

**Submission
No 19**

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

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Submission to the Legislative Council Inquiry into the Supply and Cost of Gas and Liquid Fuels in NSW

December 2014



The NSW Government is committed to secure, reliable, affordable and sustainable energy supplies for NSW households and businesses. The NSW Government is also committed to growing the NSW economy and placing downward pressure on the cost of living for NSW households.

NSW is heavily dependent on gas imported from other States – only five percent of the gas we consume is from NSW. The State is facing increasing competition for imported gas as producers move to export their product overseas, with the potential for gas shortages in the next five years. This could have serious impacts on NSW manufacturers, electricity generators and other industries that rely on gas. These businesses employ over 300,000 people. Rising prices will also impact household budgets, with over 1 million NSW households connected to gas. Our gas consumers are already starting to feel the pressure of increased gas prices, with the regulated price of gas this year increasing by 11.2%.

To protect NSW families and the jobs of thousands employed in gas dependent manufacturing industries, it is vital that the NSW Government acts to secure affordable and reliable gas resources for this State.

To achieve this end, on 13 November 2014, the Government released the NSW Gas Plan. The Plan is a clear strategic, framework to deliver world's best practice regulation of the gas industry, while securing vital gas supplies for the State.

Developing a safe and sustainable domestic gas industry

The Gas Plan demonstrates the NSW Government's commitment to support the safe and sustainable development of a domestic gas industry, which balances the needs of the community, the economy and the environment.

Under the Gas Plan, the Government will introduce a Strategic Release Framework to ensure that any future gas exploration is done on our terms, and on terms that meet community expectations. Strategic release will provide for greater control over publicly-owned petroleum resources. The Government will also implement a 'use it or lose it' policy requiring current titleholders to commit to developing the State's resources or risk losing their title.

To demonstrate how the development of NSW gas reserves will benefit NSW consumers, the Government will request gas companies to voluntarily disclose information about their gas supply arrangements. The Government will review this information and provide public recognition of those companies making a contribution to NSW's gas supply. Projects verified through this process will receive Strategic Energy Project status. This will ensure that production is progressed as efficiently and safely as possible.

Rebalancing gas supply and demand

The Gas Plan includes practical steps to rebalance supply and demand by diversifying sources of supply to NSW and encouraging more efficient use of gas.

The Government will support households and businesses to use gas more efficiently by expanding the NSW Energy Savings Scheme to include gas, and by leveraging the Commonwealth Government's Direct Action Plan. This will help reduce bills and release pressure on overall gas supplies in NSW.

The Government is actively exploring all possibilities to increase gas supply to domestic consumers. In November 2014, the NSW Government entered into a Memorandum of Understanding with the Northern Territory to assist in exploring opportunities to examine the feasibility of developing a gas pipeline linking the Northern Territory to the East Coast Gas Market. The Government will also investigate opportunities to increase pipeline capacity from Victoria and South Australia to help alleviate supply issues faced by NSW.

Gas reservation policies

NSW relies on interstate imports for 95 percent of its gas supply, which leaves us susceptible to rising market prices and supply issues. A gas reservation policy would not help NSW gas supplies, as we are unable to force other States to supply us with the gas they produce. Large quantities of domestically produced (East Coast) gas have already been contractually committed to LNG export facilities in Queensland. A reservation policy would not extinguish these obligations. A gas reservation policy would also restrict trade, discourage investment and cause development costs in NSW to rise.

To help ensure our gas supplies, the NSW Government will instead take action through the Gas Plan to diversify our sources of gas supply and to develop our own NSW gas reserves. All proposed major gas projects in New South Wales (Narrabri, Gloucester and Camden projects) have committed to prioritising gas produced to our industrial and household domestic consumers. These projects could supply up to 80% of our gas demand.

At its December meeting, the Council of Australian Governments (COAG) Energy Council rejected reservation policies as a measure to address pressures in the eastern gas market, and instead considers there are opportunities to significantly improve the function of the gas market and remove impediments to supply.

Driving national reforms to improve the efficiency of the wholesale gas market

The Commonwealth and NSW Governments continue to work closely together to ensure that gas market regulation is effective.

The recent communiqué from the COAG Energy Council provides evidence of this commitment. The communiqué noted that the Energy Council had agreed on a vision for the gas market:

The establishment of a liquid wholesale gas market that provides market signals for investment and supply, where responses to those signals are facilitated by a supportive investment and regulatory environment, where trade is focused at a point that best serves the needs of participants, where an efficient reference price is established, and

producers, consumers and trading markets are connected to infrastructure that enables participants the opportunity to readily trade between locations and arbitrage trading opportunities.

The Energy Council also agreed to actively pursue four policy work streams to support this objective:

1. competitive supply;
2. transparency and price discovery;
3. risk management; and
4. removing unnecessary regulatory barriers.

Security of Liquid Fuels across the Supply Chain

Liquid fuels are critical to the NSW economy and end users. Liquid fuel security remains a priority matter and is monitored under emergency management arrangements.

Most liquid fuel supply interruption events are effectively managed by industry through market means and flexible logistics. Key issues for consideration by Government in this area include: identifying and monitoring external factors which may impact the market and ensuring that supply chains are competitive and robust, using world class infrastructure.

NSW liquid fuel supply chains are concentrated in a number of locations. The concentration and location of storage and distribution components of the supply chains mean that risks can be heightened where there are interruptions to freight flows at shipping and cargo handling in ports and in the road haulage element of the supply chain. These risks also need to be managed in the context of environment, planning and safety considerations.

Vulnerability was highlighted in 2013 when one of the major deliverers of liquid fuels had a large proportion of its fleet grounded. Further, in 2011 congestion in Port Botany resulted in some ships being kept at anchor for extended periods. This incurred demurrage to some shippers in excess of \$250,000 per cargo. These events impacted the costs and availability of liquid fuel supplies on a short term basis in some areas of NSW.

Industry and markets continue to manage these events. A priority for 2015 should be a long term risk based strategy to ensure that all elements of our supply chain work together, are competitive and robust.