

MEDIA RELEASE

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Domestic gas reservation policy needs teeth

A new report has called for the Western Australia's gas reservation policy to be given teeth to meet the State's worsening gas shortage and to ensure domestic supply obligations are not able to be avoided by LNG exporters.

The report by the State's peak energy user group, the DomGas Alliance, found domestic gas reservation obligations of the North West Shelf Project had delivered 25 years of stable and affordable energy supply to the State.

Subsequent reservation commitments have however failed to keep pace with the State's growing energy needs or the significant growth in LNG exports.

DomGas Alliance Chairman, Tony Petersen, said priority should be given to meeting the energy needs of local industry and households.

"These resources belong to all Australians, not just Chevron or Woodside," Mr Petersen said.

Western Australia will require more than 1000 terrajoules per day of new domestic gas supply by 2020 to replace existing contracts and to meet forecast demand growth. The State however faces a serious shortfall of 500 TJ/day.

Key recommendations to strengthen the reservation policy include providing:

- Certainty – domestic gas obligations should be made unconditional and not subject to a "commerciality" escape clause;
- Flexibility – gas producers should be given sufficient flexibility in how they meet domestic supply obligations;
- Growth – domestic supply commitments should expand with any future growth in project gas reserves, production or LNG exports; and
- Timeliness – domestic gas should be supplied prior to or at least no later than LNG start-up.

The report endorsed Premier Barnett's position that gas should be supplied to the domestic market at a price that gives the State a competitive advantage in energy. Domestic gas prices should not exceed the price of gas entering the LNG processing leg of a gas project.

The report also called on the Federal Government to implement a national reservation policy to support and complement the State's reservation policy. Such a policy would ensure producers do not avoid domestic supply obligations when developing projects in offshore Commonwealth waters.

"It would send a strong message to LNG exporters that the Federal Government is serious about energy security and the needs of local industry and households," Mr Petersen said.

Western Australia is the most energy and gas-dependent economy in Australia. Natural gas fuels half of the State's primary energy and 60 per cent of its electricity generation. In contrast, natural gas supplies 22 per cent of the primary energy needs of Australia as a whole.

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ATTACHMENT: KEY RECOMMENDATIONS

Certainty

- Domestic gas obligations should be made *unconditional* and not subject to a “commerciality” escape clause.
- The policy should be consistently applied to discourage individual projects from claiming “special exemptions” and treatment.
- The obligation should be to “supply” domestic gas, as opposed to “market”, “make available” or “offer to sell” domestic gas.
- In the event of any resources shortfall in a project or field, domestic gas supply should be accorded priority over LNG export.
- The reservation policy should be made an express condition in the granting and renewal of all gas exploration permits, retention leases and production licences.
- Specific leases or tenements should be set aside and granted only on the condition of exclusive domgas development.

Flexibility

- Producers should be given sufficient flexibility on how they would meet domestic supply obligations.
- Producers should be encouraged to adopt the most efficient means of meeting domestic supply obligations - whether by supplying domgas from the relevant field or, where it is not commercially viable to do so, by supplying domgas from other fields.

Growth

- The domestic supply commitment should expand with any future growth in project gas reserves, production or LNG exports.

Timeliness

- The obligation should be applied as a *percentage* of reserves and production, as opposed to a fixed volume.
- Producers should be required to supply domestic gas prior to or at least no later than start-up of LNG production.

The DomGas Alliance

The DomGas Alliance is Western Australia's peak energy user group and represents natural gas users, infrastructure investors and prospective domestic gas producers.

Alliance members represent around 80 percent of Western Australia's domestic gas consumption and gas transmission capacity.

Members include: Alcoa of Australia, Alinta, Burrup Fertilisers, DBP, ERM Power / NewGen Power, Fortescue Metals Group, Horizon Power, Murphy Oil, Newmont Australia, Synergy and Verve Energy.

The Alliance promotes security and affordability of gas supply for industry, small business and households.



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