

## **MANAGING DIRECTOR'S SPEECH -**

### **SLIDE 14 – APT UNITHOLDER INFORMATION MEETING**

**[MANAGING DIRECTOR – JIM McDONALD]**

Thank you Chairman and good morning ladies and gentlemen.

The 2002 financial year was a good year and a busy year for APA. While the more public face of this activity can be seen in a solid operational and financial performance, it is the behind-the-scenes activity that has occupied much of our time.

We have been engaged in constant dialogue at all levels of government, not only in defence of our assets against regulatory decisions, but also to ensure our voice is heard when decisions are made about the future operating environment for our company.

As the Chairman indicated, there are three areas that I would like to cover today. The first is APA's position on the regulatory environment in which our business operates. The second is the position of natural gas in the national fuel mix in Australia. And the third area I would like to cover is our growth strategy.

### **SLIDE 15 – REGULATORY ENVIRONMENT**

**[Industry discontent with National Gas Access Code]**

Let me say at the outset that there is a misapprehension that the arrival of the National Gas Access Code in 1997 - and its application - has resulted in

significant benefits to natural gas consumers. As far as gas transmission goes, that belief is incorrect.

With the exception of our relatively small Central West Pipeline from Marsden to Dubbo in New South Wales, none of our pipelines, yet, has an Access Code regulated tariff. That is to say that our revenues are not yet affected by the Code except on the Central West Pipeline. Our pipelines carry gas under tariffs negotiated with our customers and state governments. Contracts are the basis of our tariffs and income.

The result of that is that our revenues are not yet affected by the Code.

National regulation has been strongly resisted by industry so that the only other pipeline in Australia that yet has a Code regulated tariff is the Gasnet system in Victoria.

Industry discontent has manifested itself over the last few years in various ways: a large number of North American companies who brought investment capital to Australia, have withdrawn, disenchanted, and complaining strongly about the regulatory regime here.

Epic Energy, which includes two North American companies, took their case to the Supreme Court of Western Australia. The court ruled that the regulator erred at law in its interpretation of the Access Code by ignoring Epic Energy's commercial interests in his draft determination on the Dampier to Bunbury Natural Gas Pipeline.

The Australian Competition and Consumer Commission has produced draft guidelines as to how the Gas Access Code might be applied to "greenfields" projects such as the proposed Papua New Guinea pipeline or Darwin to Moomba 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.

Industry has sought - and been given - a review of the application of the Code. The Productivity Commission report, finally released in late September, has already pointed to the need for a change of balance in regulatory focus and highlighted the lack of executive direction to regulators. Industry expects that the review of the Code will be performed by the Productivity Commission. I believe the review will result in more effective and balanced regulation.

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.

## **SLIDE 16 REGULATORY ENVIRONMENT (CONT'D)**

### **[Moomba-Sydney – Code Coverage Case]**

On another front, we have asked the National Competition Commission why the Moomba to Sydney Pipeline system should be covered by regulation, when the competing Eastern Gas Pipeline system (owned by Duke Energy) is not.

Back in June 2001 we put the Moomba-Sydney problem before the National Competition Council: Our argument was this: If our competitor – the Eastern Gas Pipeline – is not covered by regulation, why should our Moomba to Sydney Pipeline remain covered?

The answer was expected last Monday, but the Council has again deferred its decision and it is now expected next week.

If the National Competition Council decides that coverage of the pipeline should remain, it will be then up to the Minister to confirm or reject the Council's recommendation. If the Minister decides regulatory coverage should remain, we'll appeal that decision and continue to do so as long as the Eastern Gas Pipeline is not covered.

The concern that we have with coverage of Moomba to Sydney remaining, is that details of our tariff and cost structure and our customer base will be available to our competitor. We don't have access to these details about the Eastern Gas Pipeline. As far as we're concerned, it's simply not acceptable for our pipeline to be covered when a competing pipeline is not.

## **SLIDE 17 REGULATORY ENVIRONMENT (CONT'D)**

### **[Goldfields Gas Transmission]**

We are also testing at law, the application of the Code to the Goldfields Pipeline in Western Australia. We believe that the state agreement under which the pipeline was built adequately covers tariff.

As part owners of the Goldfields pipeline, we have asked the Supreme Court of Western Australia to consider the interaction between the Code and existing contractual arrangements between the pipeline owners and the Western Australian government. We continue to believe that a regulated tariff is not applicable to this pipeline. If necessary, Goldfields Gas Transmission will litigate to protect its rights.

Against this background, we have achieved impressive results and Management is committed to improving the performance of APA.

## **SLIDE 18 –REGULATORY ENVIRONMENT (CONT'D)**

### **[Optimistic Outlook]**

So what does the future hold?

Well, in addition to all the time and effort we have invested in defending our assets and building our business this year, we have also established dialogue with the Federal Government on the Review of the Code for natural gas pipelines.

As I've outlined, following the Productivity Commission Report, which has 33 recommendations for change to the Trade Practices Act, there will be a significant review of the Code.

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

## **BUILD LINE 2**

### **[EPIC DECISION]**

We are also encouraged by the EPIC decision in Western Australia. The ruling was a significant victory for EPIC and supports the argument that industry has put to governments that regulators have interpreted the Code narrowly, and wrongly.

This decision and the mixed reaction to it are further proof that the regulatory regime requires review.

### **BUILD LINE 3**

#### **[Foundation contracts should be basis for Third Party Access]**

It is our considered view that foundation contracts for new pipelines should be the basis for third party access. That way, pipeline owners can fully assess the investment risks before committing to construction. Logically, such contracts ought to be the basis for third party access as well.

In our discussions with Federal Government about the shortcomings of the Code, we have made our position clear. If we don't get the Code sorted out, then private investment in natural gas transmission may be curtailed.

It is our belief that we are beginning to make headway. An increasing number of politicians now have an appreciation of our argument. And while the release of the Productivity Commission report was delayed for some time, overall we're pleased with the progress that has been made on regulatory change this year.

As we move forward into the Review of the Code, we believe that all parties with interests in the gas transmission industry are now articulating a clear message with a united voice, and that Governments are listening.

To turn to the position of gas in the national fuel mix.

## **SLIDE 19 GAS IN THE NATIONAL FUEL MIX**

### **[Cleanest fossil fuel]**

Gas is the cleanest fossil fuel and has a rightful place in the energy mix as we make the transition to renewable energy.

Not only is it more environmentally friendly, but Australia has vast quantities of natural gas - albeit in geographically remote locations - and it needs a business like ours to get it across the country.

The big questions facing Australians are: what do we want as our fuel mix in twenty or fifty years time? And what value do we place on developing and having our vast gas supplies widely available for domestic consumption?

Gas is the cleanest burning of the hydro-carbon fuels, but it is not as environmentally friendly as renewables such as wind or solar or hydrogen. Renewables are presently expensive and Gas provides a useful fuel whilst we make the transition to renewables, and is environmentally preferable to coal.

It is our belief that natural gas *will continue to* feature strongly in Australia's future energy mix, as a transitional fuel to help us to decrease carbon emissions.

### **BUILD LINE 2**

#### **[Fully integrated pipeline grid in southeast Australia with more flexible contract management will produce more responsive gas marketplace]**

Australia already has an extensive pipeline network, spurred by private capital.

As a major player in the pipeline industry, we are keen on developing the concept of a fully integrated pipeline grid in southeast Australia with much more flexible market and gas contract management, to produce a more responsive and flexible gas marketplace.

### **BUILD LINE 3**

**[To maintain adequate gas supplies to Moomba]**

- **Timor Sea gas to Darwin**
- **PNG gas to Queensland]**

We have played our part, along with other interested parties, in advancing efforts to bring Timor Sea gas onshore to Darwin and Papua New Guinea gas onshore to Queensland, and to ensure at least one of them gets to Moomba and the gas markets of South Eastern Australia.

### **BUILD LINE 4**

**[Encouraged by work on coal seam methane but industry still faces challenges]**

We are also encouraged by the experimental work being undertaken by coal seam methane producers. The Queensland government recently announced that coal seam methane would supply power stations at Townsville.

There is a large amount of coal seam methane entrained in black coal. But mechanisms for extracting and producing are significantly different than for natural gas. This difference brings into question the long-term contractibility of large volumes of coal seam methane - and that's the challenge that the coal seam methane industry faces.

But if coal seam methane does become reliable, then it needs transmission pipelines to get it to a wider market. It is our view that the interests of coal seam methane producers are best served by a full grid of pipelines throughout the south eastern states providing access to an expanding gas marketplace.

And while coal seam methane will be good for our business in Queensland, we still believe that we require a major new supply of natural gas for southeast Australia and will continue to work to that end.

Let me now turn to our growth strategy.

## **SLIDE 20 – GROWTH STRATEGY**

### **[Incremental growth]**

Growth in our business continues to come from our traditional sources.

Natural gas demand is still growing at over 3% annually.

Expanding capacity and increasing volumes in our existing pipelines will continue to be the best way for our business to grow. The expanded capacity in our Queensland pipelines – Carpentaria Pipeline and Roma to Brisbane Pipeline is providing new opportunities for our business to haul more gas.

We are exploring opportunities in Western Australia to bring gas to new mining operations and we have talked about the project which is bringing gas to the railway sleeper factories in the Northern Territory to build the Darwin to Adelaide railway line.

## **BUILD LINE 2**

### **[Prudent Acquisitions]**

We continue to explore opportunities to acquire the minority interests on our pipelines and with the continuing rationalisation of the gas transmission industry we are on the lookout for other pipeline assets, but always at the right price.

## **BUILD LINE 3**

### **[Greenfields]**

I have spoken of the need to bring gas to south east Australia. The Papua New Guinea natural gas pipeline project is gaining momentum and the next 12 months is likely to determine whether that project will go ahead in its current form. A major gas pipeline from Timor Sea continues to be considered and further into the future, the prospect of a Northwest shelf natural gas pipeline remains of interest. Projects of this nature have a long gestation period.

## **BUILD LINE 4**

### **[Expand the reach of natural gas]**

As well as major projects, the business continues to examine opportunities on a smaller scale which will allow the reach of natural gas to expand. We continue to work with the Sustainable Energy Development Authority on the application of gas fired distributed generation and co-generation projects.

## **BUILD LINE 5**

### **[Complementary business opportunities]**

Now that we have settled the business down, we have begun to explore opportunities that will provide diversity to hedge our business and regulatory risk. We remain committed to gas transmission and, as we have indicated, will seek opportunities to expand our assets from any fallout that occurs from industry rationalisation - as well as keeping an eye out for opportunities outside Australia in Gas Transmission.

Having said that, we are also now considering related investment opportunities. I have already touched on coal seam methane as a potential source of future gas. We will consider how we might become involved in coal seam methane. We will also be investigating growth opportunities in such areas as power generation, water transmission and natural gas treatment and storage.

I would emphasise here that our intention in any of these potential 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 21 - SUMMARY**

- Our business is performing well.
- Gas to Moomba remains a central issue.
- We are defending our business well against a imperfect regulatory regime.
- We continue to explore opportunities to grow our core business.
- We are investigating investment opportunities in related businesses.

- We are committed to maintaining our position as the leading transporter of natural gas in Australia.

We will continue to work with governments to explore appropriate regulation and tariffs so that we can get on with our business. It is of some concern that these issues are taking so long to resolve. Having our people debate regulatory and legal issues around pipelines is an enormous drain on our time and resources. But in order to defend our balance sheet and property rights, we have no choice.

We remain committed to gas transmission and will continue to seek out every possibility to expand our capacity, increase volumes in our existing pipelines and explore related investment opportunities to diversify asset and regulatory risk.

## **SLIDE 22 – WE DELIVER – THANK YOU**

In closing, I would like 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**