Hunter Gas Pipeline

ACN 108119544

PCU070860

Department of Planning NSW
Level 22, 320 Pitt Street
Sydney NSW 2000

Department of Planning
Received
19 MAY 2017
Scanning Room

16 May 2017

Dear Sir,

HUNTER GAS PIPELINE SUBMISSION TO PROPOSED SANTOS GAS PROJECT AT NARRABRI

This submission is made by and on behalf of Hunter Gas Pipeline, an Australian owned company with an approved gas transfer pipeline between the Wallumbilla area in Queensland and Newcastle in NSW. In NSW, the pipeline will traverse the Moore Plains, Narrabri, Liverpool Plains, Upper Hunter, Muswellbrook, Singleton, Port Stephens and Newcastle Local Government Areas. (See attached map 1)

We have a direct interest, to the social, economic and environmental benefits of the NSW industry and the State broader community, to ensure a secure, sustainable, affordable and competitive supply of natural gas to the NSW east coast and specifically to its growing regions, cities and towns. We submit that in the context of the Santos proposed Narrabri Gas Project, that our approved pipeline is the only viable and ready to use vehicle to achieve those outcomes.

In 2009 and as the result of an extensive Environmental Impact Assessment and community consultation process, we were granted project approval for the pipeline with a substantial commencement of within 10years, given the time uncertainties with the Narrabri Gas Project progressing. We note that our terms of approval states that we do not require any further environmental assessment. Given that now Santos has submitted its project application for its Gas Plan, we are now in the process of activating the substantial commencement and construction to have the pipeline ready in times should the Narrabrai Gas Project proposal be granted planning approval.

The Urgent Need to Secure Reliable and Affordable Gas Supply for NSW

It is well established by evidence and trends that shortage in gas supply in the NSW domestic market is emerging with significant implications to higher pricing with ensuing social and economic implications. As importantly there are fundamental security of supply issues threatening the reliability of supply including:

- Some 95% of NSW natural gas supply is sourced from other states (outside the control of NSW)
- Supply is long distanced from Bass Straight and the Cooper Basin
- There are significant infrastructure constraints with limited pipeline capacity and alternative competition

Hunter Gas Pipeline Pty Ltd
PO Box 5523
W Chatswood NSW 1515

The resultant outcomes are domestic shortages worsening, particularly in light of population growth and increasing demand, and upward pressure on prices to industry and consumers. (See attached graphs 2&3).
There is no doubt that securing an adequate and sustainable domestic gas supply is of an immediate priority. Hunter Gas Pipeline advocates an immediate proactive response.

The Santos Narrabrai Gas Project Must be in Public & Community Interest

We have examined the Environmental Impact assessment associated with the proposed gas project at Narrabri, and we believe it addresses relevant site specific environmental and amenity issues. Whilst we appreciate that the proposals are the subject of independent evaluation and considerations of issues raised by the community.
We are of the view that a key aspect of the assessment and as applicable to the approval should ensuring **statutorily and beyond doubt** that the gas produced by the project should feed the NSW domestic markets and contribute to facilitating industry growth particularly in the region, and ease supply shortfalls and price pressure. This we submit is an essential test of meeting the public interest test of the approval requirements in NSW.
Santos states in its Environmental Impact Statement that the gas will be made available to the NSW market 'via a high-pressure gas transmission pipeline which would connect to the existing Moomba to Sydney gas pipeline '. It also states that the pipeline is not part of this current approval.

Hunter Gas pipeline is strongly of the view that the Santos proposals do not meet the public interest test as per the above, and specifically given that:

- Santos has previously made similar commitments in its 2009 Environmental Impact assessment for an LNG plant and did not fulfil those commitments. See (attachment 4) extract from 2009 GLNG EIS where Santos gave undertakings that it would not draw gas from the Domestic Market, yet it has been some 60% of its GLNG gas exports from the Domestic Market (see attachments 5&6). The assessment and decision making should not and could nor rely on such vague, unreliable and untested statements.
- The contemplated Santos pipeline has yet to undergo a planning approval process as well community consultation. Its environmental, amenity and community acceptance credentials are yet to be established if at all.
- The approval of the gas project will be as a minimum perceived as pre empting the approval of the pipeline without proper planning assessment consideration, affecting the credibility of the process.
- More importantly, the Santos pipeline approach contravenes a basic tenor of the NSW Planning and Assessment regime, that **alternative and feasible alternatives should be considered.** The approved ready to go Hunter gas Pipeline is clearly an alternative that can deliver the public benefits without the uncertainties, community costs in terms of amenity and environmental impacts associated with an unnecessary alternative pipeline. In addition, the Hunter Gas Pipeline will deliver better and more value adding outcomes to regional NSW (see attached map1).

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The Hunter Gas Pipeline must be considered as an integral component of any approval for the Narrabri Gas Plant

Hunter Gas pipeline strongly submits that approving the Santos Narrabri Gas plant in isolation will not be in the public interest unless it is demonstrated and guaranteed without doubt that the plant will supply the domestic NSW market through an established available mechanism. Past undertakings and practices demonstrate the failure of gas producers including Santos to provide such public benefits.

The approved pipeline must, for procedural and merit base validity be considered as integrated as an essential component for the Santos Narrabri project , otherwise its approval is of little benefit to the community of NSW .

The urgency of project development within a reasonable time

Due to the urgent need for gas for NSW homes and businesses, together with the need for gas to underpin the electricity grid in times of high demand, it would be prudent to condition the development of the Santos Project to commence supplying gas within a reasonable time. Timelines with "use it or lose it" conditions in order to encourage timely development and supply to the Domestic NSW Market should be applied to this project.

We wish to confirm that Hunter Gas Pipeline Pty Ltd has not made any political donations in the last 8 years.

Should you have any questions or queries please do not hesitate to contact me.

Yours faithfully,

Garbis Simonian

Managing Director

Mobile: 0414273334
Email: gsimonian@westonal.com.au

Hunter Gas Pipeline

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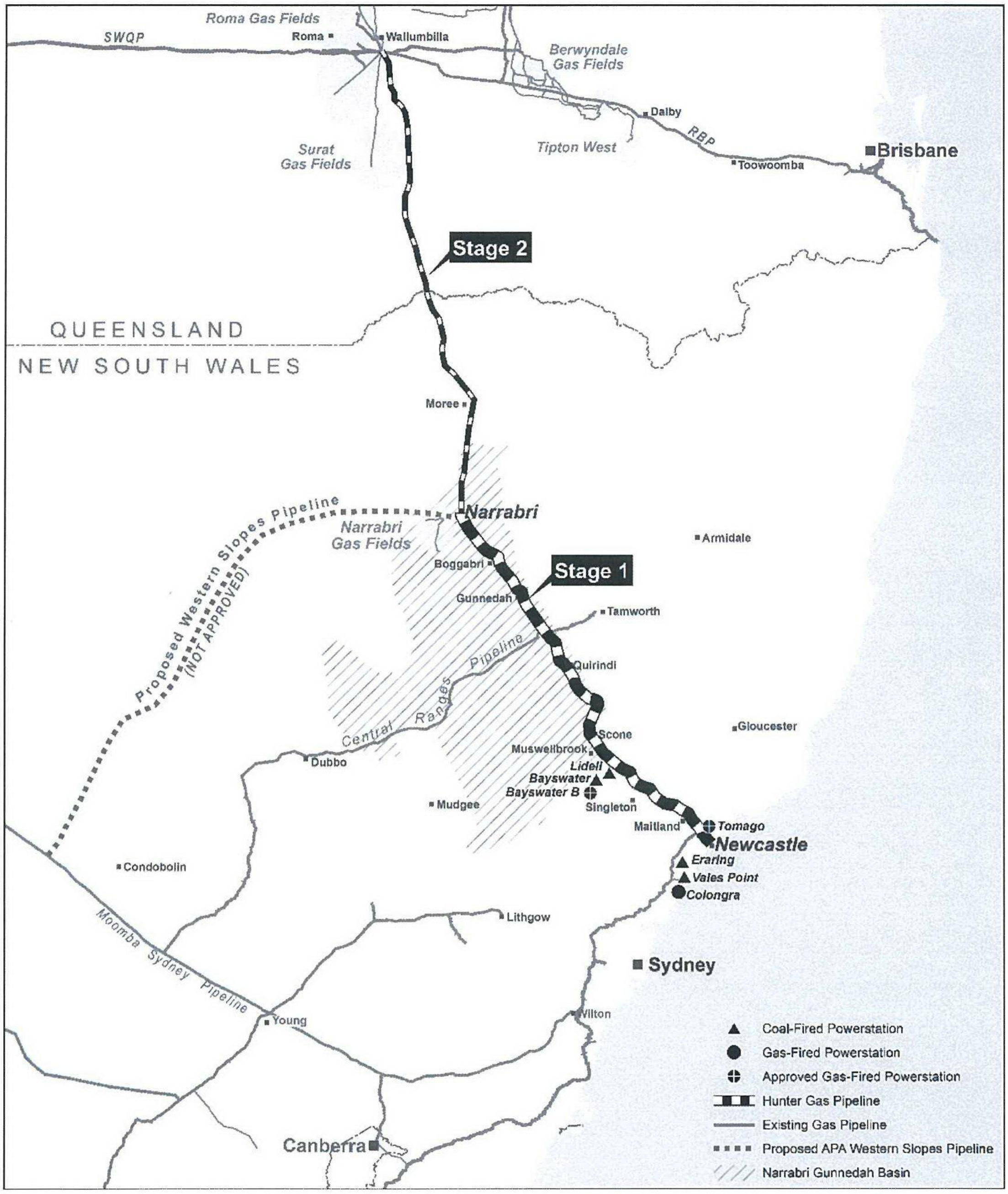
Attachment 1



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W Chatswood NSW 1515

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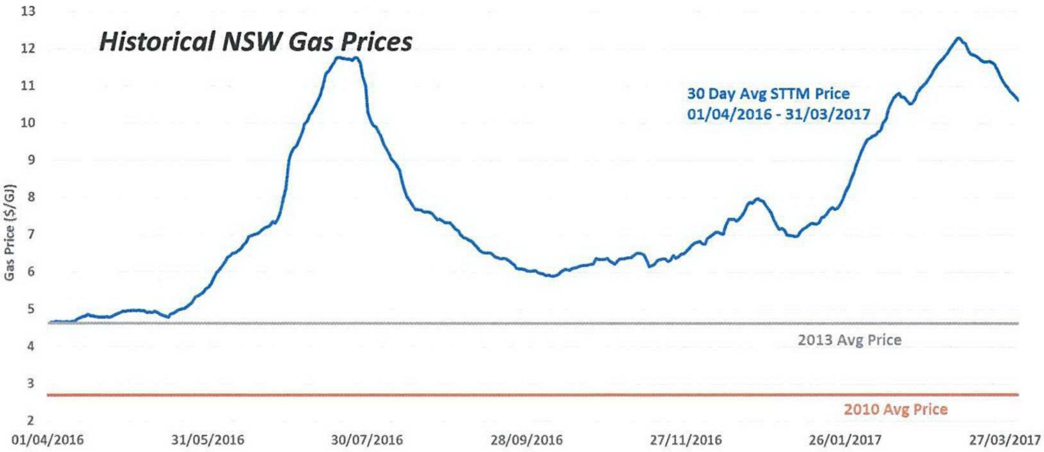
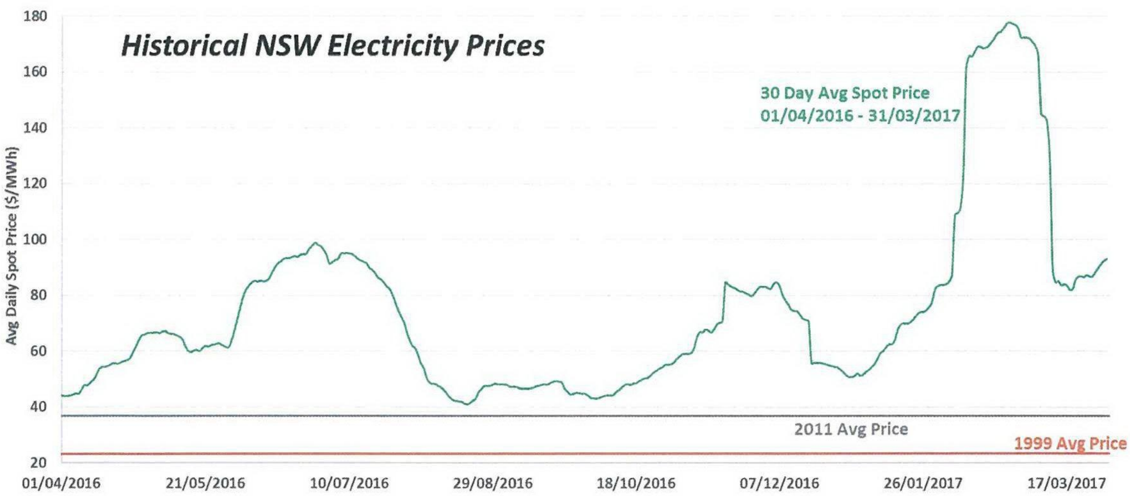
Attachment 2



Attachment 3



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Attachment 4

Coal Seam Gas

The CSG industry has undergone a significant transformation in the last twelve years, with rapid increases in supply, particularly in Queensland (see Figure 6.15.3). There has been much activity among the companies actively exploring and developing new CSG reserves. Mergers and acquisitions have resulted in many of the smaller companies being purchased by larger ones, with the three largest companies, Origin Energy, Santos and BHP Billiton accounting for over 60 % of total CSG production (Australian Energy Regulator, 2007).

Source: Australian Energy Regulator, 2007.

Figure Error! No text of specified style in document..**1 Australian Coal Seam Gas Production (1996 – 2006)**

Domestic Gas Market Developments

By 2004-05, CSG already accounted for over 60 % of Queensland's gas market, a total of 49 PJ. Combined CSG production in Queensland and NSW was 58 PJ in 2004-05, but by 2007 had already reached 113 PJ (Robertson, 2008). By 2029-30 CSG production is predicted to reach 529 PJ, an increase of 469 % on 2007 production (ABARE, 2007).

Companies involved in CSG are rapidly developing projects to extract and distribute CSG in order to meet growth in gas demand. Other key players already in production include Origin Energy, Arrow Energy and the Queensland Gas Company.

Origin Energy has CSG projects in the Peat, Spring Gully, Fairview, and Walloon fields, and has large areas under exploration. Around 70 % of its proven and probable reserves are CSG (Origin Energy, undated).

Arrow Energy is producing over 80 terajoules of CSG per day from its operations in the Daandine, Kogan North, Moranbah and Tipton West gas fields. It has already built one power station to run on CSG at Daandine, and another, Braemar 2, is in development (Oil and Gas Gazette, 2008).

The Queensland Gas Company has operations in the Berwyndale South gas field, providing CSG to the Swanbank E and Braemar power stations, an operation in development at the Argyle-Kenya gas field, and more exploration sites. Future projects being investigated include several power stations and a gas pipeline from the Surat Basin to New South Wales (Queensland Gas Company, 2008).

Molopo Australia Limited is producing CSG from two production licences located in the Mungi gas field, and has authority to prospect over almost 2,000 km^2 more (Molopo Australia Limited, undated).

Export CSG Developments

In addition to the development of CSG fields to supply domestic gas markets, there are a number of projects either committed (in one case) or under consideration that involve the export of LNG produced from CSG. All of these proposals for Queensland are large scale projects. Aside from this project, the other projects are:

> Gladstone LNG Pty Ltd and Arrow Energy are considering the construction of an LNG facility based on coal seam capacity with an initial export capacity of 1.5 Mtpa. Initial exports are envisaged by the project proponent to commence in 2011. A second phase of the project will raise production capacity to 3 Mtpa.
>
> The Queensland Curtis LNG: QGC and BG Group are studying a proposal for an LNG production facility to process coal seam gas. Production is envisaged to be between 3 and 4 Mtpa initially, subsequently increasing to 12 Mtpa.
>
> The Project Sun LNG facility is a joint venture involving the Sojitz Corp and Sunshine Gas Ltd. The proponents are studying a proposal to construct an LNG facility with an initial production capacity of 0.5 Mtpa, subsequently increasing to 1.5 Mtpa. The proponents intend to commence construction in 2009 with production commencing in early 2012.
>
> Origin and ConocoPhillips are also proposing an LNG production facility to process coal seam gas. This involves a 50/50 joint venture with Origin operating the CSG fields and ConocoPhillips operating the LNG facility. Phase 1 of the project will involve the construction of two 3.5 Mtpa LNG trains. A second phase involving the construction of two more 3.5 Mtpa trains will take project production capacity to 14 Mtpa. Production is planned to commence in 2014.
>
> The Southern Cross LNG Project (LNG Impel) is a somewhat different proposal. It involves the development of an open access LNG terminal of up to 3.5 Mtpa capacity with an initial 1.3 train to be completed by 2013.

In the event that all of these projects were to proceed along with the GLNG Project, at full capacity they will have a combined production and export of LNG of 44 Mtpa. This compares with Australian exports of LNG in 2007 of 15.2 mt.

Impact on domestic gas market and prices

The growing demand for gas has, and is expected to continue to, place upward pressure on domestic gas prices. Eastern Australia domestic gas prices have already increased from around $2.60/GJ in 2000-01 to around $3.90/GJ in 2007-08 (VENCorp average spot market price). This is an increase in real terms of 2.7 % per annum. However, there is now considerable debate regarding future increases in the forward price, because of the expected increases in supply from the vast CSG resources in Eastern Australia.

Various market analysts have considered demand[1] , supply and cost factors and have put forward gas price forecasts for Eastern Australia. Forecasts from several of the most recognised market analysts presented in Figure 6.15.4 (Data compiled by Santos). The majority view seems to be that gas prices will increase from the current level of around $3.50/GJ to between $4.00/GJ and $6.00/GJ (ex-field) in the longer term.

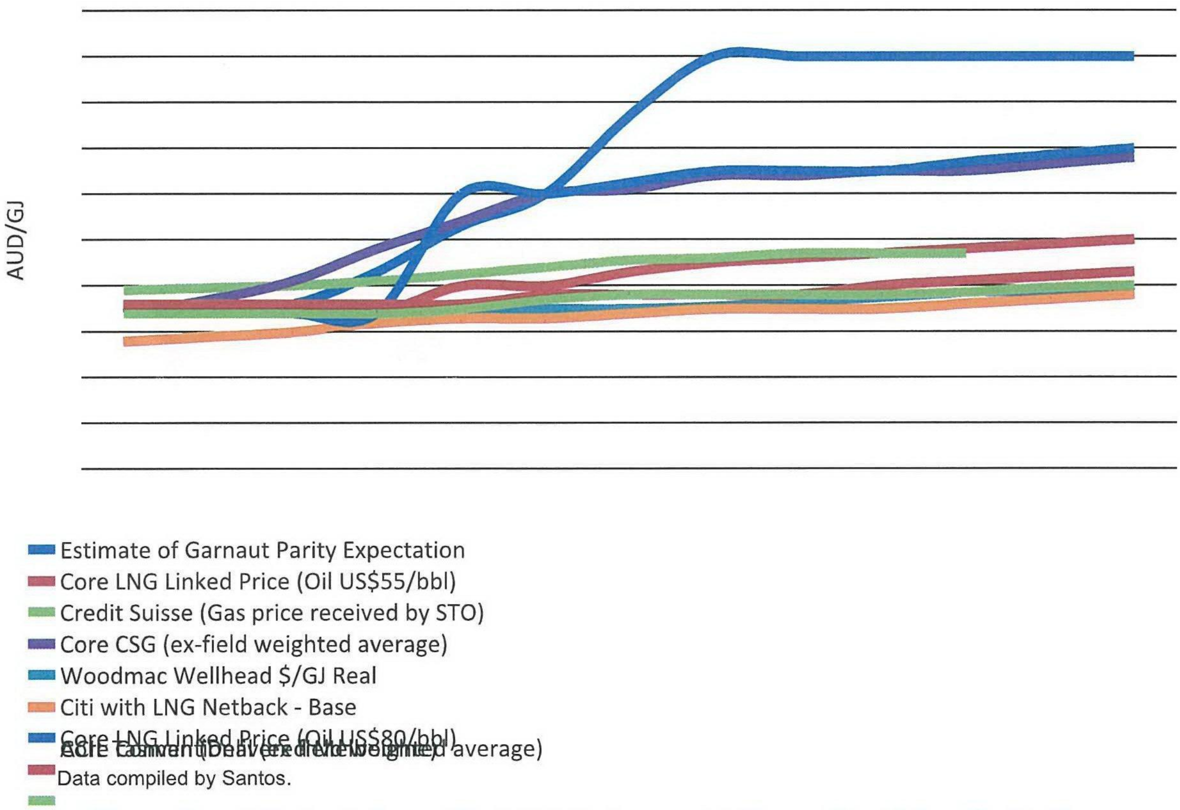

Figure Error! No text of specified style in document..**2** **Gas Price Projections**

EnergyQuest (2008) state that CSG fields reserves and resource estimates, more than conventional Australian fields, are sensitive to gas price assumptions. Currently proven and probable (2P) reserves in Eastern Australia comprise nearly 20 Tcf, with CSG accounting for approximately 59 % of this reserve. In 2000, CSG accounted for only 3 % of 2P reserves. As gas prices increase and market opportunities grow, more of Australia's contingent and potential resources will become economic.

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[1] Including demand for power generation and for LNG exports projects, such as Santos' GLNG Project.

The consensus view is that there is likely to be greater than 250 Tcf of gas in place in Eastern Australia (excluding conventional gas). This volume will meet demand for the next approximately 100 years, including LNG, power generation and domestic requirements. At some potential gas price, and with a sufficiently large market, all of the recoverable resource in Eastern Australia will become available. One of the key factors in determining the potential price is the cost at which CSG can be brought online to satisfy the growing demand. Morgan Stanley (2008) estimate that industry-wide operating and development costs for CSG are in the order of $2.20/GJ to $2.70/GJ, however as resource quality declines and recovery becomes more difficult, these costs are expected to increase, notwithstanding any technological break throughs.

The project may initially supply domestic gas markets, but it is not diverting gas from local markets to export markets. The project's supply of gas to the domestic market is uncertain at this stage. Options to manage ramp up gas and any gas that is surplus to the requirements of the LNG facility include a range of commercial and technical possibilities. Therefore the project has no direct implications for domestic gas prices. The gas to supply the LNG facility will come from newly developed CSG fields. The amount of gas is very small relative to the identified conventional and CSG fields reserves available to supply the Australian east gas fields. It is therefore unlikely to contribute to a future shortage of gas in the domestic market.

The project's estimated GHG emissions and the proposed mitigation measures are discussed in Section 6.9 of this EIS. This report refers to the economic implications that flow from assumptions regarding the nature of the Carbon Pollution Reduction Scheme.

The Queensland Gas Scheme refers to gas-power level targets for the electricity sector. Depending on how ramp up gas and any gas that is surplus to the requirements of the LNG facility is managed, the project may be able to contribute to government gas power-level targets.

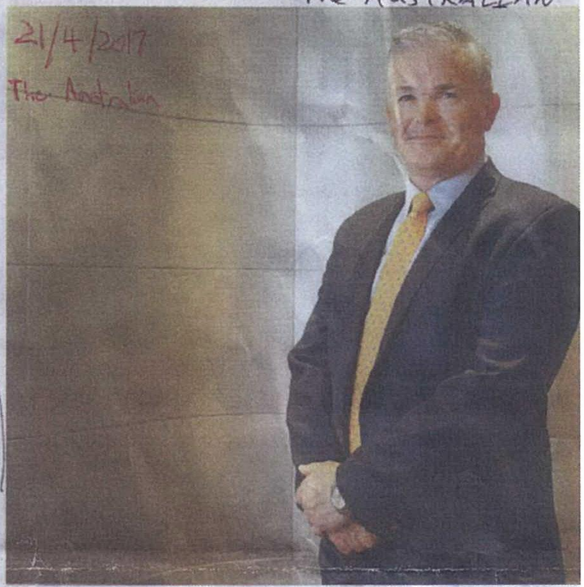
Attachment 5

"Santos taps outsiders to fill export gas orders"

Santos taps outsiders to fill export ga

The AUSTRALIAN

MATT CHAMBERS
ENERGY



Santos chief executive Kevin Gallagher met Prime Minister Malcolm Turnbull in a gas crisi

The Santos-led Gladstone LNG export project has been buying more than half its gas requirements from third parties who could otherwise supply tight east coast domestic markets, the Adelaide oil and gas company said.

Yesterday, Santos said Gladstone LNG had bought 59 per cent of the gas it processed into LNG for export in the March quarter from third parties.

It was the first time Santos, which is coming under heavy public scrutiny as east coast gas prices surge and it exports gas it does not produce from its own fields, has clearly broken out the extent of its third-party gas volumes. The company said that in the three months to March 30, the GLNG plant took in 83.2 petajoules of gas (yielding 1.37 million tonnes of LNG), up from 77 petajoules in the fourth quarter of 2016.

Santos said 49 petajoules of this was bought from third parties in the March quarter, up 3 per cent from the previous quarter, and equating to about 533 terajoules a day of gas, or the equivalent of 44 per cent of east coast domestic demand.

The GLNG joint venture, in which Santos has a 30 per cent stake, is showing signs of increased production from its Queensland coal seam gas fields, albeit to levels still lower than flagged, as it lifts LNG production.

Gas production from GLNG fields that feed the plant jumped 16 per cent from the previous quarter to 34.2 petajoules.

"GLNG produced higher LNG volumes in the first quarter, as strong upstream field performance delivered higher volumes of equity gas to the LNG plant," chief executive Kevin Gallagher said in the quarterly report.

Santos said production from the Fairview field in Queensland continued to build and had reached a level of 474 terajoules a day by the end of the quarter.

This is still well short of levels of 600 terajoules that Mr Gallagher's predecessor David Knox said the field would be operating at in 2016.

Santos has had to pull back at Fairview because it is not performing as well as had been hoped when GLNG was approved.

Mr Gallagher, one of a group of gas executives who met Prime Minister Malcolm Turnbull on Wednesday in a second crisis meeting in five weeks, was unavailable for comment yesterday.

GLNG is under more scrutiny than the other two Gladstone gas exporters — Shell's Queensland Curtis LNG plant and the Australia Pacific LNG plant run by Origin Energy and ConocoPhillips — because it was approved by Santos and its partners with the full knowledge it would need to buy substantial amounts of gas to export from third parties.

The volume of extra gas purchases needed has grown as the $US18.5 billion ($24.6bn) project progressed and is ramping up.

The other two projects are currently selling gas into domestic markets, and to GLNG, on top of their export volumes.

The construction of $80bn of LNG export plants at Gladstone in recent years has rapidly tripled east coast demand and sent prices for domestic users skyrocketing.

After Wednesday's meeting, Mr Turnbull said he was concerned that LNG exporters had

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After Wednesday's meeting, Mr Turnbull said he was concerned that LNG exporters had
not been able to articulate how east coast households and businesses would get gas supply at a reasonable price. He ordered the ACCC to scrutinise the industry for the next three years.

It is not only the exporters coming under scrutiny. The ACCC is investigating whether a 50-year-old joint Bass Strait marketing agreement between BHP Billiton and ExxonMobil substantially lessens competition.

ROBERT GOTTLIEBSEN P32

The Australian 21/04/2017

Attachment 6

Santos cuts net debt by $US380m, drives down costs

Fri 21/4
AFR

AFR 21/4/2017

Angela Macdonald-Smith

Santos has made further inroads in its debt-reduction task and also reported progress on cutting its break-even costs in a quarterly report described by one analyst as "solid".

But the March quarter report also revealed the extent to which Santos' GLNG export venture in Queensland relies on external purchases of gas, providing further fuel for critics who blame the venture for exacerbating the squeeze in the east coast domestic market.

Chief executive Kevin Gallagher said the oil price at which the oil and gas producer now expected to break even this year on cash flows stood at $US34 a barrel, down from $US47 at the beginning of 2016, and 7 per cent below last year's average.

Net debt was lowered by $US380 million ($505 million) in the March quarter to $US3.1 billion, making progress towards Santos' target of $US1.5 billion by the end of 2019, which the oil and gas producer has advised could also involve further asset sales.

JPMorgan analyst Mark Busuttil labelled the debt reduction as "impressive" but said he remained cautious on the stock because of GLNG's short position on gas in the tight east coast market.

Almost 60 per cent of the gas for the $US18.5 billion GLNG project in the quarter was bought in from third parties. While that share was down from 62 per cent in the December quarter, the ramp-up in output at the plant in Gladstone meant it swallowed an additional 1.6 petajoules of third party gas in the quarter, Mr Busuttil noted, just as attention has heightened on the extent the project is sucking up local gas from the southern states. Santos shares ended 2.5 per cent lower at $3.57.

Santos' reliance on external gas purchases provided fuel for critics.

Still, other analysts are more positive on the stock. "Although the GLNG project has its challenges, the risk-reward for investors looks attractive at current valuation levels," Bernstein Research's Neil Beveridge said.

Mr Gallagher took over the helm at the weakened Adelaide-based producer early last year with a mission to steady the ship after a tumultuous period during the oil price downturn, when the company was forced to raise equity to shore up its balance sheet. In December, the company announced a restructuring to house its second-tier assets in a separate division, run from Sydney.

The March quarterly performance was helped by a strong improvement in oil prices from a year ago, helping sales climb 14 per cent from the same period last year to $US684 million, despite a 6 per cent slide in output to 14.8 million barrels of oil equivalent.

But both output and sales were softer than in the immediately preceding quarter mostly due to the sales of fields in Victoria, the Northern Territory and Western Australia.

At GLNG, production rose to 1.367 million tonnes in the quarter, 43 per cent higher than a year earlier as the second production unit ramped up. Santos' share of revenues was $US167 million.

Santos flagged maintenance shutdowns at part of GLNG and the Papua New Guinea LNG venture over the next few months, which will affect output but maintained guidance for full-year production of between 55 million and 60 million boe.

The second production train at GLNG will be temporarily closed for inspection in June, while the first train will be shut for maintenance in July. At PNG LNG, work is planned at a compressor unit in May, which is expected to reduce production rates for about three weeks.