



LETTER TO THE EDITOR: AUSTRALIAN FINANCIAL REVIEW

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In the rush to secure a Gorgon or LNG-led national recovery (“LNG boom a big boost to economy”, 13 July 2009), we are missing opportunities to secure Australia’s future energy needs.

Western Australia for example depends on natural gas for half of its primary energy needs, compared to 19 per cent in Australia overall, and 60 per cent of its electricity generation. This dependence was highlighted last year by the Varanus Island incident which knocked out a third of the State’s gas supply. The outage caused massive economic and social disruption.

It is vital that Australia’s gas resources are developed in a way that meets Australia’s long term energy needs. Just 5 per cent of the gas resources from the massive sixty-year-life Gorgon Project have been committed towards the domestic market. This commitment is low by world standards and well below the WA Government’s 15 per cent domestic reservation policy. The bulk of Gorgon gas will be shipped offshore to secure the energy needs of countries like China.

The ACCC has assisted the Gorgon partners (Shell, Chevron and ExxonMobil) by allowing them to sell Gorgon gas to local consumers as a cartel. In doing so it has missed a once-in-sixty-year opportunity to promote real competition for consumers.

Western Australia already has one of the least competitive gas markets in Australia. Just two supplier groups control close to 100 per cent of the market. Despite abundant resources and infrastructure, WA gas buyers and consumers are being asked to pay up to four to five times the price for new gas as in Victoria.

Given Shell and Chevron are also participants in the North West Shelf cartel which controls 70 per cent of the market, the extension of cartel selling to the Gorgon Project will further entrench market power, and lead to higher gas and electricity prices.

The ACCC’s decision appears at odds with its own conclusion that separate selling is commercially practical and feasible. Indeed the ACCC pointed out that, Shell, Chevron and ExxonMobil have been separately selling domestic gas in other countries, have been separately selling Gorgon gas to overseas

customers since 2005, and would not face insurmountable difficulties obtaining staff and resources to sell separately.

The ACCC's decision appears to reflect a wider reluctance by government and regulators to challenge commercial and sovereign risk claims by LNG project proponents for fear of jeopardising projects.

These fears are unfounded. In a world where 92 per cent of natural gas resources are controlled by governments or national oil companies, Australia's gas resources remain highly sought after by companies like Shell and Chevron.

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