



SENATE VARANUS ISLAND INQUIRY:

Opening statement, 2 October 2008

- Thank you Chair for the opportunity to address the Committee.
- My name is Stuart Hohnen, Chairman of the DomGas Alliance. I am also Executive Chairman of Dampier Bunbury Pipeline.
- With me is Gavin Goh, Executive Officer 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 WA's gas consumption and transmission capacity, including smaller industrial and household gas users.
- The Varanus Island incident caused significant economic damage to individual Alliance companies and other gas users.
- Many of our members are dependent on Apache Energy for gas supply - the loss of which resulted in severe disruption to operations.
- Those companies that were able to switch to alternative fuels faced significantly higher and unsustainable energy costs.
- The Alliance supports a thorough review to ensure the reliability of the gas supply chain and the adequacy of emergency response mechanisms.

- At a broader level, however, the incident underlines the importance of greater competition, supply and long term energy security.
- Even before the Varanus Island outage, Western Australia was already experiencing a serious gas shortage.
- Gas users are unable to secure long term gas supplies in substantial quantity and wholesale prices have more than tripled over the past 18-24 months.
- Prices reported for recent gas sales are now almost three 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.
- All this raises long term challenges for Australia as we face an energy- and carbon-constrained world.
- LNG exports in the Eastern States, for example, are expected to lead to significant increases in gas prices for local consumers.
- As industries forced by the Varanus Island gas outage to pay diesel prices can tell you, industry and jobs are dependent on competitively priced energy.
- The Alliance supports a range of policies to deliver greater diversity and competition in the gas market, 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 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.
- I believe the Varanus Island incident provides an important reminder of our dependence on competitive and secure energy.
- We must use this incident to put in place strategies to ensure Australia's long term energy future.