Submission
No 46

DOWNSTREAM GAS SUPPLY AND AVAILABILITY IN NSW

Organisation: NSW Business Chamber

Name: Mr Paul Orton

Position: Director, Policy and Advocacy

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NSW Business Chamber

NSW Business Chamber incorporates

- Sydney Business Chamber
- Australian Business Limited Apprenticeships
- Australian Business Lawyers and Advisors
- Australian Business Consulting and Solution

NSW Business Chamber Limited

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21 June 2013

Mr Andrew Gee, MP
State and Regional Development Committee
Parliament House
Macquarie St
SYDNEY NSW 2000

Via website upload

Dear Mr Gee,

The NSW Business Chamber ("the Chamber") welcomes the opportunity to make a submission to the State and Regional Development Committee's Inquiry into downstream gas supply and availability in NSW.

The Chamber is one of Australia's largest business support groups, with a direct membership of more than 13,000 businesses, providing services to over 30,000 businesses each year. Tracing its heritage back to the Sydney Chamber of Commerce established in 1825, the Chamber works with thousands of businesses ranging in size from owner operators to large corporations, and spanning all industry sectors from product-based manufacturers to service provider enterprises.

The Chamber is a leading business solutions provider and advocacy group with strengths in workplace management, occupational health and safety, industrial relations, human resources, international trade and business performance consulting. Operating throughout a network of offices in metropolitan and regional NSW, the Chamber represents the needs of business at a local, regional, State and Federal level, advocating on behalf of its members to create a better environment for industry.

Downstream gas supply and availability is an important factor to many businesses in NSW. Industrial and commercial users account for over 50% of gas demand in NSW and, therefore, are therefore critical stakeholders in any discussions on gas supply.

In the NSW Business Chamber's March 2013 quarter of the Business Conditions Survey, 50% of respondents rated rising energy costs as having a significant or very significant impact on their business. With NSW facing a shortage of gas and significant gas price increases, we must ensure we are able to meet the needs of NSW businesses.

GAS MARKET DEVELOPMENTS

Source of Supply and Distribution

Ultimately, the downstream gas sector is dependent on the upstream sector, so it is necessary to discuss current and forecast conditions of the upstream sector in order to assess the adequacy of transmission and distribution networks for future downstream gas needs and supply challenges.

NSW currently imports around 95% of its gas from other states. This means that NSW gas users are deeply exposed to the developments of the eastern gas market. There are several short-to-medium term factors in the eastern gas market which will impact on NSW gas users:

(i) The commencement of liquefied natural gas (LNG) terminals in Queensland from 2014 will place upward pressure on prices. Opening up the eastern gas market to export markets is expected to place upward pressure on domestic gas prices across eastern Australia. Domestic gas prices in eastern Australia have traditionally been considerably lower than world prices, generally $2.5 to $4 per gigajoule (GJ). The introduction of LNG exports will see domestic gas prices move towards world prices as gas producers seek the highest price available for their supply. International prices range from around $4 per GJ in the US, $8 per GJ in Europe and $12 per GJ in Japan.

(ii) The LNG contracts will also shift gas supply away from domestic use, leading to limitations in supply. NSW currently sources approximately 40% of its gas supply from the Cooper Basin and some coal seam gas (CSG) from Queensland. The Cooper Basin is now fully contracted to 2017, and around half of its supply is committed into Queensland thereafter. This leaves limited options for replacing current contracts into NSW other than indigenous CSG supply and supply from Victoria.

(iii) Victoria may have substantial un-contracted reserves, but given the current capacity of infrastructure to process and transmit gas to NSW from Victoria it is unlikely that NSW will be able to access the necessary level of extra supply needed to meet forecast demand. It is estimated that the lead times required for capacity augmentation is approximately five years, which would mean additional capacity would not come online until well after shortages have begun to occur. In addition, NSW will be competing against other states for this gas supply.

The combined result of these factors will mean significantly higher prices for NSW gas users as well as gas shortages. These market developments are also against the backdrop of forecast increases in demand for gas-fired power generation as Australia moves to a lower carbon economy. However, given current policies in place at the Federal level, such as the Renewable Energy Target, it is unclear whether this level of demand for gas-fired power generation will eventuate within this decade.

The best policy solution to address higher prices and potential shortages is to further develop NSW's gas industry. It is estimated that there is almost 3,000 petajoules (PJ) of Economic Demonstrated Resources (EDR) of CSG in NSW[1], and this is combined with a strong industry appetite to develop these reserves. NSW's current wholesale gas demand is approximately 160 PJ per annum, and this is forecast to grow to over 500 PJ per annum within the next 20 years.[2] Eastern Australia has ample reserves of gas, therefore gas shortages could be and should be avoided. The NSW Government's submission to the Federal Government's draft Energy White Paper cites analysis from Wood McKenzie which concludes that the shortfall in domestic market supply could be avoided if new projects are developed in a timely manner.[3]

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[1] Geoscience Australia: http://www.australianminesatlas.gov.au/education/fact_sheets/coal_seam_gas.html

[2] NSW Government (2012) *Submission to the Draft Energy White Paper*, p.4.

[3] NSW Government, p.4.

In a report commissioned by the Australian Petroleum Production and Exploration Association (APPEA), ACIL Allen Consulting has modelled the implications for NSW of a 'CSG Freeze' scenario in which NSW CSG production does not expand beyond current levels. The modelling shows that in the 'CSG Freeze' scenario, wholesale gas prices will be between 25% and 32% higher in NSW by 2030.[4]

There has been considerable debate within NSW about the development of the state's CSG industry over the past few years. It is relevant to note that the Camden Gas Project has been supplying five per cent of NSW's gas supply for 12 years without significant impact or incident.

The NSW Government needs to provide a stable and certain regulatory regime which balances protecting the environment with facilitating the development of a safe CSG industry. The Chamber has heard from a number of resource companies about their reluctance to invest in NSW due to an unstable regulatory environment and lengthy and uncertain approvals processes. The NSW Government must address these concerns to help minimise the adverse impact of high gas prices and gas shortages on consumers.

We also note the concerns raised by the gas industry about how the draft *State Environmental Planning Policy (Mining, Petroleum Production and Extractive Industries) Amendment (Coal Seam Gas Exclusion Zones) 2013* lacks clarity about how the two kilometre exclusion zone applies to gas pipelines. If the exclusion does apply to pipelines, this could have significant implications for the transportation of gas through NSW.

It is necessary for greater clarity about where NSW will source its supply from, in order to determine the adequacy of current transmission infrastructure. The long lead times involved with capacity augmentation suggest that it could be too late to ensure NSW will be able to substantially change its supply sources, such as by sourcing more supply from Victorian basins.

Market Efficiency

While there have already been several successful reforms implemented within the gas market, there remains scope to enhance the gas market further so that it operates more efficiently. In its recent report, *Getting gas right: Australia's energy challenge*, the Grattan Institute argues that there is substantial risk in the current market that a party wanting to obtain pipeline capacity and a party willing to sell capacity would not find each other due to lack of easy-to-access information[5]. Linking buyers and sellers together more efficiently will become increasingly important in the coming years as gas becomes a more valuable commodity. The NSW Government should continue to pursue, through the Standing Council on Energy and Resources (SCER), reforms to improve the efficiency of the gas market, including improving access to pipeline capacity.

SCER should also continue to prioritise moving towards greater price transparency within the wholesale gas market. The Grattan Institute argues that as the gas market matures, the convention of long-term contracts may increasingly fail to produce optimal outcomes as it prevents transparency of prices, making it difficult for gas consumers to make an informed assessment as to future gas price movements.[6] Given some users may still benefit from the certainty provided with a long term contract, there may be

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[4] ACIL Allen Consulting (2013) *NSW Coal Seam Gas: Potential Economic Significance of NSW Coal Seam Gas*, p. vi.
[5] Grattan Institute (2013) *Getting Gas Right: Australia's Energy Challenge* p. 22.
[6] Grattan Institute, p. 21.

benefit in providing options for both long term and shorter term contracting arrangements.

Retail Market Developments

The Chamber represents both large and small business users of gas, both of which are sensitive to changes within the retail market.

Larger energy using businesses are facing difficulties with securing gas supply contracts due to the aforementioned impacts on domestic supply caused by meeting LNG export demand. This is having serious repercussions on the operation of these businesses as they lack certainty about their operations in the short-to-medium term.

Without reserving gas for domestic use, the only way to ensure domestic users have access to gas supply is for there to be a substantial CSG industry in NSW to take advantage of the state's indigenous gas reserves. For this to happen, the NSW Government needs to ensure that its regulatory regime facilitates a safe CSG industry in NSW.

In addition, we note that the Australian Energy Market Commission (AEMC) is currently reviewing the level of competition in retail gas markets in NSW. This report will inform the NSW Government's decision about fully deregulating the retail gas market.

Any action to deregulate markets must not result in higher prices than would have been the case under a regulated market. While a deregulated market for all consumers is a worthy objective it should not be considered as an end in itself. Deregulation should only occur if there is proven to be adequate competition within the gas market for all consumers, including business consumers. This means that all consumers should have access to a range of providers, have clear access to information and should be able to move between providers easily, all leading to efficient prices. It is also important to consider regional areas where there may be fewer participants and possible barriers to market entry.

Given the recent findings of the AEMC that competition in NSW retail energy markets is delivering discounts and other benefits to small customers and that customers have a choice of retailer and a choice of product or service, deregulation could be beneficial. However, any move towards deregulation should be gradual, with appropriate checks and balances along the way. It is important to monitor the performance of markets and impacts on small business consumers of deregulation.

The Chamber notes that the next stage of the AEMC review will be looking at how to make it easier for customers to engage in the market to further enhance competition. This is supported as both IPART and AEMC have found that despite apparent benefits to consumers of moving to deregulated prices, customers still remain on regulated pricing.

IMPACT ON BUSINESS

While price increases and reduced availability of supply will impact across the NSW economy, these pressures will be felt especially hard by manufacturers. Given the manufacturing sector's position as the largest consumer of gas in NSW, higher gas prices will significantly impact on the sector's profitability and longer term sustainability within the state.

During 2011-12, manufacturing contributed more than $34.2 billion to gross state product and employed 8.8% of the state's workforce[7]. With the sector already facing tough economic conditions, increases to gas prices will inevitably cause manufacturers to consider the viability of future operations within NSW.

A recent report released by the Grattan Institute states that rising gas prices could cost industrial users up to $3.2 billion a year if they are unable to reduce their gas use.[8]

ACIL Allen Consulting also modelled the impacts of a 'CSG freeze' scenario on electricity prices and found that wholesale electricity prices in NSW will be 3.5% higher on average over the period 2015 to 2030 than if NSW CSG production expands steadily to become the main source of gas supply in the state. This is the result of gas-fired power generation not reaching the forecast uptake level, with coal instead providing the fuel for power generation.[9]

CONCLUSION

The Chamber supports the Committee in undertaking this Inquiry given both current and forecast dynamics of the eastern gas industry. Gas is an important input into many businesses' operations, especially the manufacturing sector. Price increases and potential shortages will have significant repercussions for the economic viability of these businesses, and our members have already indicated that these impacts are already being felt. Therefore, the Chamber has focused this submission on the significant issues developing in the upstream sector and on how this will affect the downstream sector and gas users.

The Chamber makes the following recommendations to the Committee:

1. The NSW Government needs to facilitate the development of the NSW CSG industry to help supply NSW's gas demand and minimise price increases.
2. The NSW Government should continue to pursue market reforms to improve the efficiency of access to pipeline supply.
3. The NSW Government should only support full retail deregulation if there is proven competition.
4. To note the significant impacts of higher gas prices and potential shortages on the business sector, especially the manufacturing sector.
5. To support the Energy Users Association of Australia (EUAA) recommendation for a NSW roundtable to devise solutions for our energy issues.

For further information on any of the points made in this submission, please contact Larissa Cassidy on [redacted]

Yours sincerely,

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Paul Orton
Director, Policy and Advocacy

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7 NSW Government, *Manufacturing Industry Action Plan Issues Paper*, p.4.
8 Grattan Institute, p. 11.
9 ACIL Allen Consulting, p. iv.