

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

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IEEFA submission: The supply and cost of gas and liquid fuels in New South Wales (Inquiry)

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To the Select Committee into gas and liquid fuels supply,

Submission into gas and liquid fuels supply in NSW, recent insights into the Narrabri Gas Project

Thank you for the opportunity to provide a submission into this important inquiry. Gas supply and prices are critical issues for NSW households and the state economy.

Please find attached a report of relevance to this inquiry: "IEEFA Briefing note: The Narrabri Gas project". This IEEFA Briefing brings some much-needed economic and financial objectivity to the gas pricing and supply debate.

The findings of this report demonstrate there is a limited benefit to NSW from building a coal seam gas project near Narrabri, due to uncertainty of the destination of the gas and the relatively high capital cost of the project that will be passed onto gas users.

The report is based on gas industry information, industry regulator data and government reports, and provides much needed insights into the following Inquiry Terms of Reference:

- (a) the factors affecting the supply, demand and cost of natural gas and liquid fuels in New South Wales;
- (b) the commercial conduct of gas producers and the operation of the domestic gas market as pricing permanently shifts upwards to net back export price parity after 50+ years as a quarantined East Coast domestic only market; and
- (c) the possible regulatory responses to protect New South Wales gas consumers from adverse market fluctuations and failures.

IEEFA Briefing Note: The Narrabri Coal Seam Gas project

Analysis in brief

- This analysis finds that approving the Narrabri Gas Project will play little to no role in lowering gas prices in NSW, giving our market is now permanently linked to Asian export price parity (net back).
- There is an MOU between Santos and the NSW Government covering the provision of gas to the Sydney market, but the agreement is non-binding.
- There is currently considerable debate regarding how the impact of the export of Liquefied Natural Gas (LNG) from Gladstone, Queensland, will impact the supply and pricing of gas in NSW. It is generally accepted that the new export LNG terminals will divert gas away from domestic contracts, with the expectation that NSW wholesale gas prices are set to at least double in comparison to historical levels.

- The development of coal seam gas assets in NSW is proposed as a partial solution to concerns over a possible future shortage of gas in NSW. The NSW Government has also stated that increasing the NSW domestic supply of gas “will assist in putting downward pressure on prices”¹. While the first half of this statement is correct, IEEFA views the second comment re pricing to be unlikely in the absence of any legally binding commitment. Santos will put its shareholders interests first.
- The thesis that the development of the Narrabri Gas Project (NGP) is at least a partial solution to these issues typically never considers that investors will demand an appropriate economic return on the substantial capital requirements to develop a coal seam gas project, the feasibility of constructing a pipeline, nor indeed the quantity of gas that would be supplied into the NSW market.
- This note provides an analysis of the Narrabri Coal Seam Gas Project (NGP) from an Economic Value perspective and considers, amongst other things, the question, “Can the development of the Narrabri Gas Project assist in putting downward pressure on gas prices in NSW”?
- The proposed “Queensland Hunter Gas Pipeline Project” is a \$900m, 831 kilometre long gas pipeline that would run from the Wallumbilla Gas Hub in Queensland to Newcastle, via Narrabri. Whilst the MOU between the NSW Government and Santos only refers to a pipeline running south to NSW, the proposed Queensland Hunter Gas pipeline is likely to also run north to feed into the Queensland gas pipeline network via the Wallumbilla hub.
- Putting aside pipeline construction uncertainties and likely landholder opposition, our research concludes that if the NGP gas field is developed to provide gas to NSW, the costs of production combined with the required capital investment of the project means imply that if stakeholders in NGP are to enjoy at least cost-of-capital returns, the project will likely have little to no influence in driving lower gas pricing in NSW.

Background on the Institute of Energy Economics and Financial Analysis

- The Institute for Energy Economics and Financial Analysis (IEEFA) conducts research and analyses financial and economic issues related to energy, with a primary focus on the transition of global electricity markets.
- The Institute’s mission is to accelerate the transition to a diverse, sustainable and profitable energy economy and to reduce dependence on coal and other non-renewable energy resources.
- Website: <http://www.ieefa.org>

Background on the author, Tim Buckley

- Tim Buckley is Director of Energy Finance Studies, Australasia, at the Institute of Energy Economics and Financial Analysis (IEEFA).
- Tim has over twenty-five years of experience in analysing major listed companies across a multitude of industries both within Australia and in the global context. Tim specialises in the global energy markets, with a focus on the Australian, Indian and Chinese electricity sub-sectors. Within this, the global thermal coal and renewable energy sectors are key areas of focus, as is the key financial risk of stranded assets.

Tim Buckley

¹ Minister Anthony Roberts, 20 October 2014, Sydney Morning Herald <http://www.smh.com.au/nsw/nsw-calls-for-more-transparency-as-gas-prices-set-to-soar-20141020-118voh.html#ixzz3GihRLp8O>