



SENATE FUEL AND ENERGY INQUIRY

Opening statement, 17 November 2008

- Thank you Chair for the opportunity to address the Committee.
- My name is Stuart Hohnen, Chairman of the DomGas Alliance, in which capacity I appear today.
- I am also Executive Chairman of Dampier Bunbury Pipeline a foundation member of the Alliance.
- The DomGas Alliance was formed in 2006 in response to serious gas supply shortages in Western Australia.
- We represent the majority of the State's gas consumption and gas transmission capacity, including smaller industrial and household gas users.
- We also represent a significant proportion of prospective demand for gas supply.
- The Committee's inquiry has great importance for Western Australia's energy market and indeed Australia's long term energy security.
- Western Australia is the most energy and gas-dependent economy in Australia – and has the highest gas consumption of all the States.
- Natural gas supplies half of WA's primary energy requirements and fuels 60% of the State's electricity generation.

- Demand for natural gas will continue to grow.
- A report by Economics Consulting Services found WA could require over 1100 terrajoules per day of additional gas by 2014-15 to meet new and replacement demand.
- This is equivalent to the total size of the existing market.
- I am pleased to table a copy of the report and the Alliance's media statement for the Committee.
- Ensuring availability and affordability of gas supply is therefore critical for industry and households.
- Western Australia is however experiencing a serious gas shortage with gas users unable to secure long term gas supplies in substantial quantity.
- New power station and project developers are having to look to coal for their fuel requirements.
- Wholesale prices have risen fivefold over the past 18-24 months.
- Prices reported for recent gas sales were around five times Eastern States prices on a delivered basis.
- At current prices, natural gas is no longer competitive with coal for base-load power generation and resource processing, and has forced a number of projects to switch to coal-fired energy.
- This is unlikely to change under an emissions trading scheme.
- At the same time, oil and gas producers continue to expand exports of LNG.
- Despite having just over 2% of the world's natural gas resources, Australia aspires to be the world's second largest gas exporter.

- This raises long term challenges for Australia as we face an energy- and carbon-constrained world.
- It also raises challenges for industry and households with LNG exports in the Eastern States for example expected to lead to significant increases in gas prices for local consumers.
- The Alliance supports a range of policies to deliver greater competition, diversity and security of gas supply, and to balance LNG exports with the long term needs of the local economy.
- These policies include:
 - Strengthening the Retention Lease system to ensure producers do not withhold supply from the domestic market;
 - Removing anti-competitive joint selling arrangements whereby some of the world's largest oil and gas companies sell as a cartel to consumers;
 - Encouraging domestic gas exploration and development through tax and royalty arrangements; and
 - Establishing a 2050 energy security strategy, underpinned by a domestic gas reservation policy.
- These proposals are set out in detail in our submission.
- The Committee has a valuable opportunity through its inquiry to promote competition, diversity and security of gas supply.
- This has become even more important in the current economic environment with industry and households facing immense pressures from falling export prices, demand and employment.
- Ensuring availability and affordability of natural gas, is critical for industry and households, and for Australia's long term energy future.