Submission
No 1

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

Organisation: Weston Aluminium Pty Ltd

Date received: 17/12/2014

Weston Aluminium Pty Ltd

16 December 2014
Select Committee on the Supply & Cost of Gas & Liquid Fuels in NSW
Parliament House
Macquarie Street
Sydney NSW 2000

Dear Chairman,

Re: The Supply & Cost of Gas & Liquid Fuels in NSW

We operate a secondary Aluminium Remelt plant in The Hunter Valley of NSW. We currently employ 32 full time workers. We were employing 81 workers in 2007.

We have over the last 7 years with increases in gas and electricity costs seen our competitive position erode, resulting in our business and those of our customers (Primary Aluminium Smelters and Steel Mills) suffer.

We currently use approximately 100,000 GJ of gas per year. We are classed as a medium Industrial user. Our delivered gas price has more than doubled in the last 7 years and is projected to continue going up. See below:

Gas Price Paid by Weston Aluminium at Hunter Valley NSW

Year	Gas Price at Field	Pipeline Transport & Ancillary Cost	Gas at Gate/GJ
*2007	$3.37	$1.95	$5.32
*2010	$3.91	$4.20	$8.11
^*2014	$5.65	$5.25	$10.90
>2016	$8.00	$6.00	$14.00
>2018	$10.00	$8.00	14.00 If from NT

*Nett without GST
^ Nett without Carbon Tax of $1.24/GJ & GST
> Projected Price

Level 4, 2 Help Street
Chatswood NSW 2067 Australia
Tel +61 2 9413 3345 www.westonal.com.au

<u>The following trends can be seen</u>:

A) The cost of transport of gas (pipeline charges) has been increasing at a higher rate than the cost of gas.

Reason:

1. 95% of gas in NSW is imported from other States. Long distances mean higher transport costs.

2. Lack of competition in the pipeline business – There are only 2 major players, APA and Jemena.

3. The regulations covering gas transportation are not transparent and are written very much in favour of the pipeline company and to the detriment of the customer.

    a) Lack of transparency on the transportation costs. We do not know how far the gas is transported.
    b) We are locked in to long term transportation charges with little flexibility to change contract when there are changes in market conditions or we achieve energy efficiencies. We have to wait a minimum of 12 months to alter gas transport contracts.
    c) The regulations are overly complex and almost impossible for customers to understand. So we have to employ consultants to explain regulations to us. It is another cost.
    d) The pipeline companies are in a no lose "Cost plus" situation. As the size of the local gas market gets smaller due to closure of manufacturing plants, they try to extract the same "Cost plus profit" from a smaller pool of customers. That is their attitude. They want to shift their commercial risk to their customers due to their strong market power and size. As the price of gas increases, more customers shutdown leading to higher prices. This is known as the "Spiral of Death".
    e) We are forced to deal with gas pipeline companies through retailers. We are discouraged to deal directly with them. The interests of the gas retailer and customer are often not aligned.

B) The gas at the gate price has gone up substantially, but is projected to go up dramatically from 2016 onwards.

    1) QLD LNG plants are ramping up and there is increased demand expected from 2016 onwards.
    2) The NSW State Government restrictions on CSG exploration have almost stopped the development of CSG in NSW. This has added to the perceived gas shortage expected in 2016 onwards.
    3) The NT Gas pipeline project will not help alleviate the expected price increases, as gas from NT will land at $8/GJ plus transport to gate into the Eastern States. This was announced by Richard Cottee MD of Central Petroleum to the ASX recently. It is a long way to transport gas.
    4) Many businesses in NSW will not be able to afford to pay $14+/gigajoule for delivered gas and will close down. This will result in thousands of lost jobs.

Level 4, 2 Help Street
Chatswood NSW 2067 Australia
Tel +61 2 9413 3345 www.westonal.com.au

Weston Aluminium Pty Ltd

Recommendations to the Select Committee:

1. Remove restrictions on CSG development in NSW. QLD and USA are successful models for creating investment and jobs. Chief NSW Scientist Dr Mary O'Kane has confirmed that CSG can be developed and managed in NSW just like any other extractive industry.

2. Reform the Pipeline Industry.

    a) Promote transparency, clearly specify how far the gas is being transported and what it costs.
    b) Balance negotiating power between pipeline owners and customers.
    c) Simplify the regulations. Allow gas to be traded freely.
    d) Increase flexibility as markets change then contracts should be flexible and allowed to be adjusted. Customers should be able to buy from multiple suppliers.
    e) Balance market risk between pipeline owners and consumers. Reject "Cost plus profit" formula for Pipeline owners.
    f) Allow and encourage gas users to contract directly with pipeline companies for the transport of gas.

3. Introduce Domestic Gas Policy, Apply National Interest Test. Almost every gas exporting country including the USA applies this test. Most countries set aside and sell a portion of gas at subsidised price for domestic use in order to promote their economy and create jobs.

4. Possible Alternative – Fast track any CSG development project in NSW where gas is to be allocated to Domestic Market for domestic jobs.

5. Reduce former opposition to CSG by sharing royalties with farmers/landowners or a more generous deal for landowners/farmers.

Should you have any further queries, or you would like me appear in person before the Committee, please do not hesitate to contact me.

Yours Faithfully,

Garbis Simonian

Managing Director
Weston Aluminium Pty Ltd

Level 4, 2 Help Street
Chatswood NSW 2067 Australia
Tel +61 2 9413 3345 www.westonal.com.au