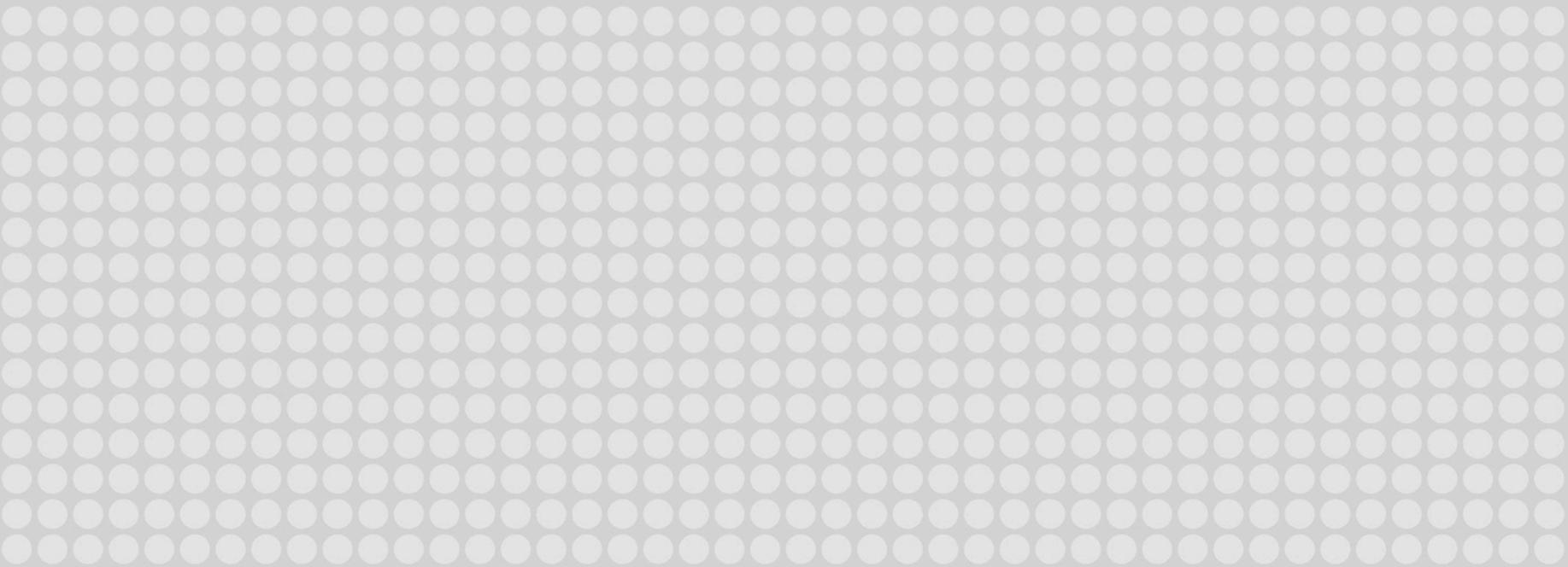


AEMC review of the DWGM



APA preliminary comments

energy. connected.



the carrot is mightier than the stick



- **throughout our consultation with the AEMC, we have tried to maintain a principled approach:**
 1. Articulate the policy objectives;
 2. Identify the behaviours sought by the pipeliner that will deliver those policy outcomes;
 3. Create incentives for the pipeliner to exhibit those behaviours.
- **the draft Report appears to be long on requirements and short on incentives**
 - The more we try to anticipate future circumstances in an attempt to codify behaviour, the more likely we are to get it wrong and deliver unintended consequences.
 - If we design a system with incentives for the pipeline owner to deliver the desired outcomes, we can avoid hundreds of pages of Rules mandating behaviour
- **there is no need for the National Gas Rules to blow out like the National Electricity Rules.**

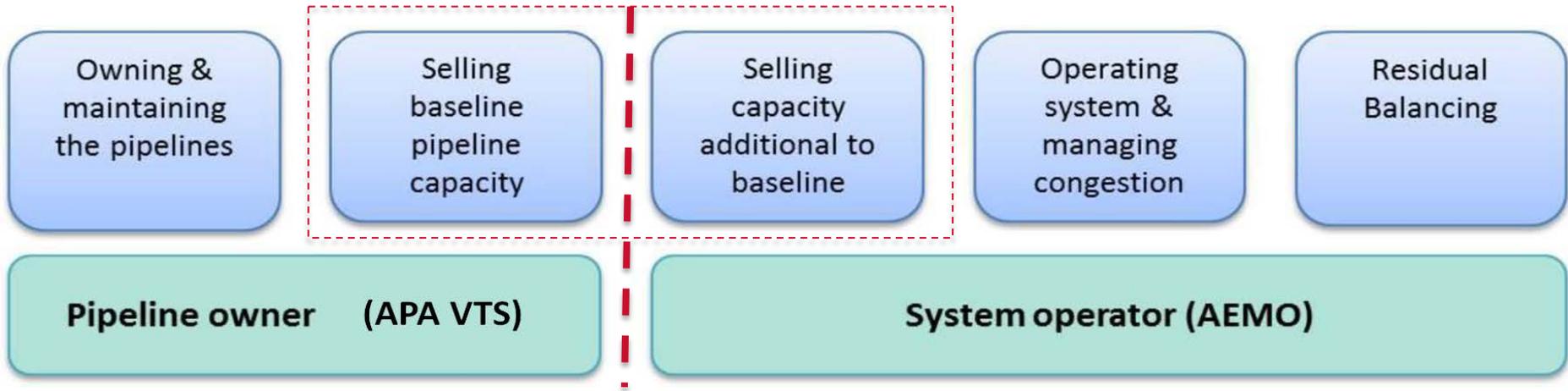
much of the detail has been deferred to the Gas Market Reform Group

- “how the level of baseline and above of capacity would be determined;
 - “the capacity products to be made available for sale at each entry and exit point;
 - “how baseline and above baseline capacity would be allocated amongst market participants and how secondary trading would be encouraged;
 - “how investment in new baseline capacity would be signalled and allocated; and
 - “what, if any changes, need to be made to the economic regulatory framework to accommodate the change”
- **the GMRG may not be constituted before the Final report is issued**
 - **this detail will affect the economic interests of both pipeliner and shippers**
 - virtual hub continuous balancing vs time lag to deliver gas from Longford
 - level of “Baseline Capacity” and removal of “congestion uplift”
 - **we are always concerned about lifting models from other places**
 - there has been very little private investment in the European gas pipeline network since the entry-exit model was introduced
 - *we cannot be sure if we support the proposed model*

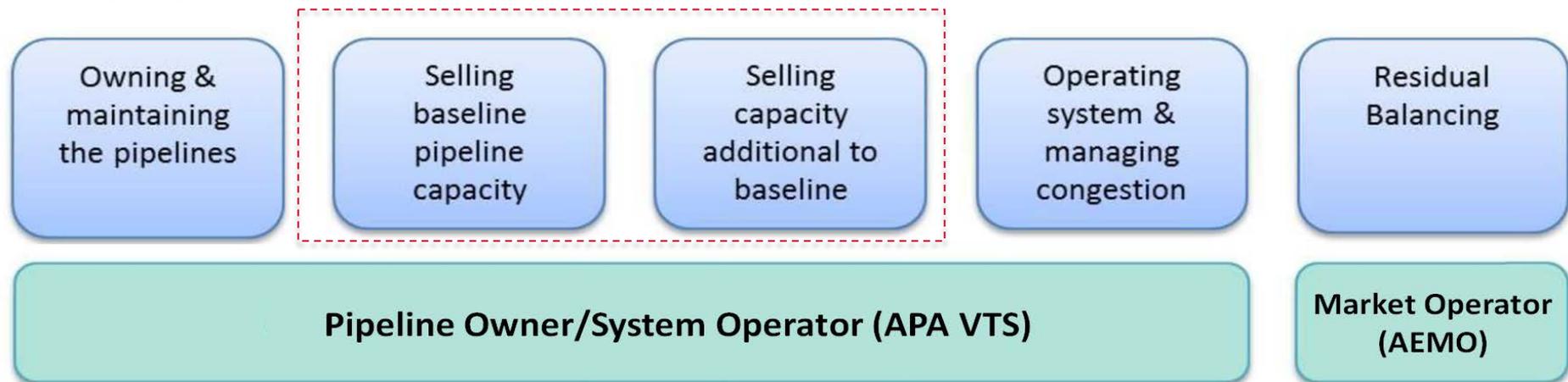
allocation of institutional roles



AEMC proposal – AEMO as System Operator:



APA proposal – AEMO as Market Operator:



have we accomplished what we set out to accomplish?



a “clean” price of gas

- **the proposed model does not appear to deliver this**
 - the virtual Hub with continuous balancing does not cope with dispatch of LNG to maintain system security
 - “surprise uplift” remains a feature of the virtual hub
 - Q: how “dirty” is the current gas price? Will it be any “cleaner” under the new model?

deep and liquid market

- **the proposed model does not appear to deliver this**
 - the upstream sector has largely been left out of this discussion

incentives for investment

- **the proposed model does not appear to deliver this**
 - the “free rider” problem still exists for deep augmentation
 - this will still need to be done through a regulatory approval process
 - all shippers will be able to access new capacity
 - interaction with auction for entry and exit rights?

in summary: the entry-exit model could work, but needs more development

*APA does not oppose the entry-exit model,
but is concerned about some of the key design features mooted*

areas that need more development:

- Allocation of institutional roles
 - Particularly System Operator
- How the AER will determine the levels of baseline entry and exit capacity
- Mechanics of the entry-exit capacity auction
- How APA can be assured of receiving sufficient revenue

areas in which APA is concerned:

- Proposed high level of regulatory intrusion
- Return to be curtailed to regulated levels
- Lack of scope for out-performance
 - And considerable scope for under-performance
- Signals for and certainty of investment

*It is clear that the AEMC will not have settled these issues
before delivering its Final report to CoAG and the Victorian Government.*

For further information contact:

Scott Young

Regulatory Manager

(02) 9275 0031

scott.young@apa.com.au

Or visit the APA website at:

www.apa.com.au