

**Submission
No 56**

DOWNSTREAM GAS SUPPLY AND AVAILABILITY IN NSW

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The Committee Manager
State and Regional Development Committee
Parliament House
Macquarie St Sydney NSW 2000
Attention: Mr. Rohan Taylor
stateregional@parliament.nsw.gov.au

Dear Mr. Taylor,

Submission to Inquiry into Downstream gas supply and availability in New South Wales

This submission represents the views of the Energy Users Association of Australia's (EUAA) members on the issues impacting gas supply and availability in New South Wales. The EUAA represents many of NSW's and Australia's largest consumers of gas and electricity. Our members are keen to ensure that they can source reasonably priced gas from competitive gas markets; however there are a number of issues that are preventing this from occurring and the situation is expected to deteriorate in the future.

The EUAA recognizes that the focus of this inquiry is on downstream issues as they affect gas users and our members' principle concerns are with upstream issues, nevertheless we have chosen to make a short submission to reinforce the fact that the downstream issues cannot be fully resolved without a whole of industry assessment.

We also recognize that we now have three additional inquiries; AEMC Gas Scoping Study, Victorian Government inquiry and the Department of Resources and Energy inquiry that have been announced. All of these inquiries require considerable resources that only the large producers and suppliers could fully devote and hence potentially skew the data coming forward to the inquiry. We urge the Parliamentary inquiry to fully engage with all gas energy users.

The adequacy of the transmission pipeline systems and distribution networks for future downstream gas needs and supply challenges

Two major transmission pipelines supply gas to New South Wales; they are the Moomba to Sydney Pipeline and the Eastern Gas Pipeline. The encouragement of third party access to the gas pipelines needs to be fully explored by the Government. However even this approach has

limited effect as the gas transported along this pipeline eventually will be diverted to supply the LNG export market potentially starving New South Wales of supply.

Other options for consideration include covering the Transmission pipeline nodes (interconnection facilities) under the National Gas Law (NGL). Not covering the nodal points in creates a physical and commercial limitation to move gas from one pipeline to another notwithstanding pipeline capacities.

Transmission pipelines are reluctant to build in spare capacity unless covered by long term shipping contracts, which then also require long lead construction time frames. This creates a slowing of market responsiveness and lack of market flexibility. We note that some gas energy users advocate that pipeline owners maintain a certain capacity in the pipeline to take account for increases in supply. At this point in time the EUAA membership does not have a uniform stance on this issue. We raise them to note that the transmission pipelines in themselves will have constraint capacity. These options and other options that maybe considered will require studies and regulatory impact assessments to determine their viability.

The EUAA through its participation in the DRET study and other internally commissioned research is currently exploring supply constraints and solutions that can be delivered from a true gas market which has full participation from all gas stakeholder groups.

Ensuring that there is adequate supply through the distribution system, removing barriers preventing expansion and increasing access to the network will require a national response that the New South Wales Government can facilitate through its membership of the State Council for Energy and Resources (SCER). We urge the NSW Government to drive this as an agenda item at SCER meetings.

Barriers to the expansion of downstream gas supply and distribution networks.

The New South Wales Government's recent Coal Seam Gas (CSG) policies have stranded investments in alternative gas supplies which have the potential to reduce New South Wales gas users from exposure to high gas prices and potential supply shortages once LNG exports from Queensland commence. Two CSG developers Dart Energy and PlanetGas have pulled out of CSG developments and AGL's investments in CSG are stranded.

The New South Wales government will have to encourage development of CSG resources rather than developing policies restricting its development. It should also ensure that CSG developments do not result in greater resource availability for LNG exports but increase resource availability for the domestic market. The Government should also look at developing gas resources outside the main basin resources such as the Camden and Gloucester Basins.

A political decision has been made and a fear campaign has been allowed to fester in small rural communities, which has not been adequately countered by 'evidence based' information. It is vital that producers together with government take up the challenge to allay community fear in order to secure state based gas supplies. Investment in these resources is vital to the local community's economy let alone the State.

The effectiveness of competition in the downstream gas market and consumer pricing implications

Large gas users usually source their gas needs from the largest three energy retailers in Australia; these are AGL, Origin Energy and TRUenergy. Energy users are very concerned over

their inability to obtain long term gas supply contracts and they are concerned that the short-term contracts reflect a preference for procuring gas to meet LNG export requirements rather than selling to the domestic market.

The Government will have to develop policies that allow energy users to procure gas supply from sellers who want to service the domestic market. This is not a call for a “domestic gas reservation” but a plea for the State Government to take note that locking up gas tenements from production is not encouraging greater market competition to alleviate supply and price concerns.

The domestic market on the eastern seaboard amount to some 714PJ or 9.7% of the proven gas reserves published in January 2011. The LNG trains coming on line will boost gas demand to 1750PJ some 2.5 times current demand. CSG production was supposed to be ramping up to meet this demand but moratoriums or restrictions set by various governments and production setbacks have prevented this and we are now looking at a shortfall of 800PJ against the projected gas demand.

In the meantime, manufacturing and industrial plants are closing or cutting back on production due to energy costs and uncertain supply conditions. Proposed expansion projects are being shelved or developed off-shore. Nations such as Canada and Russia have been able to export large quantities of gas at export prices while maintaining a domestic supply at cheaper domestic prices. Why can't Australia and why can't the great state of NSW?

The EUAA calls upon the New South Wales Government to convene a round table meeting of gas developers /producers, gas retailers and gas consumers representatives to devise a win-win solution to our energy issues. This alongside a concerted education and communication campaign in regional communities is part of the solution to address what will be a State in crisis if gas supplies are not opened up.

Sincerely,



Phil Barresi
CHIEF EXECUTIVE OFFICER