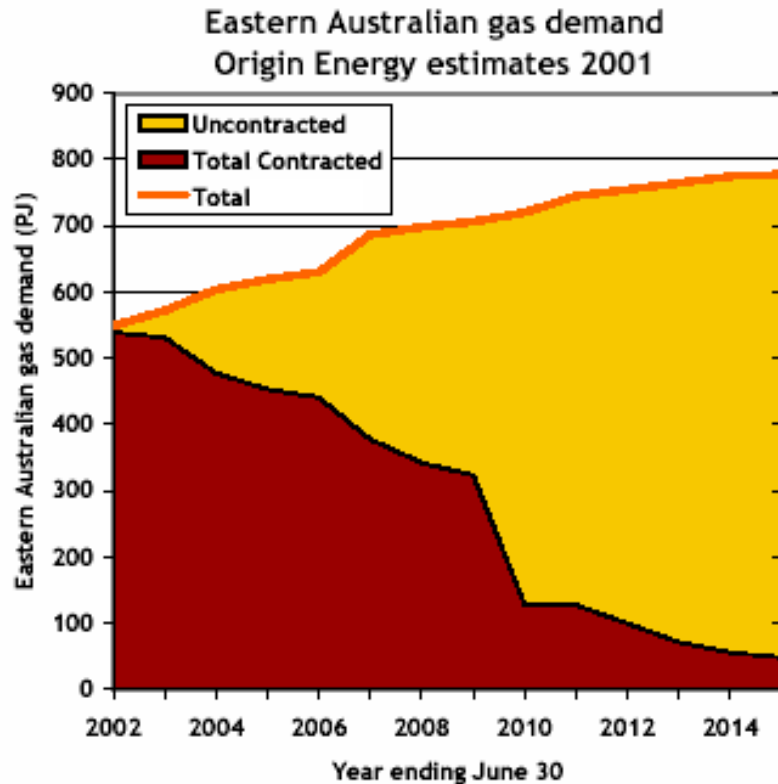
Natural Gas Consumption by State 2002 - 2020 (PJ / annum)

State and FY	2002	2005	2010	2015	2020
NSW	114	124	147.7	173	199.7
VIC	243.8	263.6	308.2	357.7	408.6
QLD	85.6	126.6	164.8	185.2	212.4
SA	141.8	139.2	166.3	185.2	206.7
TAS	0	9.9	17.8	20	21.4
East Aus Subtotal	585.2	663.3	804.8	921.1	1048.8
WA	323.1	369.3	471.8	566.3	631.7
NT	26.2	35.1	88.9	124.2	131.6
TOTAL	934.5	1067.7	1365.5	1611.6	1812.1

ABARE Energy Update 2004

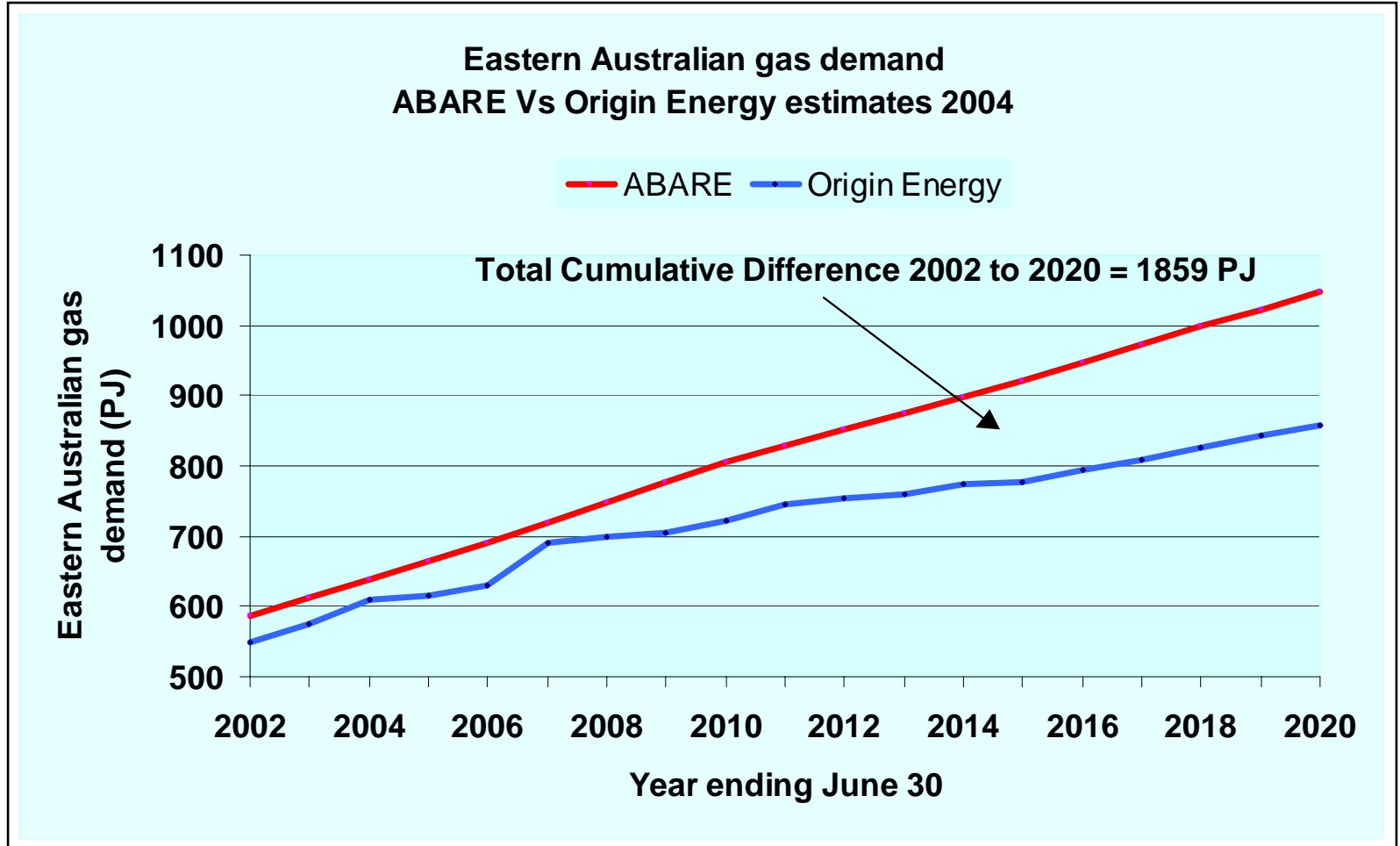
NSW excludes 16 PJ Ethane (est.)

A Producer's view - Origin



Source: Origin Energy (May 2004)

ABARE vs Origin Forecasts



The Challenges

- Short term need: well priced, adequate supplies to expand position of gas in the energy mix, and gas fired generation and diesel substitution.
- Medium term need: to encourage delivery of northern or north-western gas to south-east Australia.
- To improve the regulatory environment.
- To develop clear national policy settings.
- To prevent bureaucratic control.





Changing Dynamics No.1

“The gas transmission industry is in transition at the ownership level.

The wider energy industry (gas & electricity) in transition.

The nature of economic regulation of energy - gas & electricity in transition.”

Dr. Allen Beasley, APIA - 21 July 2004

- Vertical and horizontal integration.
- Politics of energy is also in transition.

Changing Dynamics No.2

- Major changes in ownership of transmission assets, some have just transpired / underway.
- Emergence of “Trust” and “Institutional” type vehicles as the ultimate owners of transmission assets.
- Confirmation that new pipeline development is a highly contestable process.
- Emergence of pipeline-on pipeline competition as a very strong feature of the delivery systems, especially in SE Australia.
- Ongoing legal challenges against inappropriate economic regulation of transmission assets to protect legitimate interests.



Changing Dynamics No.3

- Physical interconnection of NSW, VIC, TAS & SA and “virtual” interconnection of QLD.
- Eastern markets beginning to work due investment by transmission companies.
- Otway and Gippsland supplies displace Moomba gas in Adelaide reducing demand on Cooper Basin.
- Changes to acreage management create opportunity for new Cooper Basin exploration.



Changing Dynamics No.4

- Resurgence in the Surat, including CBM, has expanded gas supply for Queensland and facilitated QLD gas into southern markets by SWAPS.
- Advanced seismic techniques target new reserves.
- Planned QLD - NSW connections will displace Moomba gas in Moomba to Sydney Pipeline.
- Ageing systems = unreliability.

BUT

- Natural gas in existing fields is a finite resource and rising prices may be a problem.



Challenges for CBM Producers

APT's Perception

- Balancing production profiles with end user demand patterns.
- Getting gas to markets.
- Capital constraints.

Question: Are CBM contracts “bankable”?

- APT seeking a greater understanding of these issues to enable better solutions.
- Considering investment in CBM facilities.



Northern Gas

- Impact of CBM / Surat will delay PNG.
- Difficult to aggregate 150 PJ / annum.
- WA Government - Recent study concludes trans-national pipeline necessary by 2015 if no PNG pipeline in place.
- It will require aggregated contracts consolidating a larger load and thus a larger pipeline.
- New pipeline will be contracted not regulated.



Expansion at Risk Due to Tariff Regulation

- DBNGP - Western Australia's future at stake.
- GGT - State Agreement should prevail.

NCC has recommended “Queensland Regime Not Effective”.

- Pipelines are covered but tariff is by State Agreement.
- Legal challenges will follow should Federal Minister agree and tariff regulation is pursued.



Mendaccity

- ACCC claims causal relationship between application of regulation and investment in gas transmission.
- This claim has no basis in fact.
- Investment followed privatization not regulation.
- Future pipelines will be contracted not regulated.
- Benefits of “open access” are not related to tariff.



Recent Pipelines- Not Tariff Regulated

- ▶ Carpentaria - Ballera to Mt Isa
 - ▶ SWQ - Ballera to Roma
 - ▶ RBP - Roma to Brisbane Looping
 - ▶ EGP - Longford to Sydney
 - ▶ SEAGas - Victoria to Adelaide
 - ▶ Interconnect - Victoria to NSW
 - ▶ TGP - Longford to Tasmania
 - ▶ NWQP - Bowen to Townsville
 - ▶ Telfer - Pt. Headland to Telfer
- All interconnecting pipelines are unregulated.



Regulatory Environment

Review of Regulatory Issues

- Fundamental conflict between ACCC's consumer protection role and that of economic regulator of infrastructure.
- Regulators given too much discretion under the Code.
- Regulation is intrusive and very expensive.
- New Energy Regulators - AER, AEMC.
 - ▶ APT supports a national regulator, but it should be completely independent of ACCC.
 - ▶ Concern that gas will be treated the same as electricity.
- Parer recommended a separate energy regulator.
- Precedent from ACCC losses in appeal processes.
- Merits appeal a fundamental part of 1997 gas reform.



AER is (destined to be) ACCC

- AER employees are ACCC secondees.
- AER Chair reports to ACCC Chair.
- AER CEO reports to ACCC CEO.
- AER budget controlled by ACCC.
- AER members are Associate ACCC Commissioners.
- C'wealth appointee nominated by ACCC Chair.
- AER quorum must have ACCC nominee present.



PC Review of Access Code

■ Report noted.

- ▶ Challenge in designing a regime which supports the emergence of competition but imposes regulatory intervention only where it is likely to generate major improvements in efficiency.
- ▶ A high degree of risk that a Regulator's price is no more efficient than a non-regulated price.
- ▶ The building block approach is intrusive and costly with a high potential for error.

■ Potential to distort and defer investment.

ACCC says the PC “have got it wrong”.

Energy Policy Initiatives

- Federal Ministers policy initiatives are welcomed but there is risk in implementation via the MCE.
- MCE reform agenda must avoid focus on process and institutions of bureaucratic control and get serious about consultation with investors.
- Infrastructure investment must be seen as a critical long term need for Australia.
- Policy framework must deliver a predictable and stable investment climate.
- Gas and electricity access arrangements are fundamentally different.



Summary

- Inevitable decline in SE Australian gas production / contractibility in medium term.
- Additional gas supply vital by early next decade.
- The gas industry is undergoing enormous change.
- Tariff regulation is problematic.
 - ▶ New pipelines are not tariff regulated.
 - ▶ Future pipelines will be contracted.
- Policy framework must deliver a stable investment climate and investors must be consulted.



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