



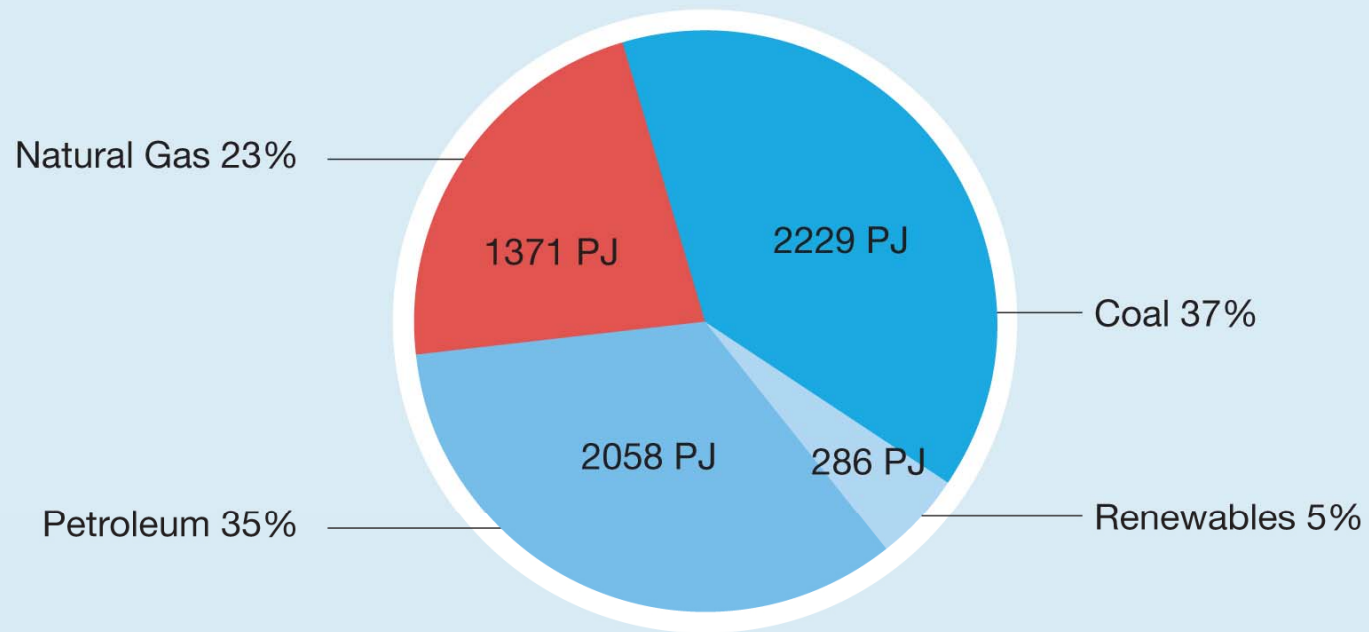
# **The domestic gas challenge**

**June 2012**



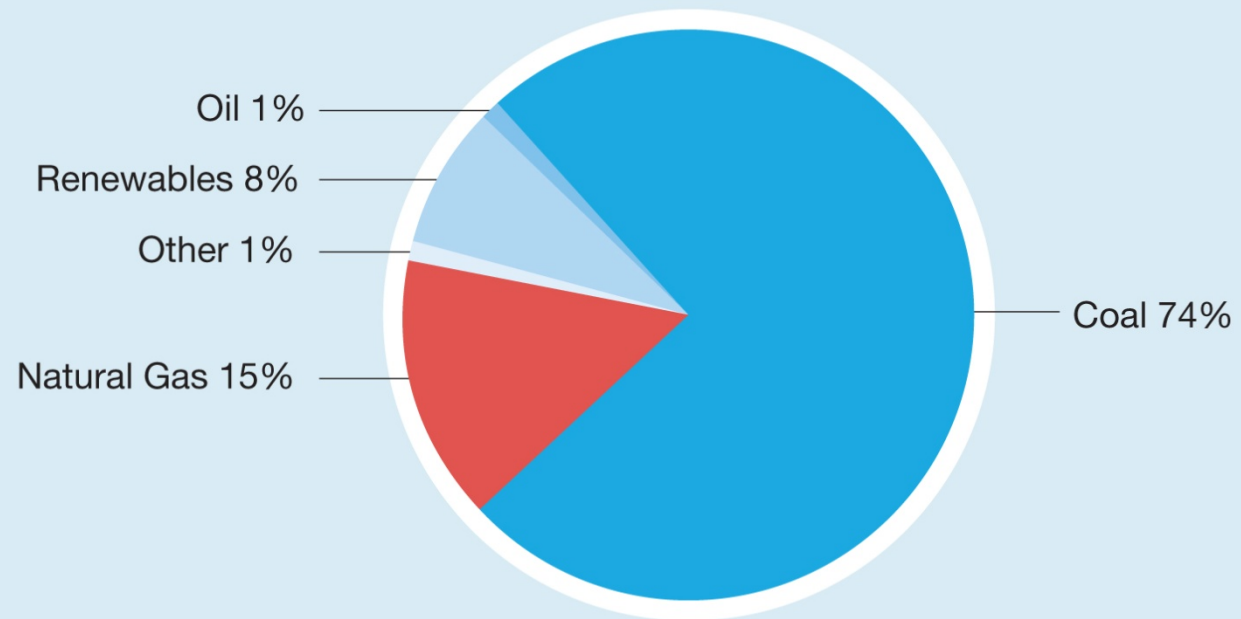


## Australia's energy consumption by fuel



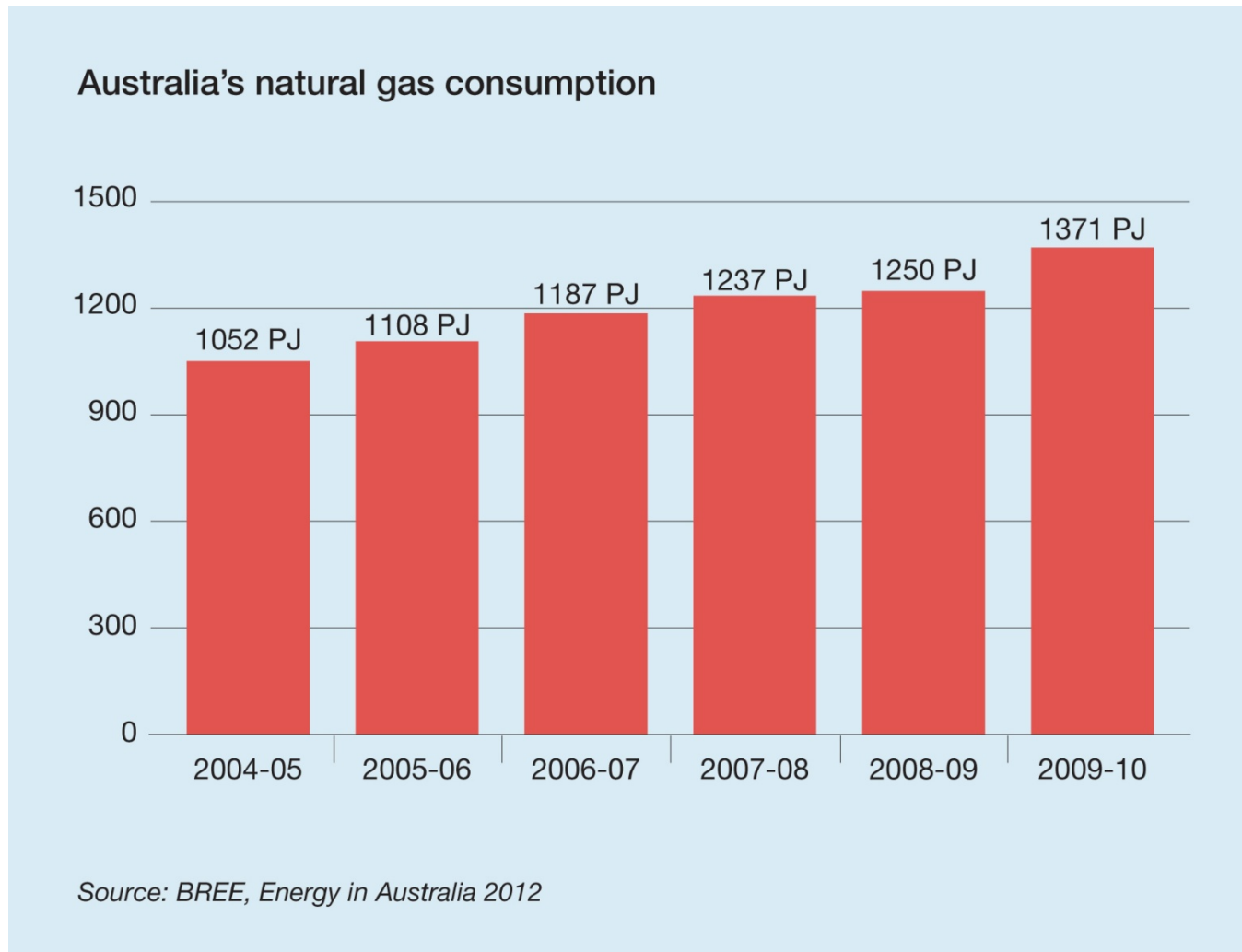
Source: BREE, Energy in Australia 2012

## Australia's electricity generation by fuel

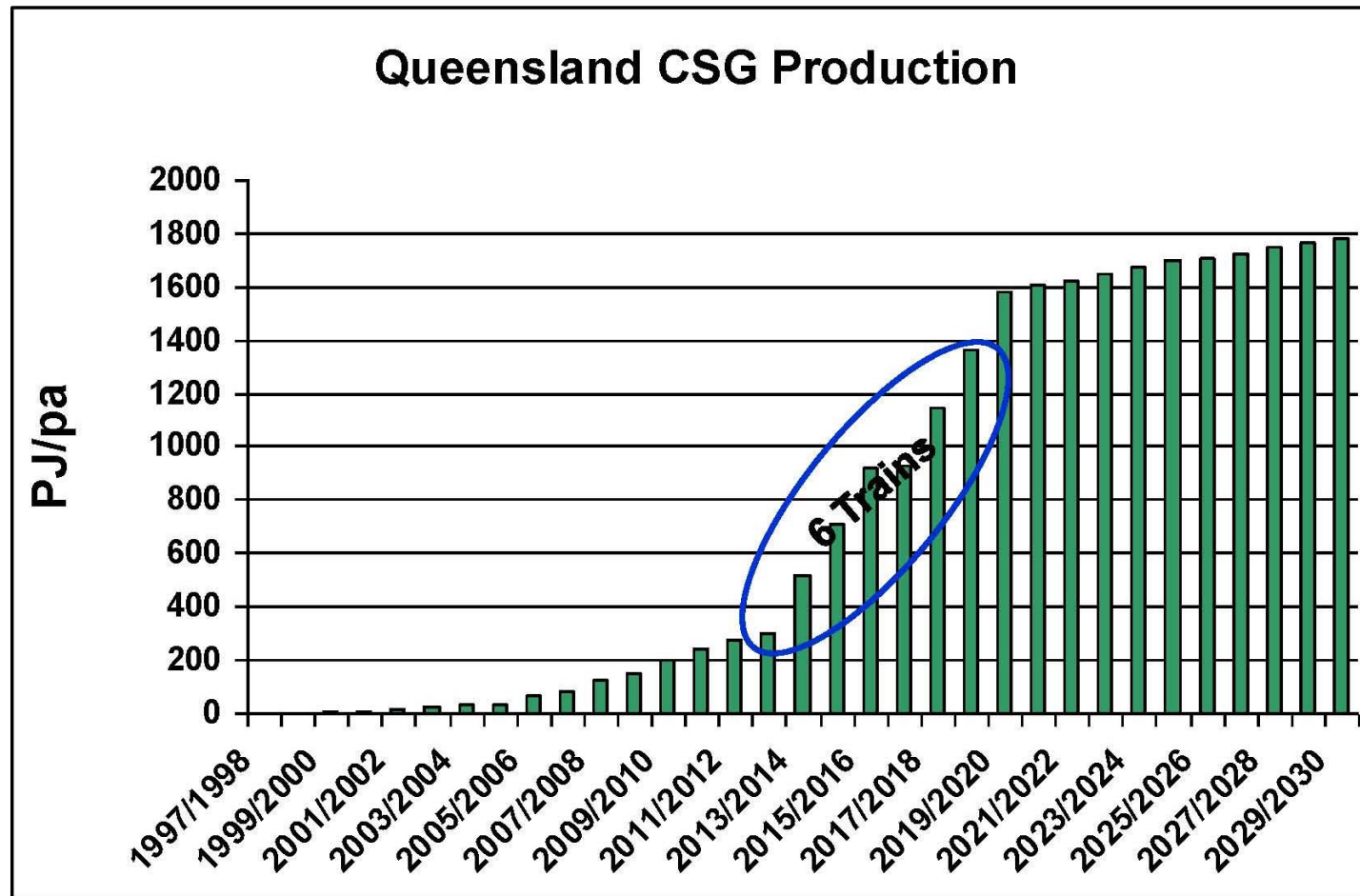


Source: BREE, Energy in Australia 2012

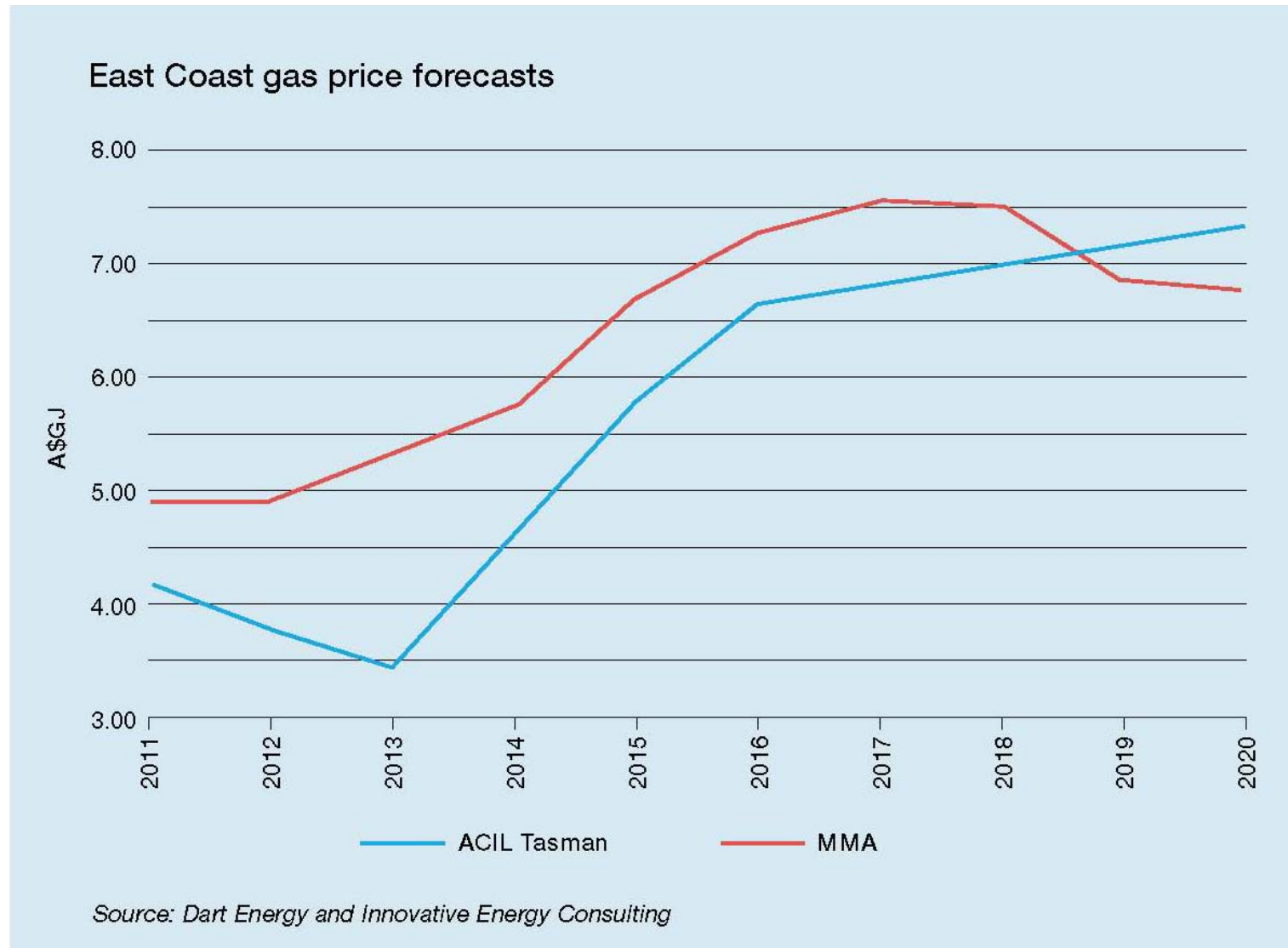
## Demand for gas is growing



## East Coast – massive increase in production needed



# Yet, sharp rise in prices



## **Despite a growth in production ...**

- Australian industry cannot secure long term contracts at affordable prices
- Gas prices have risen sharply
  - East Coast: from \$3-4 per gigajoule → \$6-7 per gigajoule
  - West Coast: from \$2.50 per gigajoule → \$8-9 per gigajoule
- Manufacturing, value-adding and jobs are affected
- The market has failed to deliver





# Impact on jobs and investment

- Dow Chemicals - prices now uneconomic for new chemical manufacturing
- Rio Tinto - cannot secure long term supply for Qld operations
- National Generators Forum - members cannot secure long term contracts
- Incitec Pivot - gas prices mean Australia less attractive than US for \$700 million ammonia plant
- Alcoa – suspends multi-billion Wagerup refinery expansion
- Cement Australia in Gladstone unable to secure gas contract
- Coogee Chemicals – shuts plant because of rising costs
- Wesfarmers Chemicals – gas prices make it uneconomic to invest in new value-adding



## Impact on annual gas bills

	Annual gas consumption (PJ)	Annual gas bill at historical prices	Annual gas bill at new prices	Additional cost
<b>Queensland</b>	199	\$597 million	\$1.2 billion	<b>\$597 million</b>
<b>NSW</b>	155	\$477 million	\$954 million	<b>\$477 million</b>
<b>Victoria</b>	263	\$789 million	\$1.6 billion	<b>\$789 million</b>
<b>South Australia</b>	133	\$399 million	\$798 million	<b>\$399 million</b>
<b>Western Australia</b>	566	\$1.4 billion	\$4.5 billion	<b>\$3.1 billion</b>

Source: Annual gas consumption from BREE, *Energy in Australia 2012*. Domestic gas prices used are: Western Australia \$2.50/GJ historical, \$8/GJ new; Eastern States \$3/GJ historical, \$6/GJ new

## **What are the causes?**

- Most of Australia's gas resources now controlled by the world's biggest oil and gas companies
- Commercial preference to sign multi-billion\$ LNG contracts for foundation customers
- Selling to many smaller Australian companies will not happen voluntarily
- There is no policy outside WA to ensure our energy resources are prioritised to supply Australian industry and households



## Top 20 World Natural Gas Reserves

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*References: BP Statistical Review 2009, PFC Energy "Full IOC Access" countries; Santos, Melbourne Mining Club presentation, February 2010.*

## Top 20 Natural Gas Reserves with Full International Oil Company Access

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*References: BP Statistical Review 2009, PFC Energy "Full IOC Access" countries; Santos, Melbourne Mining Club presentation, February 2010.*

## Top 20 Natural Gas Reserves with Full International Oil Company Access and Unrestricted Gas Exports

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*References: BP Statistical Review 2009, PFC Energy "Full IOC Access" countries; Santos, Melbourne Mining Club presentation, February 2010.*



- Australia is the **only country** where international oil companies can access and export gas without prioritising domestic supply
- It is also the only major gas producing country suffering **serious gas shortages and sharply rising prices as production increases**
- **The market has failed to ensure supply**



## United States and Canada

- US Energy Agency has conditioned LNG exports on gas producers ensuring supply and affordable prices for US industry
- US gas prices around \$2 / GJ, compared to \$6 - 9 in Australia
- Canada requires export permits and export price tests to ensure domestic market is not disadvantaged by gas exports





# Egypt

- Egypt has a 66% reservation policy
- One-third for export, one-third for domestic supply, one-third “to save for our children”
- Egypt accounts for 29% of Apache Energy’s global revenue and 22% of global production (10% and 9% in Australia)



# **A domestic reservation policy is in Australia's national interest**

- Reservation will address market failure and ensure supply
- Leverages Australia's competitive advantage in energy
- Promotes manufacturing and value-adding industries
- Queensland Bligh Government's policy "to set aside future gas fields for future domestic supply if needed" has not worked



# **Reservation is working in Western Australia**

- 15% domestic reservation policy introduced in 2006
- Policy will take effect as new projects to come on-stream
- Wheatstone Project has committed to supply domestic gas equivalent to 15% of LNG production targeting 2016
- Domestic supply will rise over time to 500 TJ/day as LNG production increases to eight LNG trains
- Gorgon Project also includes a domestic supply commitment



## **WA Parliamentary Inquiry**

“In the absence of a gas reservation policy it is unlikely that LNG producers would develop adequate domestic gas processing facilities.”

“There is no evidence to suggest that the state’s current approach to domestic gas reservation obligations has deterred LNG producers from pursuing development opportunities in Western Australia.”

- Report on Domestic Gas Prices, March 2011



## **NSW Parliamentary Inquiry**

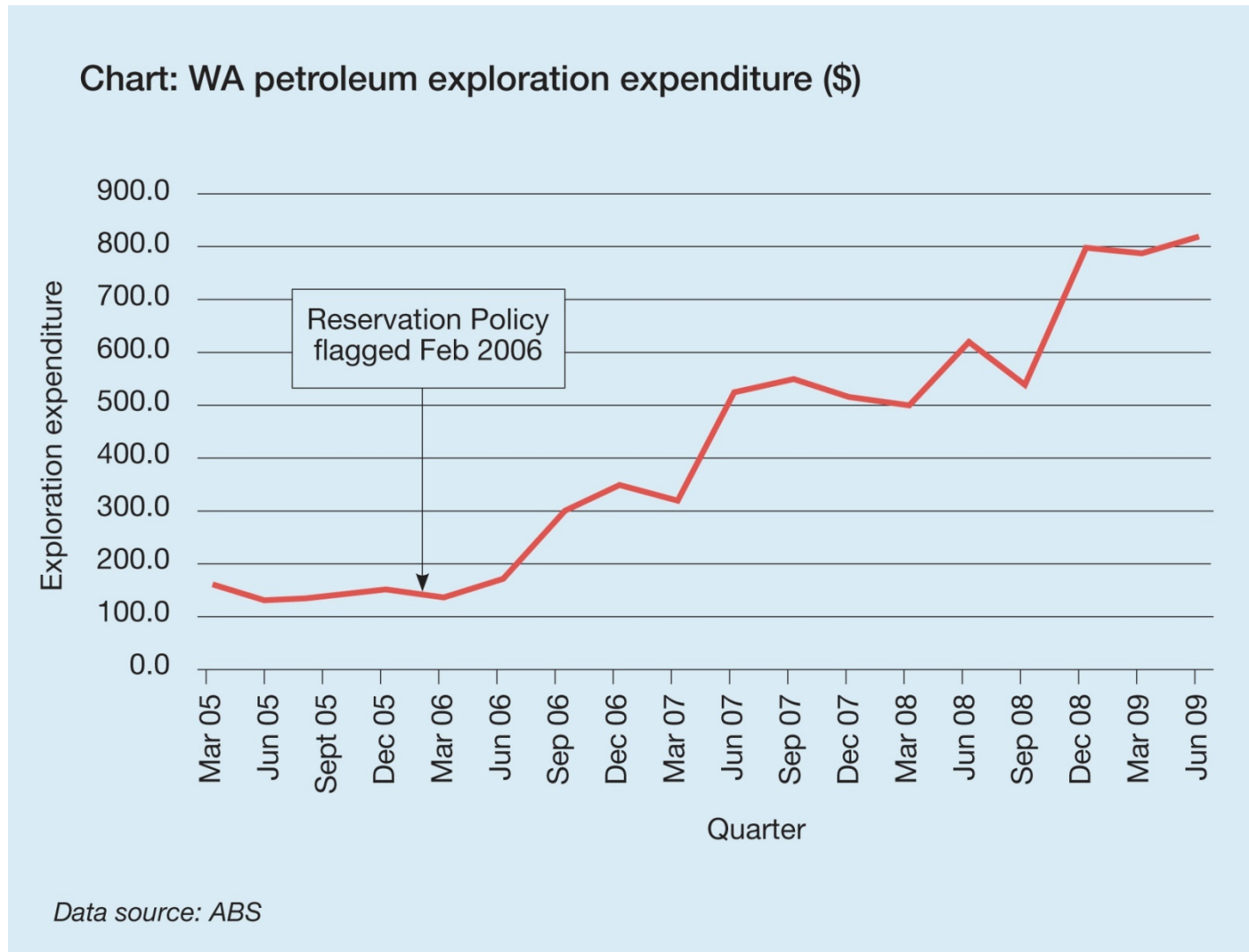
“The Committee recommends that the NSW Government implement a domestic gas reservation policy, under which a proportion of the coal seam gas produced in New South Wales would be reserved for domestic use.”

“Such a policy could assist to contain price increases, enhance energy security, and reduce the State’s dependence on coal for power generation.”

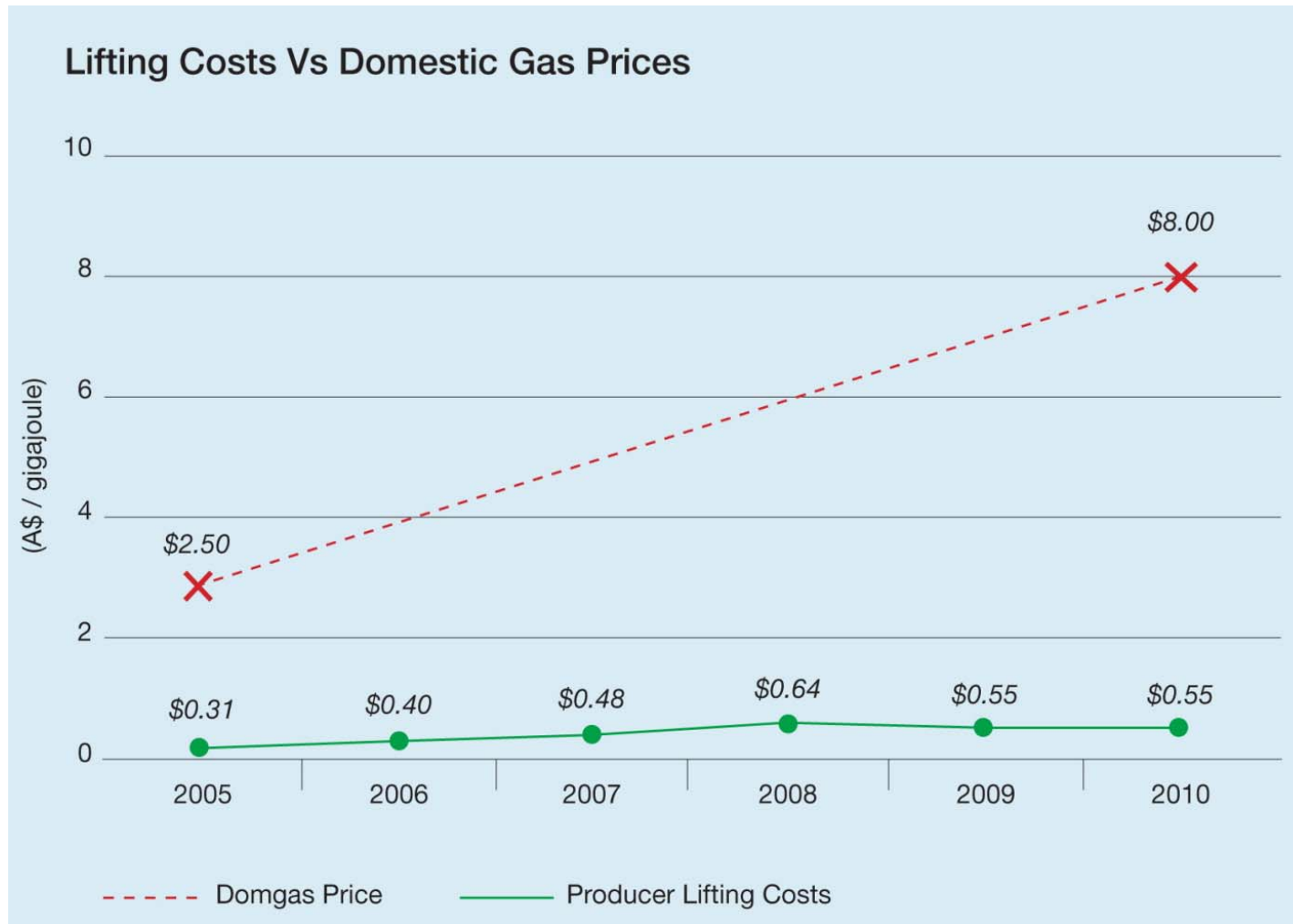
- Report on Coal Seam Gas, May 2012



# Reservation has not discouraged investment in WA



## West Coast – higher prices not justified by costs



Source: Lifting costs from Woodside 2010 Annual Report; includes North West Shelf Project (38.5 MMboe) and Otway (0.9 MMboe); Conversion factor 1 boe is approx. 6.1 GJ

# Conclusion

- A domestic gas reservation policy is in Australia's national interest
- It will ensure supply and put downward pressure on prices for manufacturing, value-adding and jobs
- Reservation works in practice and will not discourage new gas developments







**DOM GAS  
ALLIANCE**

