

DOWNSTREAM GAS SUPPLY AND AVAILABILITY IN NSW

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Name: Name Suppressed
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Partially Confidential

Downstream Gas Supply and Availability in NSW (Inquiry)

Please accept this as a submission to the Parliamentary Inquiry into Downstream Gas Supply and Availability in NSW, on behalf of the Lock The Gate Alliance incorporated.

Terms of Reference:

That the Committee inquire into and report on downstream gas supply and availability in NSW, and in particular:

- (a) the adequacy of transmission pipeline systems and distribution networks for future downstream gas needs and supply challenges;
- (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;
- (d) the effectiveness of existing protections for consumers and measures to facilitate access to gas connection and supply; and
- (e) possible measures to encourage gas network operators to extend existing distribution networks, including financial incentives of licence obligations, particularly in regional centres that do not have access to reticulated gas.

For the purposes of this inquiry “downstream” refers to gas operations that take place after exploration, production and processing phases and concerns the delivery of gas to consumers

<http://www.parliament.nsw.gov.au/prod/parlment/committee.nsf/0/FCDC7EAF8B2C87F6CA257B4300755E93>

Submission

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 downstream gas supply and availability in NSW is competition for gas from the LNG export projects in Queensland. This also has very significant implications for consumer pricing.

1. LNG demand dwarfs the domestic market

According to the projections from the Australian Energy Market Operator (AEMO), the demand for gas for export as Liquefied Natural Gas from Eastern and South Eastern is at least 15 times greater than total NSW demand and at least 3 times greater than the entire domestic gas demand for Eastern and South Eastern Australia.

The total current gas demand for NSW is around 140PJ, and around 700PJ for all of Eastern and South Eastern Australia.¹

Projected demand for LNG to be exported from QLD is projected to be over 2100 PJ by 2017.²

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

At the same time, the price commanded by the international market is several times the price currently paid by NSW consumers.

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 if the LNG export terminals begin operation over the next few years as planned.

¹ AEMO Gas Statement of Opportunities 2012

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 <http://www.theaustralian.com.au/business/mining-energy/gas-price-soars-as-santos-signs-domestic-deals/story-e6frg9df-1226583836782>

3. Paying higher Prices will not guarantee supply for NSW

Even if domestic producers are prepared to pay the higher prices for gas, it will not guarantee supply.

The proponents of the large LNG export projects have invested over \$50 billion in these projects. They have already signed contracts to supply large amounts of gas to Asian customers, and will require their plants to be operating as close to capacity as possible in order to maximise the return on their investments.

This means it is highly likely that international customers are likely to be prioritised over domestic customers. As Michael Fraser the CEO of AGL put it, the Queensland export terminals would operate "like a giant vacuum cleaner for the east coast gas market".⁵ The volumes extracted from NSW relative to the projected size of demand for LNG mean that CSG extracted from NSW is highly unlikely to have any impact on gas availability for NSW, or gas prices in NSW.

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

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

We have already seen that the Australian Energy Market Operator AEMO has projected LNG demand of over 2100 PJ by 2017 (15 times NSW demand and 3 times national demand).

However these AEMO projections are based on 9 LNG trains being built. Six of these are committed and are currently 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 committed⁶, there are a

⁵ <http://www.theaustralian.com.au/national-affairs/gas-boom-wont-keep-the-home-fires-burning/story-fn59niix-1226557024061>

⁶ Since then in July 2012 the 4mtpa APLNG train 2 has been committed and is under construction
<http://www.originenergy.com.au/news/article/asxmedia-releases/1407>

further 18-33 trains proposed, which would require up to 6,612 PJ, or around 9 times Eastern Australia's entire domestic gas demand.⁷

It is unlikely that all of these will go ahead, but many are additional trains planned for the terminals under construction, and would be considered highly likely to proceed given continued demand from Asia and availability of CSG from eastern Australia (although we contend that construction of these trains is no sure thing given opposition to coal seam gas amongst landholders and communities in 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 be most likely to 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, with enormous negative impacts on agriculture, water and the environment, the increased CSG mining would be very unlikely to result in secure a gas supply for NSW, or keep gas prices down.

⁷ 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>