



RESPONSE TO THE JOINT WORKING GROUP REPORT ON NATURAL GAS SUPPLY

Final Response

5 November 2007

EXECUTIVE SUMMARY

- The DomGas Alliance welcomes the Joint Working Group's efforts in identifying possible responses to the gas supply challenge.
- Many of the report's recommendations, if implemented, will have a positive impact in encouraging gas supply.

Recommendation 1: Acreage management

- Alliance supports the recommendation that the Joint Authority implement a more stringent application of existing guidelines and, where appropriate, request a re-evaluation of commercial viability in accordance with the legislation.
- Furthermore, the legislation should be amended to specify that if a field held under a retention lease is believed to be capable of supplying the domestic market on a commercial basis, this should be the basis of assessment.
- The Alliance also supports the recommendation for further investigation into improving transparency and administration of the retention lease process. This investigation should be undertaken by an appropriately independent body.

Recommendation 2 – Improving the operation of existing market structures

- Given the evidence provided by stakeholders, the Alliance is perplexed that the Joint Working Group has not made a recommendation on the impact of joint selling.
- The North West Shelf Joint Venture's joint selling arrangements significantly reduce competition by reducing the number of sellers in the domestic market. Removing these arrangements will encourage competition and supply in the domestic market.
- Furthermore, many of the responses identified by the Joint Working Group – such as a Short Term Trading Market – could in fact only arise *after* a competitive domestic supply market is implemented.
- On gas quality specification, the Alliance believes that these matters are conducive to commercial resolution and members are working with producers and gas users to assess alternative solutions to improve access of gas for domestic supply.

Recommendation 3 - National Gas Plan / Gas Statement of Opportunities

- The Alliance supports the development of a Gas Statement of Opportunities (GSOO) which can facilitate future gas development and policy planning by improving information and knowledge.
- The GSOO should include LNG export demand growth potential and the implications for domestic supply, as well as measures of reliability and supply security.
- The Alliance further recommends that assessments of available resources and resource life should take into account factors such as the probability of recovery, barriers to accessing and commercialising resources, gas quality issues and development economics.
- While the GSOO would operate as an information tool to assist decision-making, it would not itself constitute a strategy that would ensure long term competitive gas supply.

The need for a 2020 Gas Sustainability Vision

- The Alliance calls for a 2020 Gas Sustainability Vision to guide long term gas policies in Australia.
- This Vision should identify the desired outcomes and features of Australia's gas supply market for the next 20 years, and the need for appropriate policy responses to meet these objectives.
- 2020 Vision objectives could include for example that:
 - Australia retains a strong and competitive manufacturing, mining and processing base and a competitive advantage in energy;
 - Australia retains sufficient long term gas resources to enable long term investment;
 - natural gas supplies 60% of Australia's energy needs;
 - Australia has a fully competitive domestic gas supply market with a range of diverse producers; and
 - Australia is self-sufficient in domestic gas supply and not dependent on imports from high risk countries

- While the Alliance encourages the use of market based mechanisms, all policy responses to meeting the current and long term challenge of gas supply should be considered.
- In particular, non-market mechanisms may be justified in situations where the market has failed or where there is an overriding public policy interest.

Recommendation 4 – Obtaining a better understanding of new market developments

- The Alliance supports the recommendation that further work be undertaken to understand the benefits, costs and risks of domestic gas supply and LNG exports for energy sustainability, climate change and economic prosperity.
- These issues go to the heart of the current and long-term challenge of domestic gas supply, and the Joint Working Group’s Terms of Reference.
- In the absence of this analysis, the policy responses identified in the Joint Working Group report will not, alone, address the current and long-term challenges of domestic gas supply.

Termination of the Joint Working Group

- The Joint Working Group remains the most appropriate body to undertake or coordinate this work, and to develop the appropriate policy responses.
- The DomGas Alliance does not support termination of the Joint Working Group prior to the Group completing this activity.

BACKGROUND

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, AlintaAGL, Synergy, Dampier Bunbury Pipeline, ERM Power/New Gen Power, Newmont Australia, Fortescue Metals Group, Moly Mines and Precious Metals Australia.

Alliance members represent the bulk of the State's domestic gas consumption and gas transmission capacity, including smaller industrial and household users of gas. Members also represent a significant proportion of prospective demand for additional gas supplies.

The DomGas Alliance welcomes the opportunity to comment on the Joint Working Group's final report on domestic gas supply.

DOMESTIC GAS SUPPLY AND DEMAND

Australia does not have abundant gas resources

The DomGas Alliance does not support the Joint Working Group report's conclusion that Australia has "substantial" or "abundant" gas resources.¹ For an energy and greenhouse-intensive economy, Australia holds just 2.4% of the world's natural gas resources. This represents little more than one year of total world gas consumption.

Estimates of Western Australia's gas resources – with WA holding most of Australia's natural gas – refer to resources with only a 50% or higher probability of recovery. Of the 126,000 PJ of P50 resources, only 17% relates to developed fields. The bulk of resources are located offshore and in deep water. Many of the fields have gas quality issues which impact on development economics and environmental acceptability. As recognised by the Joint Working Group report, there are significant barriers to easily accessing and commercialising a significant proportion of Australia's reserves.²

If government and producer targets of 50-60 million tonnes of LNG production per year are met, Western Australia's natural gas resources could be depleted within 30 years. This is of significant concern given natural gas is a non-renewable resource which once depleted, is lost forever.

¹ JWG Report, p.7.

² JWG Report, p.7.

In addition, the bulk of gas in the Carnarvon Basin is expected to be fully committed between 2015-2020 – less than 9 years time. The JWG report notes that 20% of Australia's total gas reserves have already been contracted.³ Where resources are contracted to long term LNG contracts, they are unavailable to the local economy to meet immediate or emerging needs of industries and households.

The importance of safeguarding Australia's limited gas resources will continue to grow in an energy and carbon-constrained world. The OECD estimates global consumption of natural gas will rise by 63% by 2030. This demand reflects rising demand for oil and petroleum. The US Department of Energy estimates that China's consumption of oil will rise by 156% by 2025 and India's will rise by 152% in the same period. The proportion of oil and gas in the total energy mix of Asia's developing economies is projected to rise, and most major economies in Asia will rely on imports of oil and gas.⁴

Gas prices in the Eastern States could rise by as much as 600 per cent

The Joint Working Group report concludes that the rapid growth and development of Coal Seam Methane (CSM) reserves has the potential to significantly increase the quantum and diversity of gas supply options in the Eastern States.⁵ The report however warns that two potential LNG terminals using CSM could impact on both supply and price in the Eastern gas market.

Importantly, the Joint Working Group report concludes that LNG export price competition has led to WA prices being double that in the Eastern States where exports of gas are not presently viable.⁶

Current events in Western Australia demonstrate a calculated long term strategy of gas producers to significantly raise domestic gas prices by linking them to a notional international price. This is despite the fact that there is no international price for gas.

As the DomGas Alliance indicated in its response to the MMA report, gas prices vary considerably between different countries and regions (table below). Gas prices reflect local conditions and national resource endowments. There is no rationale for Australian domestic gas prices to reflect prices in energy-deficient countries such as Japan and China. In fact, domestic gas prices in major gas exporting countries are currently around \$US 1 / GJ.

³ 35,000 PJ of Australia's 173,000 PJ of gas resources are now contracted: JWG Report, p.7.

⁴ Michael Wesley, 'Power Plays: Energy and Australia's Security', Australian Strategic Policy Institute, October 2007, pp.5-6.

⁵ JWG Report, p.9.

⁶ JWG Report, p.16.

Country	2004 \$A/GJ	Country	2004 \$A/GJ
Argentina	1.50	Kazakhstan	1.44
Barbados	25.76	South Korea	10.84
Bolivia	2.29	New Zealand	3.86
Brazil	12.75	Russia	1.05
Canada	7.09	UK	6.42
Chile	6.74	United States	7.99
Taiwan	10.68	Venezuela	0.46
Japan	12.44		

* Source: US Department of Energy. 2005 data incomplete

The Alliance is alarmed at efforts by major gas producers to price gas at around A\$15 / GJ to prospective Western Australian buyers. In a recent tender, major gas producers offered domestic gas at prices calculated against Tapis international crude oil prices. With Tapis prices at well over US\$ 90 / barrel, this equates to domestic gas prices of over A\$ 15 / GJ – an over 600 per cent increase in prices in the last 12-18 months.

As the Joint Working Group report warns, major LNG projects in the Eastern States, such as Coal Seam Methane project in Queensland, will lead to a significant increase in gas prices for Eastern States' users. It is no coincidence that a major proponent of these projects has pushed for \$15 / GJ gas prices in Western Australia. Such a rise in gas prices will have profound consequences for households and industry in States such as Queensland, Victoria and New South Wales.

COSTS, BENEFITS AND RISKS OF LNG EXPORT VERSUS ENSURING DOMESTIC GAS SUPPLY

The Joint Working Group report notes that natural gas will become increasingly important in meeting Australia's energy requirements over the next 25 years with share of gas in Australia's total primary energy consumption forecast by ABARE to rise from 19% to 24% by 2030.⁷

The report identifies a number of costs and benefits associated with exporting LNG and ensuring domestic gas security, as well as new developments that have the potential to significantly alter the dynamics of natural gas markets. These developments include the introduction of a national emissions trading scheme.

⁷ JWG Report, p.12.

The report however concludes that further consideration should be deferred until mid-2008.

These are fundamental issues that go to the heart of the challenge

Energy sustainability, climate change policy and economic growth are issues that go to the heart of the domestic gas supply challenge, and the need and appropriateness of policy responses. They also relate to the Joint Working Group's key Terms of Reference. It is, therefore, disappointing that the MMA report failed to provide a detailed analysis of these issues, including:

- The importance of secure and competitive gas supply for Australia's economic growth, industrial base and employment.
- The downstream impact of higher energy costs for Australia's manufacturing, mining and processing industries.
- The importance of natural gas supply in Australia's response to climate change.
- The long term security implications from growing import-dependence, such as on high risk suppliers such as the Middle East and Russia.

The policy options identified in the MMA and Joint Working Group reports must therefore be considered in this context. Options aimed at facilitating development of existing gas resources would not, for example, address the issue of long term resource depletion.

As such, further examination of these issues is not just valuable, it is essential to fulfill the Joint Working Group's Terms of Reference and to develop the appropriate policy responses.

The DomGas Alliance has provided detailed comments on these issues in its response to the MMA report. The Alliance's response to the Joint Working Group report will further address:

- the importance of competitive gas supply for economic growth;
- the risks to Australia's climate change response; and
- the importance of energy sustainability

Competitive gas supply is critical for Australia's economic future

Given Australia's energy-intensive economy, competitive gas supply is critical for investment, employment, growth and living standards. Access to energy underpins Australia's manufacturing, processing and mining industries and the social and economic benefits they deliver. Western Australia's economy is particularly dependent on gas supply. Natural gas supplies 51% of the State's primary energy and 60% of electricity generation.

This dependence on natural gas is demonstrated by projects currently seeking gas in WA. An analysis prepared for the DomGas Alliance identified \$23 billion in projects that are seeking natural gas for expansion or new developments in WA. These comprised eight iron ore and nine other developments including nickel, molybdenum, vanadium, gold and ammonia projects. Failure to secure competitive gas supply could see the deferral or loss of these projects and the loss to the economy of:

- over \$23 billion in construction capital investment
- 15,800 potential construction jobs
- 5,250 permanent operating jobs
- \$9.2 billion in annual economic output

Any change in the availability and price of gas will have a direct impact on investment and growth. This is already being experienced by downstream mining, manufacturing and processing industries where the lack of gas availability and escalating gas prices putting at risk project economics.

The gas shortage creates significant greenhouse risks for Australia

The Joint Working Group report recognises that a key risk is the extent to which future climate change policy initiatives, such as the introduction of a national emissions trading scheme, will increase the demand for gas.

The Alliance considers that the fundamental risk is the impact of the failure to secure competitive supply for Australia's future carbon footprint and response to climate change.

Natural gas will play a key role in Australia's response to climate change. Natural gas produces around 45% less carbon dioxide emissions compared to coal. Combined cycle gas-fired plants and gas-fired cogeneration plants comprise the most greenhouse efficient forms of non-renewable power generation.

The current domestic gas shortage could be the single greatest factor contributing to emissions growth in Western Australia over the next decade or so.

At current prices, natural gas is simply uncompetitive with coal as a source for energy or electricity generation.

At \$7 / GJ, natural gas is over three times the cost of coal - which is currently priced at around \$2.00 / GJ. There is no need to even contemplate the \$15 / GJ gas prices currently being sought by major producers.

The inability to secure gas has forced industry and electricity generation to switch to coal for their energy requirements. Western Australia's recent 400 MW electricity generation tender is likely to result in the selection of a coal-fired station over gas firing.

In the past twelve months, a number of prospective resource development projects have also been forced to switch to greenhouse intensive coal-fired energy. This is occurring at the same time that gas producers continue to expand exports of Australia's clean energy resources to overseas competitors such as China.

The long term strategy of gas producers to increase Australian gas prices will also undermine any Commonwealth and State responses on climate change. At \$7 / GJ gas prices, it would be difficult to envisage how the Queensland Government's target of 13% gas-fired power could be met.

It would also undermine the effectiveness of any national emissions trading scheme. At \$7 / GJ gas prices, any scheme would need to impose an \$80 / tonne carbon cost to make gas competitive with coal. Such an impost would clearly have a devastating impact on the Australian economy.

Without government action to secure long term competitive gas supply, Australia (and Western Australia in particular) faces the reality of coal being the only viable option for Australia's energy future.

It makes greenhouse sense to use Australia's clean energy reserves to reduce Australia's carbon emissions

The Alliance also wishes to respond to a commonly held misconception – that Australia's LNG exports are contributing to the global fight against climate change.

From a lifecycle perspective, LNG produces 20% - 40% more carbon dioxide emissions than using domestic natural gas.

A recent study by Carnegie Mellon University researchers found that over its lifecycle, LNG produces greenhouse gas emissions approaching that of coal.⁸ This occurs as LNG is extracted from a foreign country, liquefied, shipped to an overseas country, regasified and transported through pipelines before it can be used as an energy source. By comparison, domestic use of natural gas produces significantly lower greenhouse gas emissions.

From a global climate change perspective, Australia can contribute to global reductions in greenhouse emissions by using natural gas resources to shift to a gas-based economy.

Strategic importance of energy sustainability

Like water, energy is a strategic resource vital for Australia's long term national security and economic prosperity. Energy sustainability cannot be taken for granted and failure to ensure energy supply has profound economic and political consequences.

In 2006, Russia through its state-owned gas supplier Gazprom cut gas supplies to Ukraine in the middle of Winter. While the action had an immediate impact on Ukraine, it also cut gas supplies throughout Europe given 80% of Russian gas is exported to Europe through Ukraine. Many European countries saw an immediate drop in gas supply including:

- Austria – by around 33%
- France – by 25% - 30%
- Hungary – Russian imports down 40%
- Italy – Russian imports down 24%
- Poland – supply down 14%⁹

While the dispute was eventually resolved, in October 2007, Gazprom again threatened to cut off gas supplies to the Ukraine. Observers connected this threat to the results of parliamentary elections in the Ukraine.

The experience in Ukraine demonstrates the risks where countries become dependent on external suppliers for critical energy needs. It also demonstrates the extent to which world natural gas resources are controlled by sovereign government entities.

Contrary to the MMA report's assertion that even condition 'red' (where Australia has less than 15 years of gas and becomes import dependent) would not justify

⁸ P. Jaramillo, W. Michael Griffin and H. Scott Matthews (2007) 'Comparative Life-Cycle Air Emissions of Coal, Domestic Natural Gas, LNG, and SNG for Electricity Generation', *Journal of Environmental Science and Technology*.

⁹ See for example, BBC news at <http://news.bbc.co.uk/1/hi/world/europe/4574630.stm>; Forbes at <http://www.forbes.com/finance/feeds/afx/2006/01/02/afx2423220.html>.

government action, there are significant risks for Australia in becoming dependent on external suppliers like Russia, Indonesia and the Middle East for its gas needs.

This dependence could arise where the over-exploitation of resources for LNG exports depletes Australia's limited reserves. It could also arise where gas production is contracted out to long term LNG contracts leaving little spare capacity to supply local industry and households.

National governments are increasingly acting to secure energy supply

National governments are increasingly acting to ensure long term energy sustainability. A study by Curtin University found governments are moving to secure oil and gas resources because of concerns over significant growth in global energy demand, a sharp hike in petroleum prices and concerns over global political instability.

Importantly, the Curtin University report found that over 90% of the world's natural gas resources were directly or indirectly controlled by governments through national oil companies (NOCs). Only 8% of the world's gas resources enjoyed full access by private ownership interests. Australia's natural gas resources fell within this 8% category.

The DomGas Alliance is concerned that the global dominance of State-controlled oil companies such as Russia's Gazprom raises significant security risks if Australia becomes dependent on imports.

The Curtin University report also found that many gas producing countries maintained Domestic Market Obligation (DMO) or other strategic policies. These include:

- Indonesia – which reserves a minimum 25% of gas to the domestic market
- Egypt – which reserves 1/3 gas for export, 1/3 for the domestic market and 1/3 “to save for our children”
- Russia – which declares the oil and gas sectors as strategic
- Malaysia – which has a National Depletion Policy applying production limits for oil and gas based on a long-term energy sustainability target
- United States – which has a Royalty in Kind (RIK) program

The report also found that other countries are weighing the long-term benefits of gas exports against the use of gas for domestic industries, in determining the need for government action.

There is little reason for complacency over Australia's energy sustainability

Claims that Australia has 'over a hundred years of gas', is an 'energy superpower' or could become 'the second or third largest LNG exporter by 2015' demonstrate a worrying complacency over Australia's long term energy and gas sustainability. This complacency is misplaced.

A recent report by the Australian Strategic Policy Institute (ASPI) warned against taking for granted Australia's long term energy sustainability.¹⁰ Key findings of the report include:

- The world is entering an era of steadily tightening energy markets.
- Energy sustainability will become increasingly important to national security. This due to the growth of demand from the United States, China and India, and increasing dependence of world energy supplies from unstable regions.
- Australia is no less dependent on a small range of fossil fuels than most other developed countries.
- There will be a dramatic rise in Australia's dependence on imports for oil and petroleum, particularly from the Middle East.
- There is a need for Australia to factor broader aspects of energy security into its foreign and defence policies.

The SPI report found that Australia's historical position of being dependent on imports for only a quarter of energy has led to a tendency for Australian governments and society to be more sanguine about energy security than many other countries.

The report warns there is little reason, however, for complacency given Australia's high dependence on energy, and the fact that Australia's self-sufficiency in oil products is declining markedly.

The DomGas Alliance considers that the continued expansion of LNG exports has profound implications for Australia's non-renewable natural gas resources. There is an urgent need for a national vision and strategy to ensure the long term availability of gas supply for the Australian economy.

¹⁰ Michael Wesley, 'Power Plays: Energy and Australia's Security', Australian Strategic Policy Institute, October 2007.

BARRIERS TO DOMESTIC GAS SUPPLY

The DomGas Alliance welcomes the Joint Working Group's efforts in identifying possible responses to the gas supply challenge. Many of the report's recommendations, if implemented, will have a positive impact in encouraging gas supply.

The Alliance notes however the failure of the MMA report to provide a detailed examination of the risks and benefits of gas supply for energy sustainability, climate change and economic prosperity. These issues relate to the Joint Working Group's key Terms of Reference.

In the absence of this analysis, it cannot be taken that the policy responses identified in the Joint Working Group report alone address the current and long-term challenges of competitive gas supply. They are directed only at addressing specific regulatory or market issues, as opposed to the long term challenge of gas sustainability.

Recommendation 1 - Acreage management

The DomGas Alliance supports the Joint Working Group report recommendation that the Joint Authority implement a more stringent application of existing guidelines, and, where appropriate, request a re-evaluation of commercial viability in accordance with the legislation.

Furthermore, the Alliance considers that the legislation should be amended to specify that if a field held under a retention lease is believed to be capable of supplying the domestic market on a commercial basis, then this should be the basis of assessment.

The Alliance also supports the recommendation for further investigation into improving transparency and administration of the retention lease process. This investigation should be undertaken by an appropriately independent body.

There is currently no gazetting system which would make public the substance of a retention lease application. Nor is there a formal procedure for gas users or other gas producers to participate in a retention lease process. The current arrangements provide for an asymmetry of information that exclusively benefits existing gas producers. There is therefore a need for greater transparency to enable interested stakeholders to participate in the review process.

Greater transparency and disclosure will also encourage participation by gas users and infrastructure operators in upstream gas supply infrastructure and activities. Third party participation can facilitate new domestic gas development.

Recommendation 2 – Improving the operation of existing market structures

Short Term Trading Market and Joint Selling

The Joint Working Group report notes that stakeholders generally agreed that joint selling arrangements can reduce competition by reducing the number of sellers to the domestic market and would allow Joint Venture partners to monetise their portion of the gas reserves at different rates thus creating a commercial opportunity for more gas capacity to enter the market when prices are high.¹¹

However, the Joint Working Group report goes on to conclude that market structure and operation barriers will be largely addressed by policies and projects currently being developed, such as a Short Term Trading Market. While the report notes that consideration needs to be given to the development of similar arrangements tailored to the specific characteristics of Western Australia's gas market, it makes no recommendations on joint selling.

Given the evidence provided by stakeholders and highlighted in its report, the Joint Working Group's silence on joint selling is highly perplexing. The North West Shelf Joint Venture's joint selling arrangement by its very nature substantially lessens competition.

Under the arrangement, gas customers are forced to negotiate with a single entity and are prevented from dealing with individual JV producers. The arrangement is asymmetrical in that while the sellers can sell jointly, buyers are prevented by the Trade Practice Act from combining to increase their purchasing power.

Joint selling significantly reduces competition by reducing the number of sellers in the domestic market. Instead of six individual sellers competing and negotiating in the market, customers can only deal with one seller.

The anti-competitive impact is further exacerbated by the extreme concentration in gas supply. Given that the North West Shelf JV controls 90 per cent of developed reserves, it has significant ability to influence prices or withhold supplies. The market power of the members of the NWSG is increased by their ownership or control of the bulk of the undeveloped gas reserves on the North West Shelf. The DomGas Alliance strongly urges the removal of joint selling arrangements to encourage competition and supply in the domestic market.

The Alliance further contends that many of the responses identified by the Joint Working Group – such as a Short Term Trading Market – could only arise *after* a competitive domestic supply market is implemented.

¹¹ JWG Report, p.18.

As the Synergies report concluded, short term / spot markets, financial markets, the entry of brokers, etc, are all outcomes that can be expected to arise *when* a market is reasonably competitive. Seeking to put them in place will not create a competitive market when underlying structural characteristics (i.e. the existing joint selling arrangement and extreme concentration in supply) will not support it.¹²

As such, the introduction of a Short Term Trading Market should evolve following removal of the joint selling arrangements and the move to a more competitive market. It should not be used as justification to maintain the existing anti-competitive joint selling arrangements.

Gas quality specifications

The Joint Working Group report supports moves by the WA government to review safety legislation governing the State's gas quality specifications, with a view to aligning them more closely with national standards. The report considers that a broader standard will facilitate access to additional sources of gas supply for the WA market.¹³

DomGas Alliance members are working with producers and gas users to assess alternative solutions to gas quality issues that will improve access of gas for domestic supply. For instance, discussions have been held between Dampier Bunbury Pipeline and BHPB Petroleum over development of the Macedon field. Given the goodwill of the parties involved, these issues are highly amenable to commercial resolution.

It should be noted however that while Macedon production might contribute 100-150 TJ/d to the domestic market, this still represents a substantial shortfall of in gas supply. The ECS report concluded that WA will require almost 900 TJ/day of gas in the next 6 years to meet new and replacement demand.

Recommendation 3 - National Gas Plan / Gas Statement of Opportunities

The Joint Working Group report recommends the development of a national Gas Statement of Opportunities (GSOO). The GSOO can provide a source of information to assist industry participants and other interested parties in their planning and identification of potential investment opportunities, or for policy makers examining projected short and long-term reliability national gas supply.¹⁴

The DomGas Alliance supports the development of a GSOO. A GSOO can facilitate future gas development and policy planning by improving information

¹² Synergies Report, page 57-58.

¹³ JWG Report, p.33.

¹⁴ JWG Report, p.29 and 33.

and knowledge of gas supply and demand, production, contracted volumes and available resources.

In particular, the Alliance supports the recommendation that a GSOO include LNG export demand growth potential and the implications for domestic supply, as well as measures of reliability and supply security.

The Alliance further recommends that assessments of available resources and resource life should take into account factors such as the probability of recovery, barriers to accessing and commercialising resources, gas quality issues and development economics. This would enable a more accurate evaluation of resource availability and life than current assessments of 'abundant' or 'over a hundred years of gas'.

The Alliance notes however that a GSOO would only operate as an information tool to assist decision-making by industry participants and policy makers. It would not, as such, constitute a national gas plan or strategy that would ensure long term competitive gas supply.

The need for a long term energy sustainability vision and policy

The DomGas Alliance is concerned about the absence of a long term gas sustainability vision and policy for Australia. Such a vision is vital for ensuring that appropriate policy responses are developed and implemented. To date, responses have been *ad hoc* and directed only at addressing specific regulatory or market issues as opposed to the long term challenge of gas sustainability.

Accordingly, the Alliance calls for a 2020 Gas Sustainability Vision to guide long term gas policies in Australia. This Vision should identify the desired outcomes and features of Australia's gas supply market for the next 20 years, and the need for appropriate policy responses to meet these objectives.

For example, a 2020 Vision should include the following objectives that in 2020:

- Australia retains a strong manufacturing, mining and processing industry base that continues to provide employment, exports and investment.
- Australia retains a competitive advantage in energy that helps offset increased competition from overseas countries such as China.
- Australia possesses 50 years of gas resources to enable long term investment in new project developments and infrastructure.
- Natural gas supplies 60% of Australia's energy needs, pending the transition to clean coal or other low-carbon fuels.

- The price of gas is fully competitive with other sources of energy such as coal.
- The domestic gas supply market is fully competitive with a range of diverse producers supplying local users.
- The domestic gas supply market has sufficient capacity and flexibility to meet additional or emerging demands for gas as they arise.
- Australia is fully self-sufficient in domestic gas supply and not dependent on imports from high risk suppliers such as the Middle East and Russia.
- A range of different operators are engaged in upstream gas supply activities, including gas producers, gas users and gas infrastructure operators.

This Vision can be further developed by articulating the necessary policies to achieve these objectives.

While market based mechanisms are to be encouraged, all policy responses should be considered

The Joint Working Group report notes stakeholder feedback supportive of market driven approaches to meeting energy demand and that any moves to develop a national gas plan may interfere with efficient market-based outcomes.¹⁵

While the DomGas Alliance encourages the use of market based mechanisms, all policy responses to meeting the current and long term challenge of gas supply should be considered. In particular, non-market mechanisms may be justified in situations where the market has failed or where there is an overriding public policy interest.

This has occurred, for example, on the critical issue of water. Governments across the country have introduced measures to manage the exploitation and use of Australia's scarce water resources. Such measures have only been introduced in recent years, and have been made necessary to address overuse, to better manage diminishing water resources, and to respond to the effects of the drought.

The commitment by Federal, State and Territory Governments to introduce a national emissions trading scheme also represents policy intervention on an area of public importance – the need to reduce greenhouse emissions and respond to climate change. By imposing a price on carbon, an emissions trading scheme can reduce greenhouse emissions in a way that a freely functioning market may not.

¹⁵ JWG Report, p.28.

In relation to domestic gas supply, existing market mechanisms have to date resulted in the situation where:

- WA gas users are unable to secure competitive long term supplies of gas, despite the State being a gas exporter
- WA gas prices have almost tripled over the past 12-18 months, with prices reported for recent gas sales now 2 – 3 times delivered prices in the Eastern States
- major producers engaged in price exploitation efforts to price gas at around \$15 / GJ to prospective WA buyers
- gas prices in the Eastern States are likely to rise by 600 per cent¹⁶
- industry users and electricity generators are being forced to switch to coal with long term consequences for Australia's greenhouse footprint

Furthermore, market based mechanisms have not addressed the risks relating to the depletion of Australia's limited gas resources from expanding LNG exports, or the contracting of production to long term LNG sales.

While the DomGas Alliance welcomes recent announcements of studies for new gas developments, these announcements do not address the long term challenge of energy sustainability.

Nor do these announcements come anywhere near meeting WA's requirement for almost 900 TJ/day in new and replacement gas in the next 6 years – of which, around 650 TJ/day will be required for expansion in electricity generation and new resource development projects.

The DomGas Alliance supports the Western Australian Government's domestic gas reservation policy. Domestic gas reservation has ensured availability of gas supply from the North West Shelf to the State economy since the 1970s. While gas reservation alone would not address the current and long term challenges of gas supply, it recognises the public interest risks from the unrestricted exploitation or contracting out of the State's limited gas resources for LNG exports.

The Alliance notes however that notwithstanding gas reservation, Australia remains one of a very small number of countries that allows unrestricted exploitation of national gas resources by private ownership interests. As the

¹⁶ As the JWG Report notes, it is only the absence of an LNG export market that has maintained gas prices in the Eastern States. Gas prices will be expected to rise with the development of proposed LNG projects, such as Coal Seam Methane in Queensland.

Curtin University report found, over 90% of the world's natural gas resources are directly or indirectly controlled by governments through national oil companies, and are subject to measures that seek to balance exports with domestic supply needs.

Recommendation 4 – Obtaining a better understanding of new market developments

The DomGas Alliance supports the Joint Working Group report's recommendations for further work to understand:

- the potential impact of a national greenhouse gas emission trading scheme
- the potential impact of new export LNG projects in Eastern Australia and export price competition
- the potential impact of technological developments that could result in new markets for natural gas, particularly in transport
- the costs and benefits of different development options – such as the availability of gas for downstream processing or transport use – to better understand the full benefits of utilizing Australia's natural gas resources

These issues go to the heart of the current and long-term challenge of domestic gas supply, and the Joint Working Group's Terms of Reference review the benefits, costs and risks of domestic gas supply and LNG exports for energy sustainability, climate change and economic prosperity.

In the absence of this analysis, the policy responses identified in the Joint Working Group report will not, alone, address the current and long-term challenges of domestic gas supply.

Termination of the Joint Working Group

Given the Joint Working Group has not fulfilled its key Terms of Reference, the DomGas Alliance is perplexed by the report's recommendation that the Group be terminated following acceptance by MCE and MCMR of the Final JWG Report.

The Joint Working Group remains the most appropriate body to undertake or coordinate work on the key issues identified in Recommendation 4 of its report, and to develop appropriate policy responses to ensure that domestic gas supply meets the key challenges of energy sustainability, climate change and economic prosperity.

The increasing importance of domestic gas supply issues also emphasises the ongoing need for a Commonwealth / State / Territory body to develop and coordinate national responses.

It is therefore vital that the Joint Working Group continue its work on domestic gas supply. The DomGas Alliance does not support termination of the Joint Working Group prior to the Group completing this activity and fulfilling its original Terms of Reference.