

Australian Pipeline Trust



Commercial Regulation A Pipeliner's Perspective



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- Key deficiencies
- What does it feel like
- A few observations
- Past, present, future



Australian Gas

- 100 years minimum supply of gas
- Pipelines are vital to future
- Need for a thriving gas market
- “..... Australia’s gas markets can at best be described as emerging”.

CoAG Energy Market Review



Concerns

- Insufficient incentive to invest
- Producers seek substantial price rises
- Supply side issues are emerging
- Customers are nervous
- Regulation needs to deliver correct outcomes
- No National Energy Policy



Where are we?

- Investors withdrawing capital support
- Lack of confidence in regulator(s)
- Serious threat to balance sheets
- Reduced returns and “new” investment models
- Sub-optimal infrastructure
- Producer involvement and pricing
- We see the issues quite differently



Privatised Pipelines

GasNet (VIC) EAPL (NSW) MAP (SA) DBNGP (WA) SGP (QLD)

Total Paid \$4.497 Billion (approximate)

Since Spent .370 Billion (approximate)

\$4.867 Billion

Present RAB \$2.597 Billion (approximate)



Australian Pipeline Trust Results

YEJ 2002

NPAT \$37.4 Mill NPAT Gas Transmission \$28.9 Mill

Asset Base \$1,211 Mill Equity \$488 Mill

Gas Transmission Equity \$438 Mill

Actual ROE	\$37.4 / 488	7.7%
Notional G.T. ROE	\$28.9 / 488	5.9%
Actual G.T. ROE	\$28.9 / 438	6.6%

* Only one pipeline tariff regulated.



Pipelines built during '90s - regulated

- South West Pipeline (VIC) now rolled into GasNet rate base
- Interconnect (VIC/NSW) rolled into MSP & GasNet rate base
- Central West Pipeline (NSW) APA

TOTAL \$180 Million (approximate)



Pipelines built during '90s - State Agreements

- Goldfields WA State Agreement - GGT
 - Carpentaria QLD State Agreement - APA
 - Roma to BNE Looping QLD State Agreement - APA
 - South West QLD State Agreement - EPIC
- WA - Court Proceedings
 - QLD - NCC Interference

TOTAL \$980 Million (approximate)



Pipelines built during/since '90s - unregulated

- Karratha - Port Headland WA
 - Mid West Pipeline WA
 - Carnarvon WA
 - Macarthur River NT
 - Mt Todd NT
 - Barcaldine QLD
 - Cannington QLD
 - Peat Scotia QLD
 - Tumut NSW
 - Eastern Gas NSW
 - Horsham VIC
 - Katnook SA
 - Longford to Tasmania VIC/TAS
 - SEA Gas VIC/SA*
 - Moomba to Sydney Ethane NSW**
- * Under construction
** Not natural gas

TOTAL \$1.8 Billion (approximate)

Plus approximately 120 inlet connection lines delivery spur lines, and meter stations.



Impact of regulation on gas transmission

- Only two pipeline (systems) are as yet affected by Code regulated tariffs
 - GasNet Victoria
 - Central West Pipeline NSW
- Write downs loom large
- At 75c EPIC will not survive without substantial cash injection
 - Last of the Americans?
 - Serious damage to our reputation
 - Financing difficulties for others
- Moomba to Sydney
 - 66c vs 51c



NT Gas Pipeline 14"/12"

- \$60 Million NPV better than coal option
- Private involvement via leveraged lease = tax benefits
- Effectively underwritten by NT government
- Producers paid for oversizing/Mereenie Spur
- NT PAWA pays all the bills
 - Third Party Tariffs reduce costs
 - Sharing of benefit via trust
- Tariff =
$$\frac{\text{Lease payment} + \text{OPEX} + (\text{Capex} \times \text{Dep'n})}{\text{VOLUME}}$$
- Third Parties pay the same or less



“I believe we need a rational and co-ordinated Australian gas policy that allows us to set up a gas distribution network which will take us far into the future, We want to ensure that the line is sufficiently large to cover all potential markets - that is Darwin, Gove and the other settlements along the way. In the longer term we need also to cover the possibility of gas coming ashore from the Tern and Petrel fields in the Bonaparte Gulf and being sent down the pipeline to Sydney and Adelaide markets. This development will mark the beginning of a local petro-chemical industry in the Northern Territory the potential of which, I am convinced, no one has yet fully appreciated”.

....Hon Mr. Ian Tuxworth, Chief Minister of NT, 1984



“It is the Commission's view that the risk of stranding currently faced by the pipeline was evident during the construction of the pipeline. The evidence of this risk leads the Commission to believe that the appropriate valuation for the ABDP’s pipeline assets lies below that established by NT Gas’ proposed DORC..... Given the above information, the Commission is of the view that the ABDP has been facing a risk of stranding since it was commissioned in 1986.”

.....ACCC’s draft access determination for ABDP



Gas Transmission Companies

- We deal in wholesale markets
- 100 industry customers nation-wide
- New pipelines get negotiated into existence
- Why are we fighting?

There are deep-seated problems.



The Future

- Recognition we need to get infrastructure in place
- Two significant endorsements
 - Productivity Commission
 - Energy Market Review Panel
- Recognition that regulatory performance needs accountability, transparency and predictability
- The legal system still works
- Energy Market Reform endorsement?
- Ministerial Council on Energy
 - P.M.'s initiative on governance



Government response to P.C. Report

- The National Access Regime is not intended to replace commercial negotiation
- Incentives for negotiation must be strengthened
- Legitimate interests of owners must be supported
- Efficient investment must be encouraged
- Bad decisions stifle investment
- Need to clarify schemes objectives & scope





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