



20 February 2009

The Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Via email to submissions@aemc.gov.au

Dear Commissioners

APIA Submission, 1st Interim Report – Reference EMO 0001

The Australian Pipeline Industry Association (APIA) welcomes the opportunity to respond to AEMC's Review of Energy Market Frameworks in light of Climate Change Policies 1st Interim Report (the Report).

APIA supports the conclusions of the Report regarding the October 2008 Scoping Paper list of issues that require further attention and those that can be set aside for this Review. In particular, APIA supports the conclusion that existing gas markets, based mainly on bi-lateral contracts, are sophisticated and flexible. The existing gas markets are able to respond to the demand profiles of an increase in gas fired power generation.

On the matter of assessment of demand for gas, APIA cautions the AEMC that there are alternatives to the modelling provided by MMA which concludes that the Carbon Pollution Reduction Scheme (CPRS) and the Renewable Energy Target (RET) will result in a significant increase in new gas fired generation in Australia. While it is generally accepted that the CPRS alone is likely to result in an increased demand for gas (as electricity generation moves from coal fired to gas fired) the overlapping policy of the RET is could undermine this objective. There is respected modelling in the public domain, including that by CRA International, which shows the RET may cause gas's share of the fuel mix to drop by 2020 to the extent that use of gas for electricity generation call fall below current levels, as the electricity sector seeks to offset the mandatory investment in more expensive renewable generation by extending the life of existing coal fired generation or making new coal investments.

The majority of issues identified for further investigation relate to the electricity market and networks, which are not direct issues for APIA members. We look forward to the public forum in April and continuing discussions regarding these important issues.

Yours sincerely

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Chief Executive