



New report recommends urgent action to address gas shortage

10 July 2007

The DomGas Alliance today released an analysis of Western Australia's gas supply shortage.

The report, prepared by Synergies Economic Consulting, found market failure in the WA gas supply market and recommended urgent action by Federal and State Governments.

DomGas Alliance Chairman, Stuart Hohnen, said the report confirmed there was a gas supply crisis.

"Current gas users and project developers cannot secure new supplies of gas. Gas prices have more than doubled in the last 12 months and are at least double delivered prices in Eastern States markets," Mr Hohnen said.

"This has critical implications for WA's economic future. Natural gas underpins the State's manufacturing and mining industries, which support hundreds of thousands of jobs. Some 60% of electricity generation in WA is gas-fired. It is also an essential energy source for WA households."

The report found that WA has the highest energy dependence of any State in Australia and uses more gas than any State. Natural gas accounts for 51% of WA's primary energy needs and this is expected to increase in the future.

The report found compelling evidence of market failure. The gas supply market is highly concentrated with two operating entities holding close to 100% of all gas reserves in developed fields.

Current joint marketing arrangements for the North West Shelf joint venture also significantly reduced competition by limiting the number of independent producers selling into the domestic market.

The report recommended urgent government action to:

- Remove anti-competitive joint selling arrangements for domestic gas;
- Increase scrutiny and transparency in Retention Lease arrangements under which gas producers can lock up reserves without developing them;
- Facilitate independent third party ownership in upstream gas infrastructure and/or provide opportunities to access upstream gas gathering and processing facilities; and
- Require producers to reserve a proportion of gas for the domestic market and/or limit the proportion of gas that could be sold to the domestic market under joint marketing arrangements

The report found that access to natural gas would play a critical role in the State's and Australia's ability to meet greenhouse gas reduction targets.

"Natural gas produces around 45% less carbon dioxide than coal. WA has a strategic advantage in natural gas and it is important that we retain this," Mr Hohnen said.

"The inability to access gas was already forcing WA industries and power generators to switch to coal. From a greenhouse policy perspective, it makes no sense to be exporting clean LNG energy while reverting to coal for domestic energy requirements."

Mr Hohnen said the Alliance would continue to work cooperatively with the State and Federal Governments, and gas producers, to respond to the current gas shortage.

"Economic Consulting Services estimates that WA will require an additional 893 TJ/day of gas in the next 6 years to meet new and replacement demand."

"This is equivalent to the size of the existing domestic market for gas. It is also more than double the initial gas contract which underpinned the whole North West Shelf development."

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About the DomGas Alliance

The DomGas Alliance was formed in 2006 in response to serious concerns about the continued availability and competitiveness of gas supply to the WA domestic market. The Alliance includes current and prospective gas users and gas infrastructure operators.

Members include: Alcoa of Australia, Alinta Limited, Synergy, Dampier Bunbury Pipeline, ERM Power/New Gen Power, Newmont Australia, Fortescue Metals Group, Perth Energy and Moly Mines.

Alliance members represent over 80 per cent of the State's domestic gas consumption and gas transmission capacity, including smaller industrial and household users of gas.