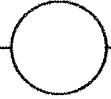


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29 October 2008

Mr Chris Pattas
General Manager, Network Regulation South
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001,

APA GasNet Access Arrangement Variation

Further to the APA GasNet Access Arrangement (Arrangement) approved by the Australian Competition and Consumer Commission (ACCC) on 25th June 2008, APA GasNet submits the attached variation proposal to update Schedule 6 of the Arrangement to reflect the final Transportation Payment Deeds (TPD) to be executed by APA GasNet and all Market Participants. This variation proposal is submitted to the Australian Energy Regulator (AER) rather than the ACCC following the implementation of the new National Gas Law on 1st July 2008.

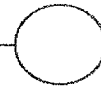
If you have any queries, please contact me on (03) 9797 5204, 0419 372 529 or by email (paul.callander@apa.com.au).

Yours sincerely

Paul Callander
Manager Regulatory and Gas Market
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Cc: Adam Petersen, AER Adelaide

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Access Arrangement Variation Proposal

to the GasNet Australia Access
Arrangement of 1 January 2008

Dated October 2008

1 Introduction

1.1 Access Arrangement Variation Proposal

On 25 June 2008, the Commission approved GasNet's revised access arrangement for the PTS for the Third Access Arrangement Period ("**Access Arrangement**"). The Access Arrangement has a commencement date of 1 January 2008 and took effect on 9 July 2008.

GasNet wishes to vary the Access Arrangement to update the payment deed principles in Schedule 6 (as contemplated in GasNet's response to the Commission's final decision on GasNet's access arrangement dated 30 April 2008). Accordingly, pursuant to Division 10 of the National Gas Rules 2008, GasNet submits this variation proposal to the AER for its approval.

1.2 Background

GasNet's submission dated 14 May 2007 in support of its draft Access Arrangement for the Third Access Arrangement Period ("**Original Submission**") includes details of:

- (a) the PTS, and its ownership and operation; and
- (b) the regulatory framework in which the PTS operates, including the Market Carriage system, the MSO Rules and the Service Envelope Agreement.

This submission adopts the conventions established in GasNet's Original Submission, in particular, the glossary in section 14.1.

2 Legislative framework for variation proposal

2.1 New National Gas Law and National Gas Rules

GasNet's Access Arrangement was approved by the Commission pursuant to the Code. The new National Gas Law ("**NGL**") and the National Gas Rules 2008 ("**NGR**") took effect on 1 July 2008. The NGL includes savings and transitional provisions under which:

- (a) GasNet's Access Arrangement is deemed to be a full access arrangement made by the AER (see clause 26(a)(ii), Schedule 3, NGL); and
- (b) sections 3, 8 and 10.8 of the Code continue to apply to GasNet's Access Arrangement until revisions to it are first approved or made under the NGL and NGR (see clause 30(1), Schedule 3, NGL).

The variation proposal does not affect the ongoing operation of clauses 3, 8 and 10.8 because it is not an "access arrangement revision proposal". An "access arrangement revision proposal" relates to the revisions for the next access arrangement period (ie for GasNet this means revisions for the fourth access arrangement period) (see clause 52 of the NGR). This variation proposal does not relate to revisions for the next access arrangement period and is therefore not an "access arrangement revision proposal".

The NGL does not include any savings and transitional provisions relevant to this variation proposal. Accordingly, GasNet applies for a variation to the Access Arrangement pursuant to Division 10 of the NGR.

2.2 Criteria for assessment

The NGR and NGL do not include specific criteria for the assessment of general non-price terms and conditions. GasNet submits that the relevant criteria for the AER's assessment are:

- (a) clause 3.6 of the Code, which requires that the terms and conditions on which GasNet will supply the Tariffed Transmission Services must, in the AER's opinion, be reasonable; and
- (b) consistency with the national gas objective (see clause 100 of the NGR).

The national gas objective is to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas (see section 23 of the NGL).

3 Variation proposal

Schedule 6 of the Access Arrangement sets out the principles on which GasNet will enter into agreements with users for the payment of Tariffed Transmission Services (“**payment deed principles**”) (see clause 3.3(b) of the Access Arrangement).

The Commission's final decision required GasNet to incorporate the payment deed principles in the Access Arrangement. As GasNet set out in its response to the Commission's final decision, the principles required by the Commission were based on an “interim” transmission payment deed prepared by GasNet. This “interim” deed followed the terms of the previous pro-forma gas transportation deed between VENCORP and users very closely in order to facilitate those deeds being negotiated and agreed in a very short timeframe late last year.

GasNet did not agree that the principles included in the Commission's final decision were appropriate because GasNet was in the process of preparing a “permanent” deed. GasNet nevertheless included the principles in Schedule 6 of the Access Arrangement to avoid opening up new issues and risk delaying the final approval of the Access Arrangement.

GasNet foreshadowed that after the Commission's final approval was issued, it would submit a variation proposal to the AER.

3.1 Changes to the payment deed principles

The changes to the payment deed principles are set out in Schedule 6 of the revised draft of the Access Arrangement accompanying this variation proposal. They are based on the terms and conditions of the “permanent” transmission payment deed (which is at Attachment 13).

GasNet has conducted extensive consultation with users on those transmission payment deeds, including meeting with users in November 2007 and providing two drafts of the transmission payment deed to users for comment in March and April 2008. To a large extent, GasNet has addressed the comments made by users. A list of the parties consulted and the submissions made are in Attachments to this submission.

The changes to the principles include:

- (a) updated payment terms;
- (b) the inclusion of credit support requirements;
- (c) removal of the force majeure provisions; and
- (d) updated termination rights.

GasNet has included submissions in support of some of these changes in section 3.3 below.

3.2 Variation proposal is non-material

Where the AER considers a proposed variation to be non-material it may approve the variation without consultation pursuant to clause 66(2) of the NGR.

GasNet submits that the proposed variation is non-material because the proposed changes to the principles will not have a significant effect on:

- (a) the Access Arrangement itself, in particular, neither the approved tariffs nor the method of variation of the tariffs within the access period will be changed;
- (b) the terms and conditions on which the transmission services are provided to users (which are determined by the Service Envelope Agreement and the MSO Rules); or
- (c) the payment deed principles, or the rights and obligations of users pursuant to those principles. This is supported by the fact that the changes are minor and also that GasNet has already conducted extensive consultation and addressed many of the comments made by users.

3.3 Submissions in support of updated principles

GasNet submits that the proposed changes are reasonable and are consistent with the national gas objective.

Updated payment terms

The only changes to the principles about payment terms which will have an impact on users are:

- (a) the provision for monthly invoices for injection tariffs to be issued by the 12th business day of the relevant month (rather than all tariffs being invoiced by the 20th business day); and

- (b) the obligation to pay by the 10th business day after receipt of an invoice rather than the 8th business day.

The effect of these changes is that users will have to pay the injection tariffs approximately 6 business days earlier than they would otherwise but the withdrawal tariffs 2 business days later.

Users did not raise any concerns with the change in timing for payment of the tariffs.

Inclusion of credit support requirements

GasNet submits that the right to require credit support is necessary to ensure that it is paid for the Tariffed Transmission Services (and any Surcharge which is approved by the AER). The proposed credit support requirements are reasonable given that:

- (a) GasNet can only require that the Market Participant provide credit support where there is a reasonable risk that the Market Participant may default; and
- (b) the amount of credit support is based on a user's average monthly charges and was adjusted based on comments received from users;
- (c) these requirements are standard in similar commercial contracts and under the MSOR in relation to payments by Market Participants to VENCORP.

Further, defaults by users in respect of payment for Tariffed Transmission Services are "pass through events" under the Access Arrangement. This means that, subject to the requirements of the Code and the Access Arrangement, any default amounts will be passed onto other users. Accordingly, credit support requirements, which enable GasNet to require credit support and recover the amounts in default from the relevant user rather than other users, promote the national gas objective (in particular economic efficiency and the interests of users).

Removal of force majeure provisions

The force majeure provisions have been removed from the payment deed principles because they did not have any effect under the "interim" transmission payment deed. This is because the key obligation under the interim transmission payment deed was the obligation to make payment, however, the force majeure provisions did not apply to payment obligations (under the interim deed).

Users did not raise any concerns with the removal of these provisions.

3.4 Access arrangement information

Clauses 42 and 43 of the NGR require GasNet to provide access arrangement information which is reasonably necessary for users and prospective users to understand:

- (a) the background to the access arrangement or the access arrangement proposal; and
- (b) the basis and derivation of the various elements of the access arrangement or the access arrangement proposal.

GasNet submits that the information included in this variation proposal is sufficient to meet the criteria given the minor nature of the proposed changes. GasNet also notes that the detailed access arrangement information submitted with the approved Access Arrangement is not affected by the variation proposal.