

DOWNSTREAM GAS SUPPLY AND AVAILABILITY IN NSW

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The Legislative Assembly State and Regional
Development Committee
Parliament House
Macquarie Street
Sydney NSW 2000

Inquiry into Downstream Gas Supply and Availability in NSW

Dear Sir / Madam.

Reliable supplies of natural gas can make a huge and positive impact on peoples' lives.

NSW's natural gas supplies are not secure and there are a number of areas in NSW that do not have the benefit of a natural gas supply. Metgasco therefore recommends that action is taken to: 1) encourage the availability of natural gas supplies, from both interstate and within NSW; and 2) make it more readily available to the people and industry of NSW through the installation of additional pipeline infrastructure. Metgasco also recommends that the Lions Way Pipeline is an excellent starting point for additional pipeline infrastructure.

The United States provides an excellent example of how the availability of low priced natural gas can have a positive impact on the economy and the environment. Unconventional natural gas supplies including coal seam gas and shale gas are having a huge and positive impact on the United States economy, attracting manufacturing businesses back to the United States. From a position 10 years ago of being a net importer of natural gas, with a number of import LNG terminals planned, the United States now has the potential to become a natural gas exporter. In addition, some parties are looking at using natural gas as a fuel for road transport, thereby reducing the United States' need for imported oil and further reducing greenhouse emissions. In addition to the economic benefits, the increased use of natural gas, at the expense of oil has resulted in a significant reduction in carbon dioxide emissions. The United States is reaping the benefits above not only because of its large shale gas deposits and petroleum technology, but also because of the large natural gas pipeline infrastructure that it already had in place. The natural gas pipeline infrastructure allows new natural gas fields to be developed quickly and at low cost, and facilitates an effective natural gas trading system.

NSW contrasts with the US. NSW has no oil and natural gas production, other than a small amount of CSG production, close to Western Sydney. All of its oil and LPG is imported and about 95% of its gas (all but its small CSG production) is imported from other states.

Furthermore, its natural gas supplies from other states are not secure as long term contracts are expiring in the next few years, with natural gas prices forecast to rise significantly and the possibility of natural gas supply shortages as early as 2016. NSW does, however, have large reserves of CSG and should it wish to promote the development of these reserves with sensible policies and regulations could reduce its dependence on interstate gas supplies and displace

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some of the LPG and crude oil that it currently needs to import. Displacement of imported LPG and crude oil by natural gas can reduce costs, reduce greenhouse emissions and improve safety.

In comparison with the US, the NSW natural gas pipeline system is not as well developed, impeding the growth of the natural gas industry and hence the potential to benefit from low cost, reliable and environmentally attractive gas.

The current inquiry relates to downstream availability rather than supply, so this submission focusses on the provision of gas infrastructure rather than changes to policies and regulations that are necessary to encourage development of NSW's natural gas production potential.

The proposed Lions Way Pipeline (LWP) in north east NSW is an immediate opportunity for the NSW Government to promote natural gas supply and usage. The LWP can supply natural gas to Kyogle, Casino and other Northern Rivers towns such as Lismore and Grafton. Attachment 2 shows the pipeline route for the section down to Kyogle / Casino. It will need to be expanded to cover towns other than Kyogle and Casino. The expected cost of the pipeline as shown in the attachment is in the order of \$150m.

Kyogle, Casino, Grafton, Lismore and the surrounding areas currently have no reticulated natural gas supplies and instead rely on imported and expensive supplies of LPG and diesel.

To provide an example of the benefits to one town:

Casino is a town of about 11,000 people, many of whom depend on the Northern Cooperative Meat Company Limited (the local "meatworks") and Richmond Dairies for their livelihoods. The meatworks is one of the last NSW regional meatworks to remain in business. The corresponding Grafton meatworks closed down a year or so ago. Unemployment rates and incomes are lower in this area than elsewhere in Australia (refer to Attachment 1).

Providing natural gas to Casino will;

- improve the viability of existing businesses - the meatworks and the Richmond Dairies - by reducing the cost of fuel supply;
- encourage other industries to develop in Casino (a business / industrial park is already planned);
- encourage the development of a peaking power generation plant;
- facilitate domestic /retail gas sales in Casino (refer to Attachment 3); and
- provide a source of gas for a compressed natural gas operation, allowing gas to be supplied to industries around Casino, thereby backing out higher priced LPG and diesel supplies.

To put the fuel costs in perspective, industries that use LPG as a fuel are paying more than \$27/GJ and those that use diesel can pay as much as \$40/GJ for the energy. Gas supplies, even at export LNG parity can be a fraction of these costs; (ie; less than \$10/GJ). It is expected that natural gas could deliver savings over LPG of 20%.

Richmond Dairies is very keen to reduce its energy costs because it is competing with

interstate and international dairies that have much lower cost energy supplies. We understand Richmond Dairies would also like a reliable supply of energy, having previously found its LPG supply to be unreliable.

Similar benefits are likely to apply to the other towns involved. Metgasco estimates that a local diesel & LPG market of up to 10 PJ per annum can be substituted with natural gas.

In addition to providing a benefit to the local businesses as described above, the provision of the LWP infrastructure will encourage development of CSG and conventional gas resources in the region. In doing so, NSW will benefit from more jobs, business opportunities, royalty payments, better energy security and lower greenhouse emissions.

Lions Way Pipeline (see attachment 4)

Metgasco recommends that the NSW Government should promote the installation of the Lions Way Pipeline, either by: 1) direct investment and ownership of the pipeline (\$150m); or 2) facilitating the building of the pipeline by funding the approval and engineering phase (\$3m).

There are precedents for governments and their utilities owning pipelines such as the Longford to Melbourne gas pipeline in Victoria (Esso/BHPP gas transportation to Melbourne) and the Moomba to Sydney gas pipeline. Governments can choose to divest of pipeline assets at a later stage, having taken initial action to promote industrial development. Should the government choose to fund the engineering / approval phase and not wish to fund the pipeline itself, it could seek recovery of the engineering / approval costs from the pipeline developer when the pipeline proceeds.

A significant amount of work has already been completed on the pipeline project by Metgasco, including route selection, interaction with landholders, environmental studies, with the main outstanding work being a cultural heritage survey. The local indigenous community are keen to be involved in this and participate in the jobs it will create.

In summary, NSW can benefit from the increased use of natural gas, in place of higher cost, more polluting and riskier energy supplies. NSW has sufficient CSG resources to meet its own energy needs and should implement policies and regulations that encourage, not hinder, gas development. It can also take action to facilitate gas supply, irrespective of its source by improving gas pipeline infrastructure. Metgasco recommends that the NSW Government should facilitate the installation of the Lions Way Pipeline as proposed in this submission.

Yours sincerely

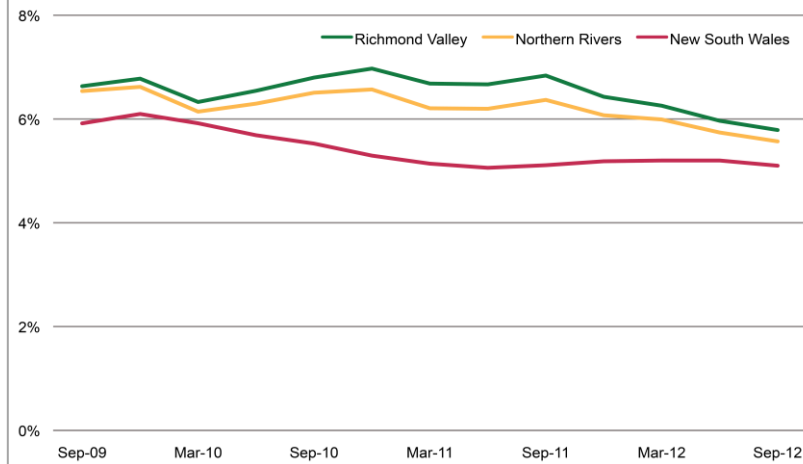


Peter J Henderson
Managing Director and CEO

Richmond Valley / Northern Rivers Unemployment / Income

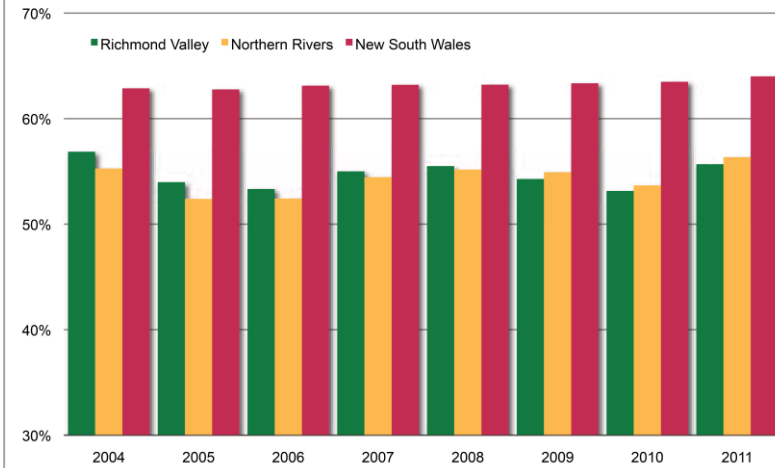
Attachment 1

Unemployment Rate



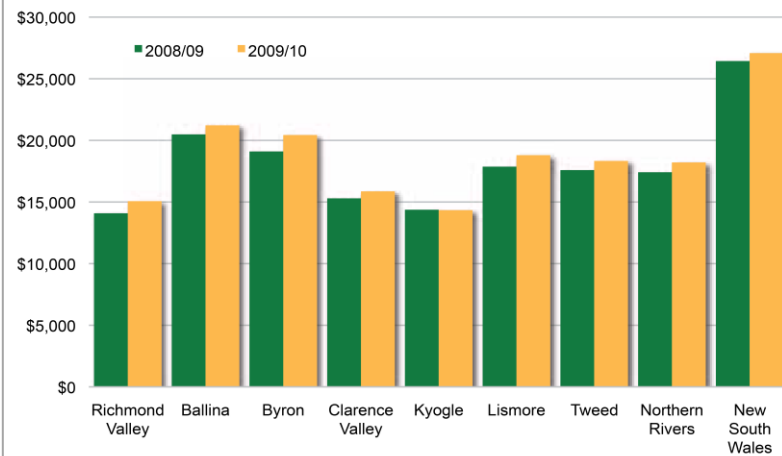
Source: DEEWR

Participation Rate



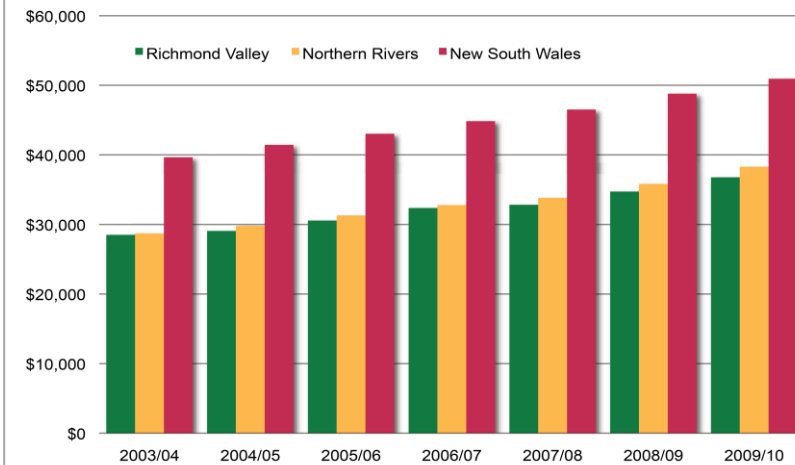
Source: ABS 3218.0, DEEWR & Lawrence Consulting

Per Capita Income



Source: ABS 6524.0

Average Wage & Salary Income



Source: ABS 6524.0



History of natural gas in the region

It has almost been forgotten that for most of the 20th century many cities and regional towns in NSW had their own reticulated gas supply industry. These Councils in these towns operated their own gas plants that primarily used coal as a feedstock to produce "towns" gas. Over the last 50 years local councils sought cost savings and divested their responsibilities for electricity and gas, although many still are responsible for water.

In many cases, the old gas pipes are still in many of the streets in these towns. Towns such as Casino in NSW. There remains an opportunity to once again use these old gas pipes, either by inserting new plastic pipe, or simply making use of the easement still shown on local Councils maps.

In the 21st century the approach to energy supply and demand is driven by costs and environmental concerns. Natural gas is considered the best of the fossil fuels, in terms of its green credentials- i.e. primarily due to less carbon and particulate emissions.

A number of NSW towns were connected to the natural gas grid over the last 30 years. Towns such as Griffith, Dubbo and Tamworth have continued to attract industry and commerce because of the availability of natural gas.



THE LIONS WAY PIPELINE

a METGASCO project



Project Overview

Metgasco is proposing to construct a gas transmission pipeline from Casino in northern New South Wales to deliver gas to Ipswich in south-east Queensland.

The Lions Way pipeline (the Pipeline) represents another step in Metgasco's development of the large gas resources that it has discovered in northern New South Wales. The pipeline will transport gas for low greenhouse gas emission power generation and commercial and household use in south-east Queensland.

The pipeline has been named the 'Lions Way' pipeline to honour the members of the Kyogle Lions club who volunteered to build the Lions Road that crosses the mountain ranges that form the border between New South Wales and Queensland.

About Metgasco

Metgasco is an Australian energy company developing gas reserves for the eastern Australian energy market. We are listed on the Australian Stock Exchange (ASX Code: MEL).

We have been exploring in the Clarence Moreton basin in northern New South Wales for over 5 years. So far we have discovered large gas resources trapped in coals seams and in conventional sandstone reservoirs. Independent US experts have provided the Company with an independent certification that the Company holds [xxxxx] petajoules in 2P gas reserves. These are the largest independently certified gas reserves in New South Wales.

In order to commercialise these gas resources, Metgasco needs to be able to deliver gas to the wholesale gas market in south-east Queensland. This requires building a pipeline to connect the Casino based gas project with large customers less than 100 kilometres away in south-east Queensland.



Project Benefits

The pipeline is a core infrastructure investment which will enable the development and commercialisation of gas resources discovered in the Casino area.

Natural gas is a low greenhouse emission fuel. When it is used to produce electricity it accounts for 0.04 tonnes of greenhouse gas emissions per MWh. This is approximately 40% of the emissions produced by coal fired power generation. Australia has one of the highest per capita levels of greenhouse gas emissions in

the world because most of our electricity is generated by coal. Gas transported by the Lions Way pipeline will allow for the coal fired power station at Swanbank to be closed and replaced by a gas fired power station.

As Australia moves to a more carbon constrained economy, the development of natural gas supplies close to energy markets will become increasingly important.

The project will establish a major new industry in the north coast of New South Wales. Approximately 180 jobs will be established as a result of the project. The north coast is the fastest growing region in New South Wales and demand for energy is exceeding previous forecasts. Once the gas project is in place, it is expected to act as an incentive to businesses to locate in the northern rivers region to take advantage of the availability of a clean energy source which is located close to existing road and rail infrastructure.

The pipeline will also provide significant benefits to gas users in south-east Queensland. Brisbane is the only capital city on the east coast of Australia that is supplied by a single gas pipeline. The development of the pipeline will allow for supply of gas into south-east Queensland via an alternative delivery route and alternative supply basin. This will enhance the security of gas supply to Brisbane. The new pipeline will also allow for an economic gas supply to proposed industrial and commercial developments adjacent to the proposed route.

THE LIONS WAY PIPELINE

a METGASCO project

Pipeline Construction

The pipeline starts in Casino in New South Wales and heads north via Kyogle. It will then travel along the Lions Road and then into Queensland to head north to Ipswich. The total length of the pipeline will be approximately 145km. It will be buried for its entire length, typical to depths of 900mm – 1,500mm. The only parts above ground will be control valves and facilities to enable internal cleaning and monitoring of the pipeline.

An area of approximately 30 metres in width will be cleared for the pipeline – called the Right of Way (ROW) – during construction. In addition, there may be some temporary facilities set up for pipe delivery and storage, work areas and workers accommodation.

The ROW width is important for protection of topsoil resources allowing for storage of cleared soils whilst accommodating all the equipment and vehicles required to construct the pipeline. Existing roads and tracks will be utilised as far as practicable for access to the pipeline route. Once the pipeline becomes operational, activities such as grazing and agriculture will be able to be continued over the area.



Approvals and Environmental Management

A detailed assessment of any potential environmental impacts from the construction and operations of the pipeline is currently underway.

Because the pipeline will be built in New South Wales and Queensland, both State Governments will assess the environmental impact of the project. In New South Wales, the Project is considered a Major Project and is being assessed under Part 3A of the Environmental Planning and Assessment Act. In Queensland, the assessment will be conducted under the Environmental Protection Act, 1994.

In addition, because the pipeline will be built under the Lions Road which is adjacent to the Border Ranges National Park, the Commonwealth Government has determined that the project is a controlled action and will be therefore be assessed under the Environmental Protection and Biodiversity Conservation Act 1999.

In assessing the potential environmental impacts of the project, Metgasco will draw upon an extensive team of specialist resources. A wide ranging consultation program will be carried out, encompassing stakeholder groups from landowners and traditional owners to industry organisations and local, State and Federal government agencies.



Further Information

