



# **Domestic Gas Supply: Meeting the Challenge**

**Stuart Hohnen  
Chairman, DomGas Alliance**

# DomGas Alliance Members



# WA's gas dependent economy

- Most energy-intensive economy in Australia
- Natural gas supplies **half** of WA's primary energy
- Natural gas fuels **60%** of the State's electricity generation
- Significant value added resource processing
- Large users are highly price sensitive



NewGen Kwinana  
combined cycle gas-fired  
power station

# This dependence will continue to grow

- Current domestic gas market is approx. 1000 TJ/d
- 900 TJ/d new and replacement gas needed in next 6 years
  - including 650 TJ/d of new gas
- This represents significant opportunities for gas producers
- **\$23 billion in projects** currently seeking gas in WA
  - 15,800 construction jobs
  - 5,250 permanent operating jobs
  - \$9.2 billion in annual economic output

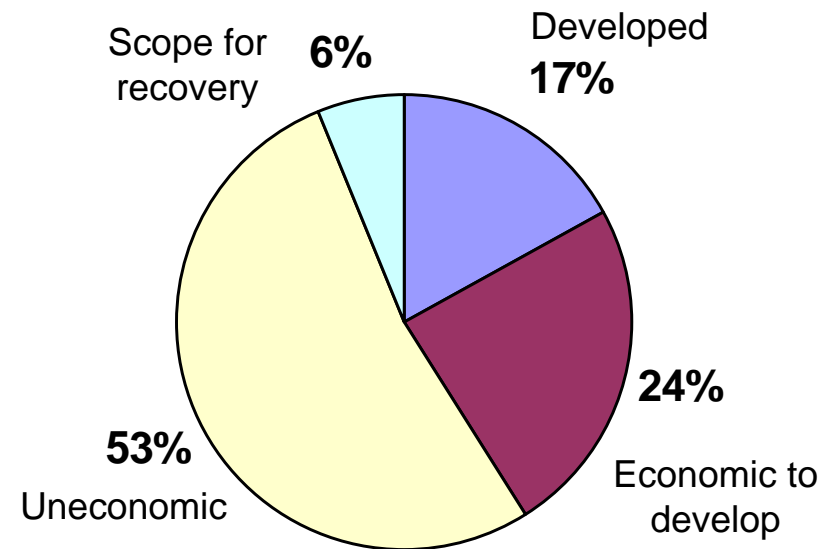
# Current market

- WA users unable to secure long term gas supplies in substantial quantity
- According to press reports of recent contracts, WA wholesale gas prices have **almost tripled**
- Prices reported for recent sales now **almost three times** Eastern States prices on a delivered basis

# Does WA have “abundant” reserves?

- WA has around 120 Tcf of P50 resources – 50% probability recovery
- Only **17%** of resources relates to developed fields – the majority remains “uneconomic”
- WA has **less than 2%** of world gas reserves
- Yet aspires to be the world’s second largest LNG exporter

WA Gas Resources



# Long term supply

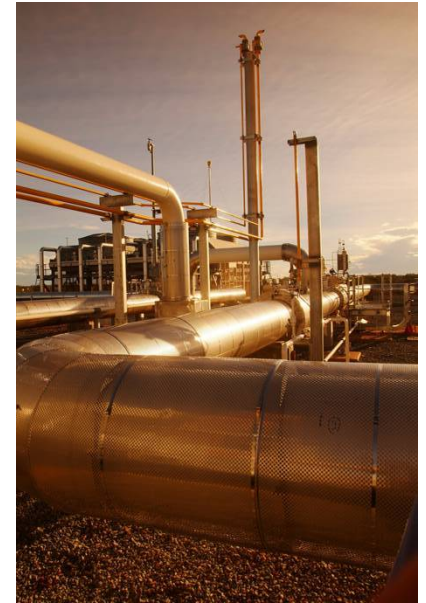
If LNG export targets are met, the bulk of gas  
in the Carnarvon Basin will be  
**fully committed** by 2015-2020

# Domestic gas market

- North West Shelf JV currently supplies two-thirds of the market – Woodside, Shell, BP, Chevron, BHP, MIMI
- North West Shelf Joint Venturers sell jointly into the domestic market
- Apache-led ventures supply the balance:
  - Harriet JV (Apache, Kufpec, Tap)
  - East Spar JV (Apache, Santos)
  - John Brookes JV (Apache, Santos)
- Apache and its JV's have sold jointly and separately

# Prospective new projects

- North West Shelf JV – debottlenecking (100 TJ/d)
- Pluto – Woodside 100%
- Reindeer – Apache, Santos
- Macedon – BHP Billiton, Apache
- Gorgon – Chevron, Shell, Exxon Mobil
- Julimar – Apache, Kufpec




Dampier to  
Bunbury Natural  
Gas Pipeline

# Policy Responses




# Ingredients for a competitive market

- Increased diversity of supply – need to encourage the development of additional fields
  - Use it or lose it approach to discoveries
  - Removal of joint selling – increased number of market participants
  - Level playing field between sellers and buyers
  - Lower barriers to entry – multiple use facilities; domgas specific incentives
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# Stringent review of retention leases

- Retention Leases should not be used to “park reserves” and withhold supply from the domestic market
- Joint Working Group on Natural Gas Supply
- New Federal Minister for Resources and Energy has pushed for stringent review
- Need for greater transparency – current process provides for asymmetry of information that benefits lease holders

# Remove anti-competitive joint selling arrangements

- Joint selling lessens competition by **dramatically reducing** number of sellers
  - Downstream market has experienced significant reform
  - Gas buyers prevented from acting jointly by TPA
  - **Significant concentration** in upstream supply – WA market controlled by two producer groups
  - No public benefit
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# Other responses

- Facilitate third party participation in upstream gas supply infrastructure
- Review tax and royalty arrangements to encourage domgas exploration developments
- Support development of onshore “tight gas”
- Support domgas exploration and development, e.g. through flow-through share schemes

# Climate change implications

- Australia is reliant on gas as transitional fuel to meet greenhouse targets
- At current prices, gas **no longer competitive** with coal for baseload power generation and most resource processing
- Projects now having to resort to coal-fired energy



Gas fired  
cogeneration plant

# Climate change implications

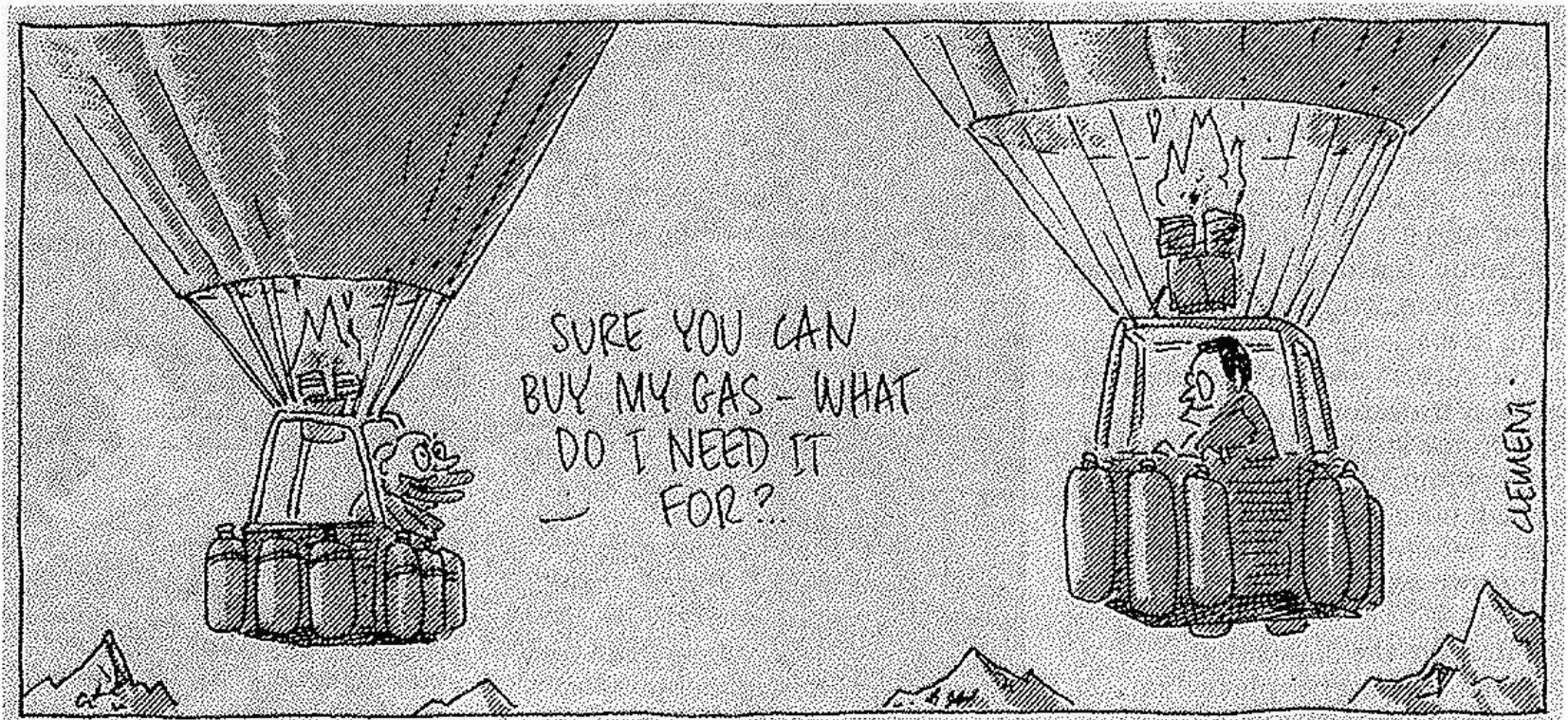
- There would need to be **at least an \$80/tonne** carbon cost for baseload gas fired generation to be viable
- Long term implications for **Australia's carbon footprint**

# Need for 2020 Vision and Strategy

- **Economic** – importance of gas supply for State's mining, manufacturing and process industries
- **Social** – households and local communities dependent on wealth created by downstream industries
- **Environmental** – response on climate change

**This must look at the long term:  
50 – 100 years**

# Focus to date has been exports only





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