Submission
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DOWNSTREAM GAS SUPPLY AND AVAILABILITY IN NSW

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The Australia Institute

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Submission

Downstream Gas Supply and Availability in NSW (Inquiry)

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As we begin the 21st century, new dilemmas confront our society and our planet. Unprecedented levels of consumption co-exist with extreme poverty. Through new technology we are more connected than we have ever been, yet civic engagement is declining. Environmental neglect continues despite heightened ecological awareness. A better balance is urgently needed.

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Submission to Downstream Gas Supply and Availability in NSW (Inquiry)

The following submission addresses parts (b) and (c) of the Terms of Reference of the Inquiry

(b) barriers to the expansion of downstream gas supply and distribution networks;

(c) the effectiveness of competition in the downstream gas market and consumer pricing implications;

The main threat to a secure supply of gas for NSW is competition from the large export projects in QLD. This also has very significant implications for consumer pricing.

1. LNG demand dwarfs the domestic market

The demand for gas from the Gladstone LNG projects is at least 11 times greater than total NSW demand and around 2 times greater than the entire domestic gas demand for Eastern and South Eastern Australia.

The total current gas demand for NSW is around 117 PJ, and around 674PJ for all of Eastern and South Eastern Australia.[1]

Demand for LNG to be exported from QLD is projected to be over 1,346 PJ when the export terminals become operational in 2015.[2]

2. NSW gas prices will be linked to the Asian market.

Linking to the Asian market will substantially increase domestic gas prices because the Asian LNG price is much higher than domestic gas prices.

Almost all LNG produced in Australia will be sold to the Asian market. The current Asian gas price is around $15 GJ,[3] whereas the wholesale gas price in eastern Australia is around $3-4 GJ.

The Asian price includes the cost of liquefying and transporting the gas. The "netback price" for LNG is the price minus the cost of liquefaction and transportation, and that is the price that that NSW gas consumers will have to compete with to obtain gas supply contracts.

Santos has reported that it is negotiating gas contracts at the higher end of the $6 to $9 a gigajoule range,[4] which is close to the netback price, and gives an indication of the steep price rises that can be expected as the LNG export terminals begin operation over the next few years.

[1] AEMO (2012), Gas Statement of Opportunities.
[2] AEMO (2012).
[3] BP Statistical Review of World Energy gas Section.
http://www.bp.com/liveassets/bp_internet/globalbp/globalbp_uk_english/reports_and_publications/statistical_energy_review_2011/STAGING/local_assets/pdf/natural_gas_section_2012.pdf
[4] Chambers, M (2013), 'Gas price soars as Santos signs domestic deals", *The Australian*, 23 February.
http://www.theaustralian.com.au/business/mining-energy/gas-price-soars-as-santos-signs-domestic-deals/story-e6frg9df-1226583836782

3. Can increasing CSG production secure supply or lower prices for NSW?

Increasing gas production in NSW will not keep prices below the netback price unless domestic production was greater than the export capacity of the LNG plants plus domestic demand.

Only if this scenario was achieved would supply be large enough to create the required glut in the market to force the domestic price below the world netback price.

We have already seen that the Australian Energy Market Operator (AEMO) has projected LNG demand of 1,346 PJ by 2015 (11 times NSW demand and 2 times eastern market demand).

However these AEMO projections are based only on 5 LNG trains being built. These are the trains that have been committed to and are under construction on Curtis Island near Gladstone. According to the Core Energy Group analysis that underlies the AEMO projections, on top of the 5 export trains already committed there are a further 18-33 trains proposed, which would require up to 6,612 PJ, or around 9 times Eastern Australia's entire domestic gas demand.[5]

It is unlikely that all of these will go ahead, but many are additional trains planned for the terminals under construction, and would be highly likely to proceed given continued demand from Asia and availability of CSG from eastern Australia.

This means that even if there was a very large expansion of CSG mining in NSW and elsewhere that was able to meet the demand of the LNG export facilities currently being built it would not lead to a glut in the market but simply lead to more LNG trains being built and export capacity being expanded.

As a result, even though large areas of NSW would be covered in CSG infrastructure, the increased CSG mining would be very unlikely to make gas supply in NSW more secure or keep gas prices down but rather it would be liquefied and sent overseas

[5] Eastern and South Eastern Australia: Projections of Gas Demand for LNG Export: Core Energy Group.
http://www.aemo.com.au/Gas/Planning/Gas-Statement-of-Opportunities/Liquid-Natural-Gas-Projections