

Australian Pipeline Trust Unitholder Information Meeting

Chief Executive Officer's Presentation

Jim McDonald

Thank you Chairman and good morning ladies and gentlemen.

I have just three messages today.

Firstly, it has been a positive first year for your Trust; the business has bedded down well and we have had good financial results.

Secondly, I expect that good performance to continue despite the troubled times we find ourselves in, and Thirdly,

the future of APA within Australia is strongly linked to the energy policy settings and regulatory regimes. Our primary business focus in the short term will be to ensure the policy makers are well advised as to the concerns and aspirations of the gas transmission industry, and are persuaded to adjust policy such that investment in gas transmission infrastructure is encouraged.

Australia needs an expanded and efficient natural gas infrastructure: we want to build, own and operate it. We want to do so in the knowledge that the returns are adequate for the commercial risks we take on your behalf, and more importantly, that the returns you expect are the returns we achieve.

ECONOMIC ENVIRONMENT

Against a backdrop of continuing economic change, no issues emerged over our first year to significantly affect operations or results. We have had a good first year of business.

However, to say the events of 11 September and the subsequent lack of certainty and confidence in the market will not affect us, would be folly. Undeniable damage has been done to our collective sense of security and well being.

That has caused uncertainty and eroded confidence, including business confidence.

It is difficult, however, to predict the impact on APA of development decisions by others. Deferral of development due either to the economic climate or low commodity pricing may cause the Australian economy to falter, and that may impact on APA. We also have to consider rising costs in some areas such as insurances and security. We are committing to higher costs in regulatory affairs this year, and I will talk more of that later.

However, as the Chairman has already indicated, we are on track to exceed this first year's performance and the offer document forecast for YEJ 2002.

REGULATORY ENVIRONMENT

APA was formed at a time of significant turmoil in this and similar industries, as the first round of regulatory decisions on rates and conditions for access to infrastructure with monopoly characteristics were made.

In our particular industry, the turmoil has been accentuated by the overlay of privatization of government owned pipelines and the entry of new players into this newly identifiable business sector of gas transmission.

As you are aware, your Trust has the largest portfolio of pipelines and the strongest footprint in the industry with over 7,000 kms of pipelines in four States and both Territories. We transport around 25% of Australia's domestic natural gas consumption and our business is the haulage of natural gas. These assets place APA in a very good position to benefit from an expanding gas market by virtue of our footprint, and our readiness to invest and expand.

We have staff with extensive experience and knowledge of our business, strong support from AGL, our major shareholder (through the business development activities of Agility) and an objective to expand the business in three ways:

Generic growth – more gas in existing pipelines,
Acquisition – of assets owned by others, and
Major Greenfields expansion.

As you know, we, together with AGL and Petronas, have two major projects in contemplation

Timor Sea to Moomba and
PNG to Queensland.

Incidentally, our Timor Sea project enjoys
major project facilitation status with the Federal Government
as of last Friday.

Two major additional planks need to be in place
for us to realize the full potential of gas transmission:

- Continuing growth in the use of natural gas within reach of our pipelines, and
- A political and regulatory environment,
which encourages investment in long life pipeline projects.

We have some work to do on both questions
and this work will be the primary focus of management
over the next year or so.

ABARE – The Australian Bureau of Agricultural and Resource Economics
has revised downwards its forecast for natural gas domestic consumption
from its very optimistic 4% per annum.
Consumption is expected now to grow
at 3.4% per year to 2019-2020
and account for 33%
of the total increase in energy consumption over the period.
The amount of gas consumed in Australia will effectively double
from about 900 to about 1800 petajoules by 2020.

However, 27% of that increase
is in Direct Reduced Iron production,
most likely in Western Australia,
so for the balance of the economy,
the increase in gas is reduced to 2.48% per year.

Natural gas as a power generation fuel
is forecast to grow by 4.9% per year on average,
lifting its share to 19% of the total.

However, the growth is forecast to be considerably weaker
in the first decade (3.6%) than the second decade (6.5%) –
This means that ABARE anticipates deferral of fuel switching to gas from coal.

Against, this backdrop of changed expectations for gas,
the gas transmission industry is faced with major challenges.

New pipelines are being planned to deliver additional gas supplies
to the markets of South Eastern Australia.
State governments seem to be opting
for new coal fired base load power,

effectively ignoring Kyoto commitments
and re-inforcing the ABARE assessment of deferral of gas fired power.
The industry seeks changes
to the regulatory and fiscal regimes
under which it operates.
On-going rationalization of the industry is still occurring
with the anticipated float
of GPU GasNet in Victoria - the latest event.

We will continue to work with others in the gas industry
to increase the use of natural gas,
and in particular, to increase the use of natural gas via innovative applications.

Possibly the most significant hurdle to realising natural gas potential
as Australia's premier fuel in the current regulatory environment
is the absence of a national energy strategy.

APA is working with industry associations
to lobby the Federal Government to incorporate,
in a national energy policy,
a strategy that explicitly supports the growth of natural gas usage
and the establishment of a stable, predictable regulatory,
legal and fiscal environment for transmission pipelines.

It is our view, that the removal of disincentives
that impede major infrastructure projects
and the creation of appropriate incentives that encourage development
will improve our flexibility in pursuing infrastructure expansion.
With gas shortfalls looming for the southern and eastern states,
and increasing pressure to meet our international greenhouse gas obligations,
Australia needs to establish an energy policy that encourages growth in natural
gas usage.

Although the timing of the Government's initiatives
has been disturbed by the upcoming federal election on November 10,
we are encouraged by the progress,
including the current Productivity Commission Review
of the Trade Practices Act Part IIIA
and the Council of Australian Governments initiative
to develop a national energy policy.

We are also pursuing changes to the regulatory environment for pipelines.
This industry feels particularly troubled by application of the third party access
code to natural gas transmission.

Regulation impacts on our business in several ways:

The Regulator has the final say on pipeline access rules and tariffs,
Energy policy settings can become blurred
as the Regulator's opinion becomes de facto policy,

Decisions regarding investment assumptions can be distorted by having to assume a regulated rather than a commercial outcome.
Pipeline capacity and sizing,
Depreciation / contract life,
Construction program / risk,
Regulation is distorting and potentially damaging our relationships with our customers and the various tiers of government, and
It is a cost to the business and to the community.

We find ourselves in vigorous debate with regulators and their advisers on several fronts, and I am sure you are aware of some of the current matters in dispute. Within the APA Asset Portfolio, we are awaiting a National Competition Council recommendation on our revocation application for the Moomba to Sydney Pipeline: we are still uncertain whether the National Competition Council intends to attempt to tinker with some contractual arrangements on both the Carpentaria and Roma to Brisbane Pipelines in Queensland. In Western Australia, we are engaged in serious debate with the State Government over the conflict between the Code and a State Agreement under which the Goldfields Pipeline was built.

We are not alone. Other major pipeline owners have similar problems and GasNet in Victoria is to be sold or disposed of via an Initial Public Offering, as the American owner has apparently decided to exit.

The atmosphere is not conducive to rational debate. We have called for time out, and the present Minister for Energy has agreed. A review of the Code as it applies to transmission pipelines will take place.

APA accepts that some oversight of our business is inevitable given the importance to the nation of our work and the monopoly characteristics of some of our assets. Our objective is not "no regulation." We do not seek favour, we seek fairness. We believe that inappropriate behaviour by an industry player should indeed result in sanctions.

The present arrangements must be changed if we are to continue to pursue major Greenfields projects such as the Timor Sea or PNG projects. For such projects, we and our financial partners need the certainty that comes from long term, negotiated foundation contracts before we commit, and we need to be certain those contracts will not be second-guessed 5, 10 or 15 years down the road.

We are in close consultation with our industry associations –
APIA, AGA and AusCID
developing strategy and engaging advisers
to assist us to put our case to the review board.
The next twelve to eighteen months will be critical;
I expect it will be absorbing for me personally
and for other senior staff.
The outcome we seek is modest –
we need certainty
so that decisions we take to invest on your behalf
cannot be interfered with by retrospective intrusion by Regulators.
We seek certainty
so that contracts we and our customers
willingly enter into to enable projects to proceed,
will not be interfered with or undermined
by more advantageous access arrangements for third parties.
We need an atmosphere for investment that is encouraging
and understanding of the risk/reward profile of pipelines.

The nature of investment which APA must contemplate
is infrastructure investments,
which Governments used to make.

National infrastructure
Large up-front investment
20 to 50 year horizons
“Spare” capacity sold over time

This type of investment
may dilute earnings per unit in the short term
so as to provide the benefit of increased earnings in the longer term.

This causes some difficulty in balancing
short-term investment ambition
with the very nature of pipeline investment.
When governments were first establishing such infrastructure,
the front-end dip was pretty serious:
it can now be better managed.
Indeed the entire profile of investment requires to be better managed,
and though we may experience some dilution in earnings
in the first few years from major projects,
long term they are productive
and consistently so.

Our investments consist of a portfolio of pipelines
in the “maturation” phase,
and we are aware of the potential for major Greenfields projects
to temporarily dilute earnings.

Finally,
I would like to make a few final remarks
with respect to the outlook for the current financial year
and beyond.

Overall, your Trust is in good shape.

We have:

A strong business identity,
An assured market position,
Several major projects currently being considered,
Strong growth potential in a growth business – natural gas, and
A focused strategy for our business in Australia.

Last year's good results and the progress to date for 2002
have encouraged us.

We are focussed on further improving our performance,
and we have one major challenge
that is to get the policy and regulatory settings
right for future investments.

Before I hand you back to the Chairman,
I would like to thank the Board for its support.
I would like to thank our people for their tremendous support
and efforts over the past year.

I thank you, our Unitholders,
for your confidence in investing in our gas transmission business.

****The End****