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4 February 2015

Ms Madeleine Foley
Director – Committees
NSW Parliament
Macquarie Street
Sydney NSW 2000

Dear Ms Foley

Thank you for the opportunity for Santos to address the Inquiry into the supply and cost of gas and liquid fuels in New South Wales.

In response to the question on notice regarding Santos' market share of produced gas in the NSW market – Santos has 20 per cent market share.

Attached are our responses to the supplementary questions from the committee and suggested amendments to the inquiry transcript.

Yours sincerely,

Armon Hicks
Manager, Public Affairs
Santos, Energy NSW

SELECT COMMITTEE INTO THE SUPPLY AND COST OF GAS AND LIQUID FUELS IN NEW SOUTH WALES

Inquiry into the supply and cost of gas and liquid fuels in New South Wales

Supplementary questions

SANTOS

1. Do you think the community is right to be concerned that gas consumers overseas seem to be being prioritised over domestic gas consumers?

As indicated in the public hearing, there is no prioritisation of gas for export. Santos has been very clear that gas produced at the Narrabri Gas Project will be prioritised to the families and businesses in NSW to ensure an affordable supply going forward.

2. How much will Santos reduce gas supplies down the Moonbah pipeline into NSW?

After 2016, existing supply contracts with NSW gas retailers from the Cooper Basin come to an end. Santos has approximately ~66% share in the South Australia Cooper Basin joint venture and as such, it is expected to reduce Santos' flow down the Moomba to Sydney pipeline by between 10-20 PJ p.a.

3. Santos has recently reduced its capital expenditure by \$700 million in response to the rapidly falling share price, how much of this reduction is related to the Narrabri project?

Santos is committed to the Narrabri Gas Project. Like many companies worldwide we have been impacted by the oil price decline and are reviewing our operations to ensure all our capital programs are appropriate for the current environment.

Santos remains focused on supplying natural gas to the one million families in NSW that use our product in their homes and the tens of thousands of people who rely on the energy provided by gas for their employment.

Our current operations in NSW will continue as we work with investors, customers, the NSW Government and our local community. The time frame of any investment decision enabling first gas from this project depends upon a range of factors including the appropriate support from all these stakeholders.

4. Given the recent oil price reduction, share price falls and downgrading of debt ratings for some companies which have invested in the Gladstone LNG terminals, what would happen to the gas market in Australia and NSW if an LNG terminal falls over?

The GLNG project is underpinned by 20 year LNG offtake agreements, as is typical for the vast majority of LNG projects. The GLNG project therefore has contractual obligations to deliver LNG to its customers. Over the life of the LNG project the oil price is likely to fluctuate but this does not change the contractual commitment between seller and buyer of the LNG.

5. In March 2014 a Credit Suisse report said that Santos' aim with its Gladstone LNG project "was always as much about raising the domestic gas price, and therefore re-rating large parts of its portfolio outside of GLNG, as it was about the project". Is this simply a cynical strategy by Santos to push up the retail gas prices to re-rate your existing portfolio?

Santos' vision is to be a leading energy company for Australia and Asia by producing from our existing assets, exploring & developing new resources, being a great place to work, and doing it safely and sustainably to deliver a superior shareholder return. Santos' decision to invest in the GLNG project is consistent with this vision, providing a strong source of growth for the company.

Santos and its GLNG joint venture (JV) partners have vast gas reserves in Queensland, but the scale and infrastructure required to develop these particular reserves required the scale of export markets rather than the relatively small domestic market alone. Santos and the GLNG JV partners were not alone in this assessment, as two other joint ventures have also developed their Queensland gas reserves largely via export markets.

Each of the three sanctioned LNG projects in Queensland also sell gas to domestic customers, although these domestic offtake agreements complement rather than underpin the major investment decisions made.

6. Can you please explain to the committee what Santos means when it says that all gas from the Narrabri Project will be prioritised for NSW? Does this constitute a guarantee that all gas produced at Narrabri will go to NSW customers?

The Narrabri Gas Project could supply up to half of NSW's gas needs and we have repeatedly stated that the gas will be made available for the NSW market.

A new pipeline will be developed that will flow south to connect to the existing Moomba to Sydney Pipeline and deliver the gas from the Narrabri Gas Project to the domestic market in NSW.

Santos has been very clear that the gas produced at the Narrabri Gas Project will be prioritised to the families and businesses in NSW to ensure an affordable supply going forward.

7. Credit Suisse also recently suggested that Santos was looking to secure gas from third-party suppliers to meet as much as a third of its needs at Gladstone. Does Santos have enough gas to supply its export facility at Gladstone, and if there is a shortfall what impact will this have on Santos' indication that all gas from the Narrabri project will be prioritised for NSW.

Santos is a 30% joint venture (JV) partner in the GLNG project, along with Total, Petronas, and KOGAS. While Santos is a JV partner, sourcing of gas for the GLNG project is determined by the JV, not Santos in isolation. As such, the JV partners are incentivised to maximise the recovery of gas out of the gas fields in which they have invested.

The GLNG project has entered into contracts to sell 7.2mtpa of LNG which requires ~1200TJ/d of gas feedstock into the LNG plant. As outlined in Santos' investor presentations, this feedstock will be supplied by both the project's own Queensland CSG reserves, plus third party gas.

The GLNG project has existing and sanctioned upstream compression capacity of 725 TJ/day across its Fairview & Roma fields which will supply its own gas to the LNG plant. In addition, incremental brownfield compression capacity additions of up to 150 TJ/day are under study for the Fairview, Roma and Scotia fields. Beyond GLNG's own gas supply, the GLNG JV has also signed contracts to supply 410-570 TJ/day of feedstock in 2016 from Santos portfolio & third party gas.

There are no contracts or plans to provide Narrabri gas as feedstock for the GLNG project. Santos remains committed to prioritising the gas from the NGP for families and businesses in NSW.

8. Why have Santos failed to produce an EIS and meet the deadlines agreed in the MOU your Government? Has this agreement expired?

Our Environmental Impact Statement (EIS) is close to finalisation. We will take the necessary time to ensure this document is of the highest standard. Santos remains committed to the MOU with the NSW Government.

9. Would Santos support a legislated reservation which mean that all gas produced in NSW must be sold to NSW customers?

As stated in our submission, Santos is not in favour of gas reservation in any form. A proposal to "reserve" gas for domestic use in an attempt to lower price has been widely rejected. The Bureau of Resource Energy Economics (BREE), Council of Australian Governments (COAG), NSW Independent Pricing and Regulatory Tribunal (IPART) and the Business Council of Australia (BCA) have all recently outlined the case as to why natural gas reservation policies will not result in cheaper prices and would in all likelihood result in less gas.

10. Does Santos have protocols in place which ensure that if elevated levels of any pollutant, such as the BTEX recently found in a sample taken by AGL, are found in any of Santos' water samples the EPA and the NSW Government will be notified immediately?

Santos adheres to strict environmental and reporting obligation at all times to ensure natural gas is extracted safely.