DOMGAS ALLIANCE

Onshore gas only way to ensure local supply

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WA's plentiful natural gas resources do not translate into cheap bills. Gavin Goh looks at why.

WA is blessed with abundant natural gas. In the 1970s, Premier Charles Court saw the potential for gas to fuel the WA economy and under his leadership, the State underwrote development the North West Shelf Project.

This involved building a 1600km pipeline to ship gas from Dampier to the South West. The State also signed a 20 year, take-or-pay contract to buy gas from the North West Shelf partners.

Without this support, there would have been no North West Shelf Project. Australia's LNG export industry was built on the domestic gas market.

Today, WA depends on gas for half its energy and 70% of its electricity. Businesses reliant on gas include the chemicals, fertilisers and cement industries on the Kwinana strip, the alumina industry with its 5000 employees, hotels, drycleaners, restaurants and cafes.

WA should have the lowest gas prices in the world. Instead, prices are among the highest in the world. Wholesale prices have risen sharply from $2.50 per gigajoule in 2005 to $8 - $12, compared to just $3 in the United States. As a result, the energy bills of business and households go up and up.

Switching from coal to gas would cut carbon emissions by half. But at current gas prices, a $90 per tonne carbon tax would be needed to make gas competitive with coal for baseload power generation.

How did Australia reach this point? It comes down to two things – competition and supply.

First, the ACCC has repeatedly intervened in the market to allow big gas producers to combine to fix prices and conditions. A WA company wanting to buy gas from the six North West Shelf producers is offered a single price not six different prices.

Second, most of Australia's gas is controlled by a handful of very large producers. These think in terms of multi-billion dollar contracts to sell gas to China, Japan or Korea. Selling to smaller Australian customers will not happen voluntarily. Market signals alone will not ensure supply.

WA governments have long recognised a duty to protect the State's energy supply. The North West Shelf and Gorgon Projects include a domestic gas reservation obligation, setting aside a proportion of gas for the local market.

Then in 2006, then Premier Carpenter introduced a reservation policy that required new LNG projects to set aside 15% of gas production for the WA market. The Barnett Government has applied the policy to the Wheatstone Project while also strengthening the policy.

But it will take time for reservation to take effect. The Gorgon and Wheatstone projects will start supplying the WA market from 2015 and 2016 and will help meet the State's energy needs. Without reservation however, none of these projects would supply the WA market.

The policy does have one shortcoming - it stops at the three nautical mile limit. The vast bulk of WA's gas resources are further offshore in Commonwealth waters. Unless gas is landed for processing in WA, the reservation policy has no effect.

This has huge implications for the State. Shell and its partners are pushing to develop the massive Browse gas field through a floating LNG platform offshore. The field holds over 15 trillion cubic feet of gas, enough to supply WA's entire gas needs for 15 years.

If the proposed development by Shell and its partners is approved, WA will lose the construction, jobs and community benefits of having the gas processed here - and not one molecule of gas will be brought onshore.

To date, the Federal Government has refused to back the State's gas reservation policy. It accepts the LNG industry's rhetoric that reservation discourages investment and governments "shouldn't interfere in the market". There is no evidence to back these claims.

Since the State's 15 per cent reservation policy was introduced, more than $12 billion has been invested in petroleum exploration in WA. More than $100 billion in new gas projects have been announced.

Governments intervene all the time in the market – whether to set the minimum wage, ban hazardous products like asbestos, protect the environment, or in the ACCC's case, allow major gas producers to combine together to set prices and conditions.

Australia is the only major gas producer where international oil and gas companies can access resources on a completely open basis, and then export without prioritising the local economy.

We are also the only major gas producing country experiencing serious gas shortages and sharply rising prices.

The US is using a natural gas boom to fuel a manufacturing boom resulting in new investment and jobs in steel, aluminium, automotive, plastics, chemicals and other industries. Carbon emissions are falling in the US as the country switches from coal to gas – without the added impost of a carbon tax. The US has rejected the idea domestic gas prices should be dictated by the world's highest prices in Japan.

Australia can have an LNG export industry, a vibrant manufacturing sector and affordable gas prices. However this requires vision in Canberra. With this being a Federal election year, West Australians are entitled to ask where the major parties stand on gas.

Gavin Goh is executive director of DomGas Alliance, which represents WA natural gas users and investors