



**Australian Pipeline Trust  
Annual General Meeting  
Avillion Hotel Sydney  
11.30 am 21 October 2003**

**MANAGING DIRECTOR'S SPEECH -**

**SLIDE 21 – [MANAGING DIRECTOR – JIM McDONALD]**

Thank you Chairman and good morning ladies and gentlemen.

I agree with my Chairman that APA has again produced a pleasing result, and thank him for his kind comments.

Looking back over the past three years, one gets a sense of the strength of the fundamentals of this business, and the opportunities which will arise in the future. The business is well positioned to enhance its leadership position in the gas transmission industry.

That being said, I would like to address three issues, vital to the continued success of APA. The first, is the availability of natural gas supplies into south east Australia in the medium to long term.

The second is the regulatory environment in which our business operates, and the potential for positive change following the review being undertaken by the Productivity Commission.

And the third area I would like to cover is our growth strategy in the light of industry rationalisation and the speculation about investors exiting from the Australian gas transmission industry.

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## **SLIDE 22 – MAP -GAS SUPPLY TO SOUTH EAST AUSTRALIA**

Here is our map setting out the known natural gas basins around Australia and the potential pipeline routes necessary to bring that gas to market. As I have said before, this map underscores the extraordinary development of the gas industry over the past 30 years. Thirty years ago you would have only seen the Roma to Brisbane Pipeline. Today we have a complex of pipelines, which are fast approaching a fully integrated pipeline system.

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## **SLIDE 23 \_ GAS SUPPLY TO SOUTH EAST AUSTRALIA – The Debate**

For those of you who have previously attended information meetings, you will know that I consider the need for new sources of natural gas to be brought to south east Australia as vital for the development of the natural gas industry. In the light of recent new analysis, I believe that development of alternative supplies of natural gas is now critical to maintaining the natural gas industry. In particular, I refer all of you to the recent paper “Eastern Australia’s Gas Supply and Demand Balance” by A Dickson and K Noble of ABARE Economics published in the APPEA JOURNAL in 2003.

In their view, gas supply shortfall is likely to occur by 2012-13. They conclude that the problems of deliverability from the eastern Australian gas basins will result in the eastern Australian market being and I quote,

“increasingly dependent on new sources of supply in the future if not within the next decade.”

There are a number of voices that argue differently – and some of those are well-respected industry participants. In my view, what is lost in the debate is the most significant piece of the puzzle – the deliverability of gas to customers at commercially acceptable prices. Major customers in the south eastern markets are becoming increasingly concerned about gas availability and gas prices in the medium to long term because it is becoming more costly to extract sufficient gas from existing gas basins, and long-term contracts are difficult to secure.

The conclusion that one draws is inescapable. Put simply, the Cooper basin fields may still be able to deliver gas, but the cost of doing so will increase over the coming years, due to increased costs in extracting the gas from the basin and tighter supply issues.

The time has come to move on from endlessly debating whether existing gas supplies are just or nearly sufficient for future needs. Immediate action is necessary given the long lead times for field and pipeline approval and construction so that greater quantities of natural gas and wider choice of gas producers provide better availability and pricing of natural gas to end consumers. The provision of natural gas to consumers at a commercial and competitive price is the goal.

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## **SLIDE 24 GAS SUPPLY TO SOUTH EAST AUSTRALIA (CONTD) - Options**

Coal Bed Methane, is proving a viable partial alternative, and has been factored into the timeframe in which new supplies need to be delivered to

south east Australia. Coal bed methane is however, not yet able to contract sufficient quantities of gas to satisfy the growing market.

Gas from southern Australia – the Otway basin and Gippsland – should form part of the equation to meet supply in the medium term. However, on present proven and recoverable reserves, it appears unlikely that the volumes of gas found to date will be sufficient to meet demand much beyond 2012-13. Coal bed methane and Victorian supplies provide some breathing space, but are not the long term solution.

Building capital intensive pipelines to bring natural gas to market requires the appropriate policy settings to be in place. Without the necessary foundation loads to support the significant capital expenditure required, and the appropriate government regulatory regimes, it is unlikely that any major project will commence before the end of this decade.

The Timor Sea gas development has refocussed on providing liquified natural gas to offshore markets with the result that it is unlikely that there will be sufficient commercial gas supplies available to the domestic Australian markets to support a new pipeline from Darwin to Moomba.

The Papua New Guinea (PNG) pipeline project in which APA has a right to participate, remains the most likely source of northern gas in the medium term – and the most likely method of meeting expected gas demand.

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**SLIDE 25 GAS SUPPLY TO SOUTH EAST AUSTRALIA (CONTD) –  
Papua New Guinea Pipeline Project**

The PNG producers continue to attempt to aggregate a market for their gas with the proposed pipeline now planned to service south east Australian

markets via Mt Isa and Moomba as well as Central Queensland markets such as Gladstone and Townsville.

The PNG project however, is extremely complicated and faces many hurdles. It is possible that the PNG project may be further delayed until after the end of this decade because of these issues. However, with the appropriate policy settings – both regulatory and capital - to underpin the enormous financial costs, and the right foundation load to support the major capital required, the PNG project could move forward.

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## **SLIDE 26 NORTH WEST SHELF GAS**

Recent media coverage of the North West shelf gas producers has again highlighted that North West Shelf gas may be a source of gas into south east Australia. Should PNG not proceed, all eyes will turn to this gas and a trans-continental pipeline early next decade.

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## **SLIDE 27– REGULATORY ENVIRONMENT-**

### **Review of existing Regulatory Issues**

Last year I reported on what I saw as major shortcomings of the National Gas Access Regime and the increasing concern expressed by major investors in the gas transmission industry.

The legal battles of Epic Energy have been widely reported, and our efforts to remove regulation of our Moomba to Sydney Pipeline while the Eastern Gas Pipeline is uncovered, continues.

With the recent release of the final determination by the Australian Competition and Consumer Commission (ACCC) on our Moomba to

Sydney Pipeline access arrangement, details of the regulated tariff and cost structure are now available to our competitor, whereas its tariff, cost structure and potential customer base are not available to us.

We still await the decision of the Federal Minister on whether the Moomba to Sydney Pipeline should be covered by the Code at all. In the event that the Minister does not recommend revocation of coverage, APA will be appealing both the ACCC and the Minister's decision.

As far as APA is concerned, it's simply not acceptable for our pipeline to be covered when a competing pipeline is not.

The ACCC final determination on the access arrangement, has little revenue impact on the Moomba to Sydney Pipeline until after 2006. The ACCC determination differs from the APA access arrangement in a number of significant ways. A fundamental difference between APA and the ACCC is the capital value of the Pipeline, which is of primary importance in setting tariffs. In addition, there are a number of inconsistencies in the ACCC determination which affect tariff calculation and these must be resolved. However, while disappointed by the ACCC action, I remain confident that the Productivity Commission review which is under way, will lead to a better and fairer regulatory system.

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## **SLIDE 28 REGULATORY ENVIRONMENT (CONTD)**

### **Review of existing Regulatory Issues (contd)**

In relation to our Queensland pipelines, the Roma to Brisbane and Carpentaria Gas Pipeline, the National Competition Council has recommended that the Queensland Gas Access Regime is "not effective".

These pipelines are regulated by an Agreement with the State of Queensland. The proposition that this agreement is not “effective” is astounding.

Both pipelines have operated efficiently over a number of years and expanded to meet additional load requirements. Indeed, the Roma to Brisbane Pipeline has almost doubled in effective capacity through looping, and the Carpentaria Gas Pipeline has had its first compressor installed to meet the increased capacity demands of customers in the pipeline. The NCC seems to have a philosophical problem with any regime that involves a State Government.

If the Minister accepts the NCC recommendation, it may lead to the upset of the existing contractual arrangements on our pipelines. Both the Queensland Government and APA oppose the recommendation. No date has been set for a final decision, and this issue will also be discussed in evidence with the Productivity Commission.

The Goldfields Gas Transmission pipeline in Western Australia is in a holding pattern awaiting a further draft determination from the Office of Gas Access Regulation (OffGAR). Following the Epic Energy decision which addressed similar issues, OffGAR is reviewing its initial position in which it ignored the existence of the State Agreement between the Western Australian Government and the owners of the Goldfields Gas Transmission pipeline. Should it not take the State Agreement into account, the owners of Goldfields Gas Transmission will recommence litigation.

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## SLIDE 29 PRODUCTIVITY COMMISSION REVIEW

In 2002, the Australian Competition and Consumer Commission produced draft guidelines as to how the Gas Access Code might be applied to "greenfields" projects such as the proposed Papua New Guinea pipeline. The guidelines point up the very issue that concerns our industry - that the Code provides a wide discretion to regulators and that discretion creates a very uncertain investment climate. Industry has rejected the draft guidelines.

In the light of the disruptive and negative impact of the regulatory regime on investment in the gas transmission industry, the review of the Gas Access Regime by the Productivity Commission is seen as a positive step which will address the issues facing existing and greenfields pipelines.

The Commission is to report on:

- the benefits, costs and effects of the Gas Access Regime, including its effect on investment in the sector and in upstream and downstream markets;
- improvements to the Regime, its objectives and its application;
- how the Regime might better facilitate a competitive market for energy services;
- the appropriate consistency between the Gas Code, the National Access Regime and other access regimes;
- the institutional and decision making arrangements under the Gas Access Regime; and
- the appropriateness of including in the Gas Code minimum (price and non-price) requirements for access for users.

The Commission has received over fifty submissions already and a final report is due in June 2004

All of these matters are of vital importance to us because APA's future performance is largely linked to what type of regulatory regime applies to our pipelines. We believe that the Productivity Commission will recognise the problems inherent in the existing system and recommend changes that result in an access regime which recognises the importance of balancing the needs of investors, owners and end users.

We believe it is likely that this will lead to better regulation and a better climate for investment in the industry.

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### **SLIDE 30 GROWTH STRATEGY**

As I have said in previous years, the APA growth strategy is simple - yet difficult to accomplish.

APA seeks growth from four main areas –

- incremental growth on our existing pipelines;
- acquisitions of minority interests in our pipelines;
- acquisition of other pipelines through industry rationalisation, and
- investment in complementary businesses.

APA markets incremental capacity through our pipelines. Those of you who receive our "In the Pipeline" newsletter, would have seen in the most recent edition, a photograph of our fine team of marketers who specifically provide services to the Moomba to Sydney Pipeline.

Additionally, APA seeks to maximise capacity utilisation through innovative contracts. These provide very good returns but are limited by market demand.

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## **SLIDE 31 GROWTH STRATEGY (CONTD)**

### **Incremental Growth**

Natural gas demand is still growing at over 3% annually, and will continue to do so provided competitively priced gas is available.

As the Chairman has reported, we have managed to successfully tap into that growth in demand through increased utilisation of our Queensland and Western Australian pipelines.

Our recent contract with AGL Wholesale Gas to transport gas in the Moomba to Sydney Pipeline, post 2006, in addition to quantities previously agreed under the Gas Transportation Deed addresses some of our medium term requirements, but does not fill the pipeline.

The use of natural gas as a cleaner alternative to coal-fired power continues to be our goal. A report released in July 2003 notes that strong demand in electricity is leading to declining power reserves across all main regions of Australia. It is clear that one solution is the provision of new power stations to meet this demand.

We remain hopeful that governments will address the Kyoto greenhouse protocols by encouraging the building of more environmentally friendly gas-fired or even dual coal/gas fired power stations. Certainly the New South Wales Government should be considering natural gas fired power generation, in the light of the rejection of the Hunter Valley Redbank 2, power generator project for environment reasons.

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## **SLIDE 32 GROWTH STRATEGY (CONTD)**

### **Acquisitions**

#### **Minority Interests**

We continue to explore opportunities to acquire the minority interests on our pipelines. Although no formal process has begun, there is significant speculation that the minority interests in the Goldfields Gas Transmission pipeline are considering a sale of their interests. APA will be actively involved in acquiring those interests.

#### **Industry Rationalisation**

Over the past few years, I have suggested that the gas transmission industry was unlikely to continue in the form in which it had developed. The regulatory environment and the sourcing of gas at great distances from most customers do not encourage an industry with many players. Overseas investors have now reviewed their investment strategy and are considering sale of their assets.

According to media speculation, much of the gas transmission industry is up for sale. A formal process for the assets of Epic Energy has now begun. As the Chairman noted, APA has embarked upon a due diligence process, and will bid for these assets. We are well advanced, as we anticipated the assets would be offered for sale, and commenced to position ourselves some time ago, to pursue acquisition.

**[Greenfields]**

I have already addressed the need of a major new pipeline to bring northern gas to south east Australia.

**[Complementary business opportunities]**

Let me add to the Chairman’s earlier comments. APA’s strategy recognises that its core business is natural gas transmission. As I have outlined to you today, APA is managing the risk of its portfolio of natural gas pipelines by engaging in a two-pronged diversification strategy. First to diversify the portfolio through acquisitions of non-APA owned gas pipelines with the aim of reducing the dominance of the Moomba to Sydney Pipeline in the overall revenue mix.

Secondly APA is actively considering related investment opportunities. Investments being considered include other fluid systems such as water or oil pipelines. Power generation which is linked to our pipeline systems would also be considered.

**[Asset Ownership]**

I would emphasise that our intention in any of these complementary growth areas would be to take positions as asset owners – not necessarily as operator - in businesses where we believe we can extract value, both in increased profitability and/or from fully utilising the capacity of our pipelines.



**SLIDE 33 - SUMMARY**

In summary,

- We face some major challenges over the next few years;
- Gas supply issues need to be addressed, and can be, if the regulatory regime is recast and the appropriate settings for major investment are in place.
- The Productivity Commission’s review of the regulatory regime is expected to address concerns about the risks of investing in the gas transmission industry;
- APA is well positioned to participate in the imminent industry rationalisation, and
- APA is on course to achieve its strategy of growth in both its asset base and profitability.

APA will continue to be the leading natural gas transporter in Australia.

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**SLIDE 34 – WE DELIVER – [www.pipelinetrust.com.au](http://www.pipelinetrust.com.au)**

In closing, I wish to extend my thanks to my colleagues for their support and application to their work and to join our chairman in thanking unitholders for their continued support.

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**[THE END]**

**Back to Chairman**