

MEDIA RELEASE

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Action Plan urged on State's gas crisis

Western Australia's peak energy user group has called for an Action Plan on domestic gas as part of the State's Strategic Energy Initiative.

DomGas Alliance Chairman, Tony Petersen, said the Action Plan should address the State's worsening gas shortage, coupled with the highest gas prices in the country. Key actions must include:

- An improved exploration regime to promote domestic gas exploration;
- Stringent enforcement of retention leases to maximise supply into the domestic market;
- Giving teeth to the State's domestic reservation policy;
- Removing anti-competitive joint selling arrangements; and
- Promoting initiatives to lower development costs, such as common-use infrastructure and open access arrangements.

Mr Petersen urged the State to remove government barriers to competition and supply. These barriers have distorted the market and increased domestic gas prices.

"Government endorsement of joint selling remains the single biggest barrier to competition and market development in Western Australia," Mr Petersen said.

"We've already seen a reported 300 per cent increase in the price of gas supplied by the North West Shelf Joint Venture producers to Alinta, which supplies a wide range of industrial and residential gas users."

"This can only lead to higher gas and electricity costs for business and households."

Domestic gas users also expressed alarm at a government approach giving LNG projects precedence over domestic supply in managing offshore retention leases.

"The West Tryal Rocks field has recently been locked away for another 5 years despite strong interest by domestic gas producers and customers to develop the field," Mr Petersen said.

"This warehousing of domestic gas reserves on the basis that they might, at some point in the next 30 years, supply an LNG project is exacerbating the State's gas shortage."

Mr Petersen commended the State Government for its leadership on domestic gas security. Initiatives taken by the State in 2009 include broadening pipeline gas specification to facilitate new supply, royalty incentives for tight gas projects and an Exploration Incentive Program. The Barnett Government has also endorsed the previous Carpenter Government's 15 per cent domestic gas reservation policy.

Mr Petersen said domestic gas security was a critical challenge facing Western Australia now.

“Unless action is taken, business and households face even higher energy costs, significantly higher greenhouse emissions, and the potential for thousands of job losses.”

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SUMMARY – DOMESTIC GAS ACTION PLAN

The WA gas market

Western Australia has the most energy and gas-dependent economy in Australia. Natural gas supplies close to 60 per cent of the State's primary energy and 70 per cent of its electricity generation.

The WA domestic gas market is the largest in Australia and represents 40 per cent of Australia's natural gas consumption.

The WA gas market is bigger than NSW, Victoria and the ACT combined. It is almost as big as NSW, Victoria and Queensland combined.

The WA gas market is mature. It is characterised by diversity of downstream customers, a mix of short and long-term contracts, significant short and long-term trading and substantial transportation and storage capacity.

Challenges: Security

Western Australia is experiencing a serious shortage of domestic gas. Current and prospective gas users are unable to secure gas supplies in substantial quantity.

Announced new gas field developments will not meet the State's requirement for over 1000 TJ/day in new and replacement gas by 2015-2020.

Challenges: Competitiveness

Western Australia has one of the most uncompetitive gas markets in the country. It is a duopoly market in which just two supplier groups control close to 100 per cent of the market because of joint selling arrangements.

Producers exercise immense market power and can increase prices or withhold supply.

Domestic gas customers are forced to deliver premium returns to gas producers – in excess of that obtained from overseas LNG customers.

The Alliance supports Premier Barnett's position that gas should be supplied to the domestic market at a price that gives WA a competitive advantage in energy, and that domestic gas prices should reflect the price of gas exiting the domestic gas processing plant.

Challenges: Reliability

The 2008 North West Shelf Joint Venture and Varanus Island incidents highlighted challenges to supply. Reliability of supply depends on having reliable infrastructure assets, as well as diversity of supply and a significant expansion in the number of domestic supply sources.

Challenges: Cleaner Energy

At current domestic gas prices, natural gas is no longer competitive with coal for baseload power generation and major manufacturing and resource processing.

This is unlikely to change under an emissions trading scheme. Australia's current policy framework does not encourage the use of natural gas as the most effective and efficient means of reducing greenhouse emissions.

The domestic gas shortage could be the single biggest factor contributing to emissions growth in Western Australia over the next decade.

Action Plan Needed

Urgent action is needed by the State and Commonwealth to address WA's worsening domestic gas shortage. Key actions must include:

- An improved exploration regime to promote domestic gas exploration;
- Stringent enforcement of retention leases to maximise supply into the domestic market;
- Giving teeth to the State's domestic reservation policy;
- Removing anti-competitive joint selling arrangements; and
- Promoting initiatives to lower development costs such as common-use infrastructure and open access arrangements.

Action: Offshore exploration management

The current offshore exploration release process is inefficient and discourages gas exploration and development.

While companies have nominated areas for exploration work, these have not been released on the basis that the Federal Government must first undertake work to demonstrate that the areas are attractive for prospective explorers.

An improved exploration licence regime should be implemented whereby explorers can reasonably obtain approval to explore any area not already under licence.

Action: Retention lease management

The bulk of WA's identified gas resources are held under retention leases. Developing resources for the domestic market will help meet the State's serious gas shortage.

Retention leases must not be used to indefinitely park gas reserves for possible LNG development when these resources could economically supply the domestic market.

The Joint Authority seems determined to give LNG projects precedence over domestic supply in approving the warehousing of reserves under retention leases. This approach appears in conflict with existing legislation, threatens WA's energy security and will lead to higher energy prices.

Action: Eliminate joint selling

Joint selling by gas producers significantly limits competition and can only result in higher prices for WA business and households.

Removing joint selling arrangements will increase competition by increasing the number of independent sellers. These same producers compete with each other in separately selling gas to overseas customers.

An assessment should be undertaken by the Government, such as the Economic Regulation Authority, on:

- the transformation of the downstream gas market as the result of State Government reforms since the 1990s;
- how this downstream market transformation compares to the upstream market which remains a duopoly;
- the impact of joint selling arrangements and ACCC authorisation on WA gas prices, competition and market development;
- whether separate selling is practical and feasible in the WA domestic gas market; and
- what arrangements need to be implemented by the Commonwealth and the State to enforce competition and remove joint selling.

Action: Domestic gas reservation

The current reservation policy needs teeth and must ensure:

- Certainty – domestic obligations should be made unconditional and not subject to a “commerciality” escape clause;
- Flexibility – LNG producers should be given sufficient flexibility in how they can meet their domestic supply obligations;
- Growth – the domestic supply commitment should expand with any future growth in project gas reserves, production or LNG exports; and
- Timeliness – the reservation commitment should be applied to both reserves and production; domestic gas should be supplied no later than LNG start-up and not unduly delayed.

Domestic supply obligations should be implemented by the Commonwealth in offshore WA waters to support and complement the State’s reservation policy.

Such obligations are especially necessary given that gas fields ideally suited for domestic use are now being warehoused for possible LNG development through retention leases.

Action: North West Shelf State Agreement

An original intent of the North West Shelf State Agreement was to place priority on the availability of gas to the WA domestic market. This intent should be maintained in the ongoing administration of the Agreement.

The State Agreement provides a mechanism for the State to secure additional domestic supply commitments with respect to:

- the renewal or rolling-over of existing long term LNG export contracts;
- new LNG contracts entered into by the NWSJV; and
- new LNG developments such as the flagged LNG Train 6.

Action: Common-use infrastructure

Shared-use infrastructure could cut project costs by as much as half. This can facilitate development, reduce costs and promote domestic gas supply.

Concessions under the Commonwealth Petroleum Resource Rent Tax (PRRT) may however act as a disincentive for investment in shared use infrastructure.

Action: Tax, royalty and investment Incentives

To overcome WA's domestic gas shortages, Commonwealth and State tax, royalty and investment incentives should be provided to promote domestic gas exploration and development.

Key incentives could include:

- State royalty concessions such as royalty holidays, royalty rate reductions or rebasing the commodity value for royalty assessment;
- increased deductibility for pre-wellhead expenses from Commonwealth taxation;
- Flow Through Share scheme; and
- Commonwealth and State grants to promote domestic gas exploration and development.

Government responses to date

The State Government should be commended for its leadership on domestic gas security.

Initiatives taken by the State in 2009 include broadening pipeline gas specification, royalty incentives for tight gas projects and the Exploration Incentive Program. The Barnett Government has also endorsed the previous Carpenter Government's 15 per cent domestic gas reservation policy.

Fundamental changes are however needed to remove barriers created by government to greater competition and upstream supply. These barriers include government intervention to endorse joint selling and to endorse producers warehousing domestic gas fields for possible LNG development.

Consequences of action vs. inaction

Domestic gas security is the most critical challenge facing Western Australia today. The consequences of inaction are profound:

- loss of clean, secure and affordable energy supply for the State;

- sharply rising energy costs for industry, small business and households;
- loss of industry competitiveness and downstream, value-adding industries;
- lost investment, development opportunities and jobs; and
- significantly higher greenhouse emissions and damage to the environment.

The DomGas Alliance

The DomGas Alliance is Western Australia's peak energy user group and represents natural gas users, infrastructure investors and prospective domestic gas producers.

Alliance members represent around 80 percent of Western Australia's domestic gas consumption and gas transmission capacity. Members supply gas and electricity to 200,000 businesses and 2 million West Australians.

Members include: Alcoa of Australia, Alinta, Burrup Fertilisers, DBP, ERM Power / NewGen Power, Fortescue Metals Group, Horizon Power, Murphy Oil, Newmont Australia, Synergy and Verve Energy.

The Alliance promotes security, affordability and diversity of gas supply for industry, small business and households.



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