

Background

In NSW more than one million family homes, 33,000 businesses and 300,000 jobs rely on natural gas as a source of energy. With the commercial and industrial sector currently making up around 48 percent of total gas consumption in NSW, reliable and competitively priced natural gas is essential for a strong NSW economy.

Currently, more than 95 per cent of this natural gas is imported from other states. Without new natural gas development, NSW will become wholly reliant on gas imported from other states and LNG import terminals in 2023 when production from AGL's existing Camden Gas Project is scheduled to end.

Since submission of the Narrabri Gas Project Environmental Impact Statement (EIS) in 2017 there have been significant changes in the east coast domestic gas market. This paper provides an overview of the current state of the market and confirms the positive role the Narrabri Gas Project could play in providing competitively priced gas for NSW gas customers.

Changes in east coast domestic gas market

Since submission of the EIS the east coast domestic gas market has seen a tightening of supply and increased pressure on prices. This is consistent with the look ahead presented in Chapter 3 of the EIS.

The Australian Energy Market Operator (AEMO) prepares an annual Gas Statement of Opportunities (GSOO) which reports on the adequacy of gas supplies to the east coast domestic market over a 20 year time horizon. The report is based on AEMO's projections for demand and information from gas producers about reserves and forecast production. It represents the best available information on future gas market conditions.

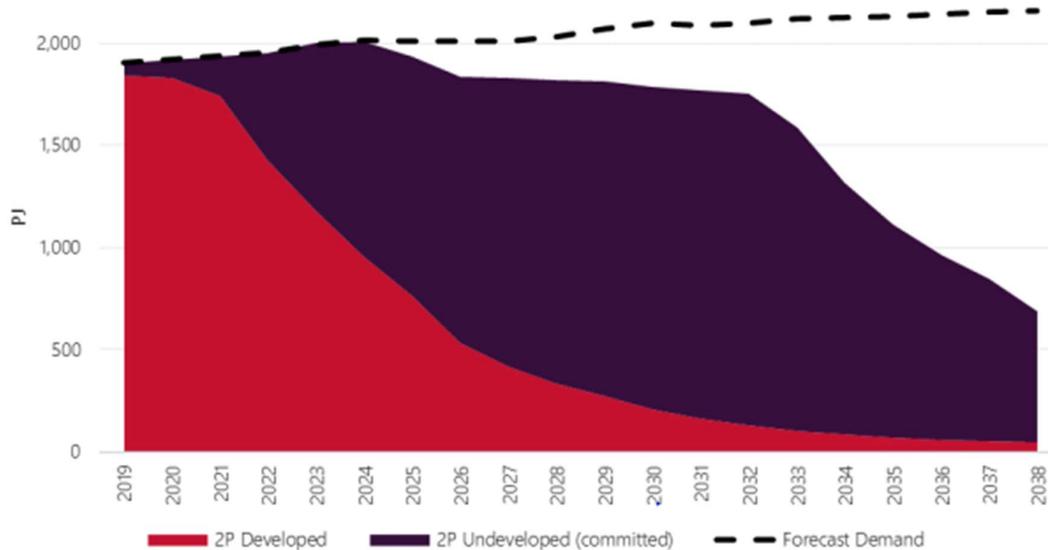
The 2019 GSOO confirms the gas supply-demand balance in the east coast gas market remains tight. However, supply from existing and committed gas developments is forecast to be sufficient to meet demand until 2023. Nevertheless, even in the short-term, declining production in Victoria will reduce volumes of surplus gas that can be exported to NSW and increase the reliance of NSW on gas supplies from Queensland.

From 2024 onwards, AEMO forecasts potential supply gaps unless additional reserves and resources, or alternative infrastructure, are developed in the southern states. Factors contributing to these potential supply gaps include:

- + A reduction in reserve estimates from gas developments in Victoria and the associated forecast decline in production from these gas fields over the next 20 years.
- + Pipeline capacity constraints will limit the transport of gas from Queensland to the southern states including NSW, particularly during winter when gas demand is highest.
- + While the Northern Gas Pipeline is now in operation with gas flowing from the Northern Territory to Mount Isa, the pipeline capacity constraints referred to above will also limit any volumes of gas from the Northern Territory reaching the southern states.

Chart 1 below shows the extent of the supply shortfall should only existing and committed gas developments proceed.

Figure 2 Projected eastern and south-eastern Australia gas production (export LNG and domestic), 2019-38; supply from existing projects and committed developments



It is clear from AEMO’s forecasts above that new sources of supply are required in the medium term to ensure ongoing reliable gas supply in NSW. These new sources of supply will also be critical to supporting the families, businesses and jobs that rely on a safe and secure supply of natural gas.

The Australian Competition and Consumer Commission (ACCC) has also been directed by the federal government to conduct an inquiry into the supply of and demand for wholesale gas in Australia. Reports published as part of that inquiry since 2017 and as recently as August 2019 have also recognised the need for additional sources of gas supply to ensure adequate supply and put downward pressure on prices.

Speaking at the 2019 APPEA Oil and Gas conference in May 2019, Rod Sims, Chair of the ACCC, said “the best way to avoid potential looming shortages flagged by AEMO is to bring on additional supply by accelerating investment in gas exploration and development”. In its most recent report, the ACCC also noted that it has long advocated for an increase in supply and diversity of suppliers, particularly in the southern states.¹

Support for new supply

In addition to the work government agencies have done highlighting the need for additional gas supplies to support demand in the southern states, peak industry bodies representing major natural gas users also continue to call for development of natural gas new reserves. Examples of recent statements are presented below.

¹ <https://www.accc.gov.au/system/files/Gas%20inquiry%20July%202019%20interim%20report.pdf>

+ **Business Council of Australia** – August 2019²

The link between more supply and lower prices is clear. We welcome the federal government's call for the states and territories to lift their unscientific moratoriums on gas reserves. Opening up supply on the east coast, particularly in Victoria and NSW, is critical to driving down domestic gas prices.

+ **Chemistry Australia** – August 2019³

We also support increasing the supply of gas through the removal of restrictions on gas development in Victoria and NSW, so that there is sufficient gas available in the markets where the gas is used.

+ **Manufacturing Australia** – December 2018⁴

More supply, more suppliers, and more domestic-only tenements will be needed to solve Australia's East Coast gas crisis and underpin future investment in Australian manufacturing.

In addition, individual manufacturers are very interested in sourcing gas from Narrabri because they recognise the advantages of having a reliable and competitively-priced source of gas in NSW.

Santos has already signed non-binding memoranda of understanding with Brickworks and Weston Energy for the supply of Narrabri gas to commercial and industrial customers across NSW. Further, Santos has entered into a memorandum of understanding and subsequent heads of agreement with Perdaman, a fertiliser producer looking to locate a new plant in Narrabri should the Narrabri Gas Project be approved.

Price of natural gas

Both the ACCC and the AEMO have acknowledged the importance of additional sources of gas supply in putting downward pressure on gas prices.

Peak bodies such as the AI Group have also noted that "continuing higher gas prices are a major threat to the viability of a wide variety of Australian industries as well as to household budgets".⁵

Increasing gas prices have resulted from a range of factors including:

- + Natural decline in the Gippsland Basin gas fields, combined with lack of exploration success to replace reserves.
- + Increased cost of supply as new reserves are less easily accessible. That is, increasing levels of investment are required to keep the same amount of production.
- + Delayed development of new gas supplies between 2014 and 2016 when there was a

² https://www.bca.com.au/gas_measures_a_step_in_the_right_direction

³ https://chemistryaustralia.org.au/news-events/chemistry_australia_welcomes_gas_market_reforms

⁴ <http://manufacturingaustralia.com.au/news/news-releases/manufacturing-australia-statement-on-accg-gas-market-report/>

⁵ <https://www.aigroup.com.au/policy-and-research/mediacentre/releases/higher-gas-prices-20Dec/>

significant drop in the oil price.

- + Regulatory impediments to onshore gas development including the ongoing moratorium on onshore gas development in Victoria.
- + For NSW gas users the cost of gas transportation from interstate.

However, the only sustainable, long-term solution to east coast gas is bringing on new sources of gas supply to provide more competition and put downward pressure on prices. Importantly, Santos has committed to making 100 percent of Narrabri gas available to the domestic market and would be willing to accept a condition of approval to that effect.

In its 2019 report, the ACCC noted that “ultimately, more low-cost supply is needed in the southern states to put downward pressure on gas prices”. The ACCC has stated that gas customers in southern markets pay \$2 to \$4 per gigajoule more than they would if gas was developed locally and didn’t need to be transported from Queensland or South Australia.

Since submission of the Narrabri Gas Project, an LNG import terminal has been approved for Port Kembla in NSW and other import terminals are proposed.

While import terminals may add supply to the market, imported gas will not be cheaper than gas developed within NSW. This is confirmed by the 2019 GSOO report which stated, “continued interest in LNG import terminals, particularly in Victoria, New South Wales, and South Australia, would be expected to help relieve pressure on meeting southern gas demand during peak periods and assist in reducing pipeline constraints, but may do little to ease gas pricing pressures”.

The NSW Business Chamber has also called for NSW to develop its own gas reserves in addition to the gas import facility proposed for Port Kembla noting that, “(there is) a 20% to 40% price premium on every gas bill across the state because NSW has to rely on other states and territories to supply us with natural gas”.⁶

Finally, potential customers have also recognised that the Narrabri Gas Project will produce competitively priced gas. As well as reducing transport costs, Santos will bring to Narrabri its experience in Queensland where we have reduced connected well costs by 84 per cent since 2015. Keeping the cost of supply down will in turn keep gas prices down.

Mr Vikas Rambal, Perdaman Group’s Founding Chairman and Managing Director stated earlier this year that, “the cheapest gas for manufacturing projects like ours is always going to be available close to the supply source so you don’t have to pay for long-distance transport and unnecessary processing”.

The location of Narrabri with nearby access to the new Inland Rail linking key east coast ports and the national highway system is also attractive to manufacturers looking to establish operations in the region.

⁶ <https://www.nswbusinesschamber.com.au/Media-Centre/Latest-News/April-2019/GAS-SECURITY-ESSENTIAL-FOR-NSW>

Conclusion

Consistent with the information provided in the original EIS, there remains a strong case to support development of the Narrabri Gas Project. The quality of the resource, its proximity to sources of demand and its position as the only current potential source of local supply in NSW, make the Narrabri Gas Project important for NSW and the broader east coast domestic gas market.