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Member for Riverton

Chairman of the Economics and Industry Committee

Speech to Australian Institute of Energy Luncheon

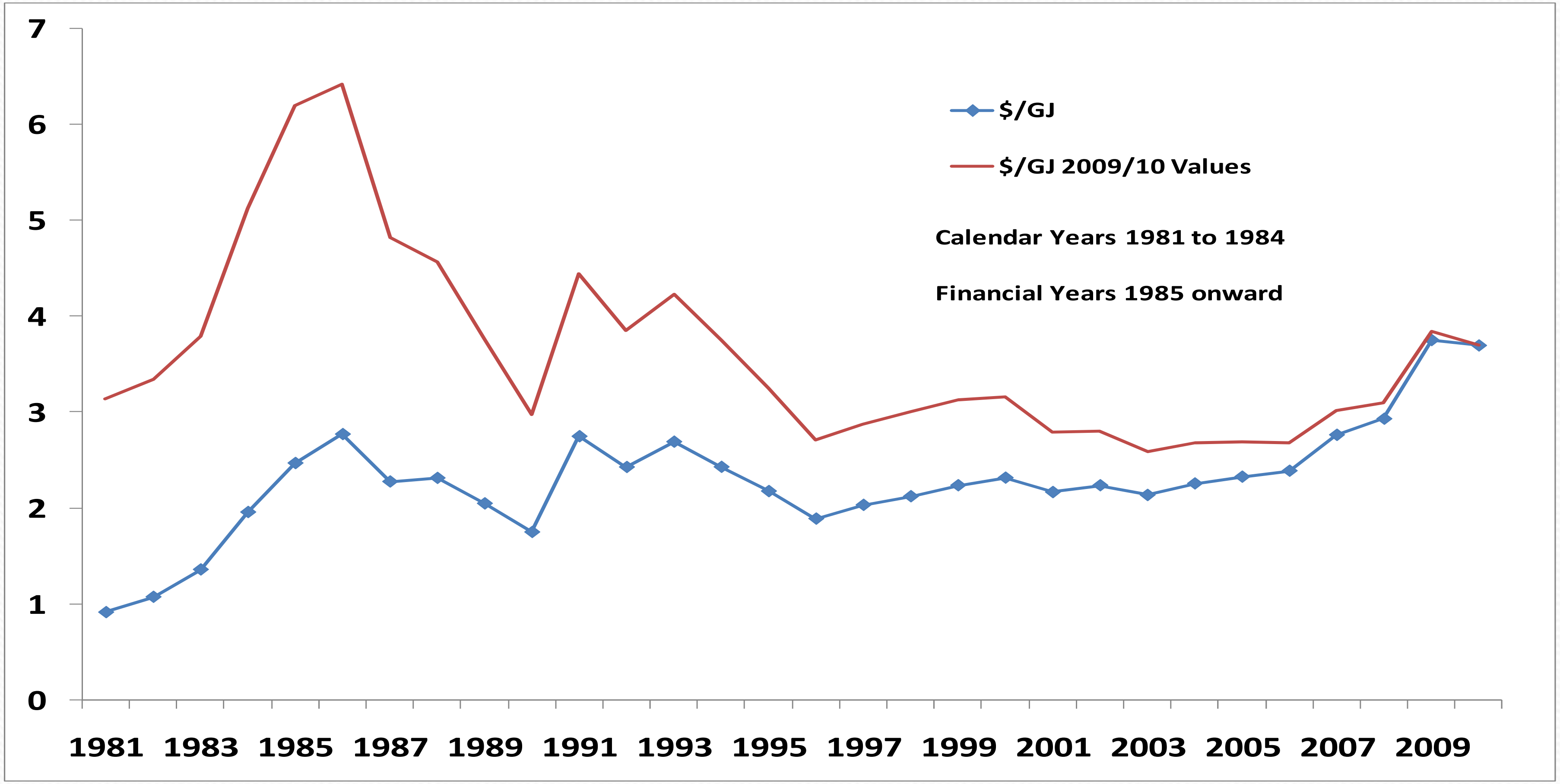
Monday 7 November 2011

Houston we have a problem!

- *Running out of cheap gas in the midst of a gas and mining boom.*

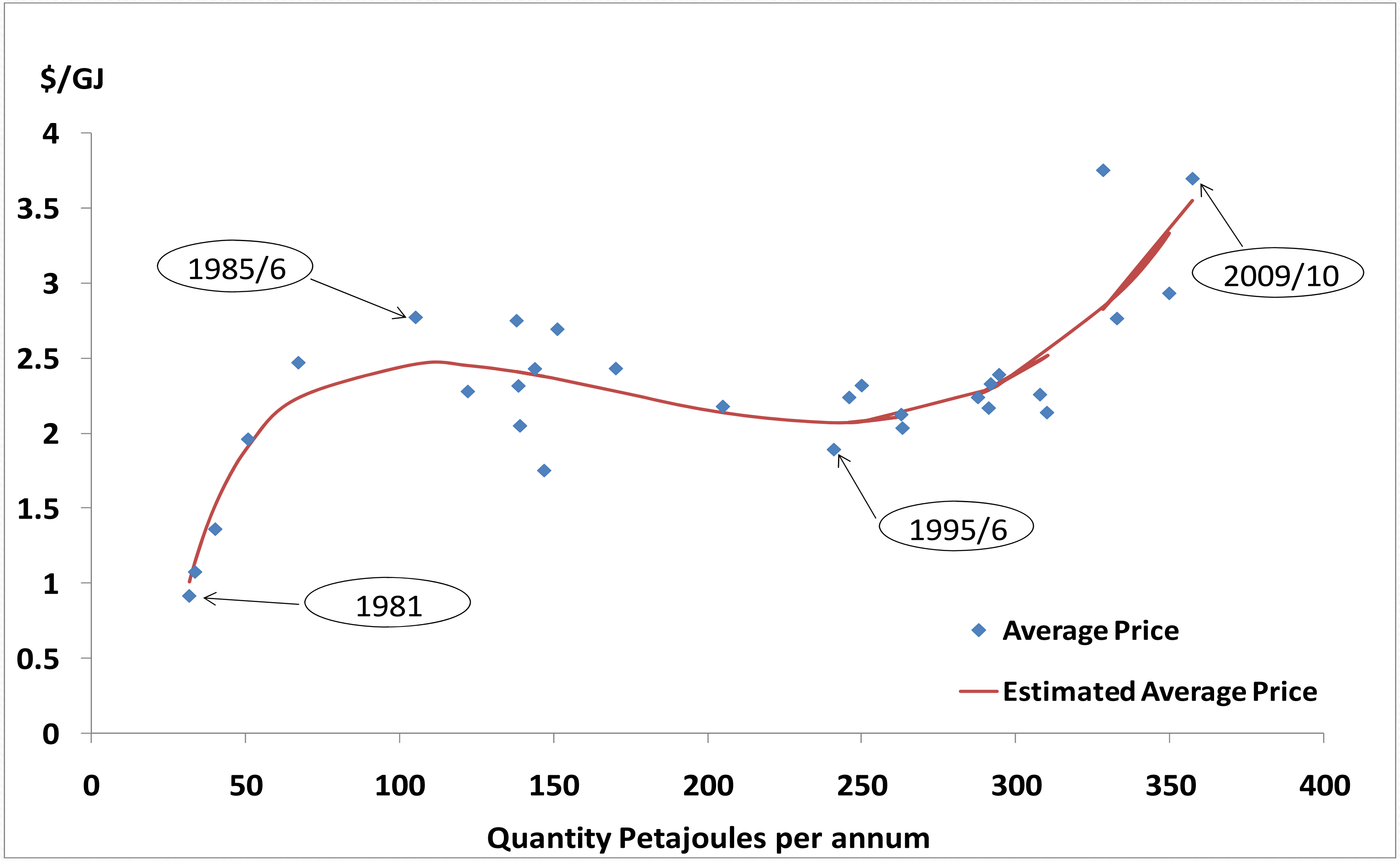
- *With carbon tax looming.*

Figure 16 Average Value per GJ (Nominal and After Adjustment for Inflation) (EISC Report No. 6, p. 50)



Using data from Department of Mines and Petroleum, 'Resources Data Files - Quantity and Value 2009-10'. Available at: www.dmp.wa.gov.au/documents/qtyandvalue0910(1).xls. Accessed on 15 January 2011; Australian Bureau of Statistics, *1350.0 - Australian Economic Indicators, January 2011*, p. 71. Available at: www.abs.gov.au. Accessed on 21 March 2011. Data is from section 5.1 - Consumer Price Index by Group, All Groups.

Figure 17 Average Price per Gigajoule (1981 - 2009) (EISC Report No 6, p53)



Gas Price Situation

- Average Price - $3.70
- New Contact Prices - $5.55 - $9.25
- Incremental Price - $13.80

Comparison with Eastern States

- *new contact prices at least double those in eastern states*

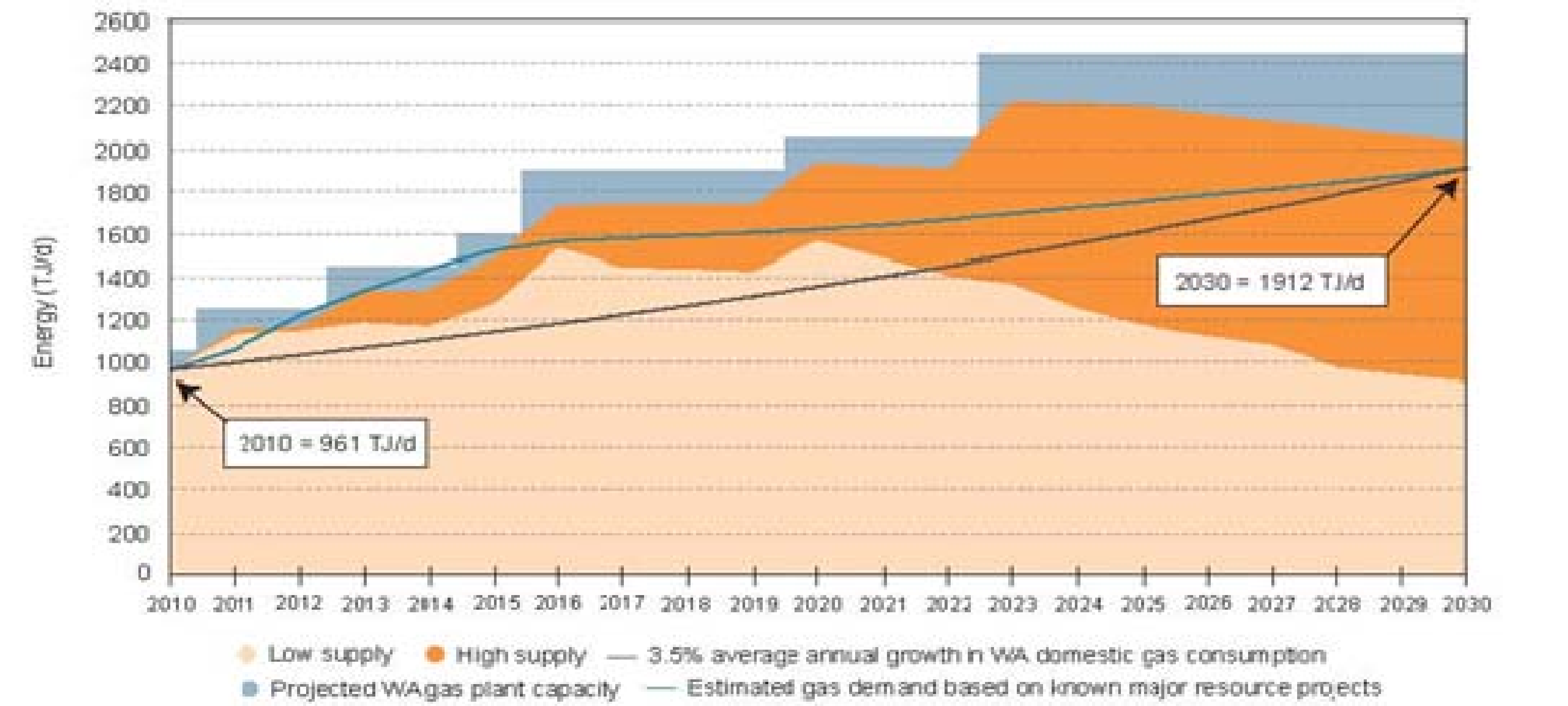
- *things are changing in the east.*

Comparison with LNG Net-Back

- *Some contracts prices at or above LNG netback*

- *Not acceptable*

Figure 11 Domestic gas supply and demand forecast, 2010-2030 (DMP, March 2011) (EISC Report No 6, p35)



IHS (NYSE: IHS) is a global source of critical information and insight dedicated to providing information and expertise. IHS product and service solutions span four areas of information: Energy, Product Lifecycle, Security, and Environment covering more than 180 countries.

As cited in Submission No. 13 from Economic Regulation Authority, 1 July 2010, p. 8.

Office of Energy, *Energy 2031 - Strategic Energy Initiative: Directions Paper*, Perth, March 2011, p. 20.

Adequate Resource

- DMP Low Supply Scenario unlikely to materialise

- WA has adequate reserves and resources to meet domestic demand

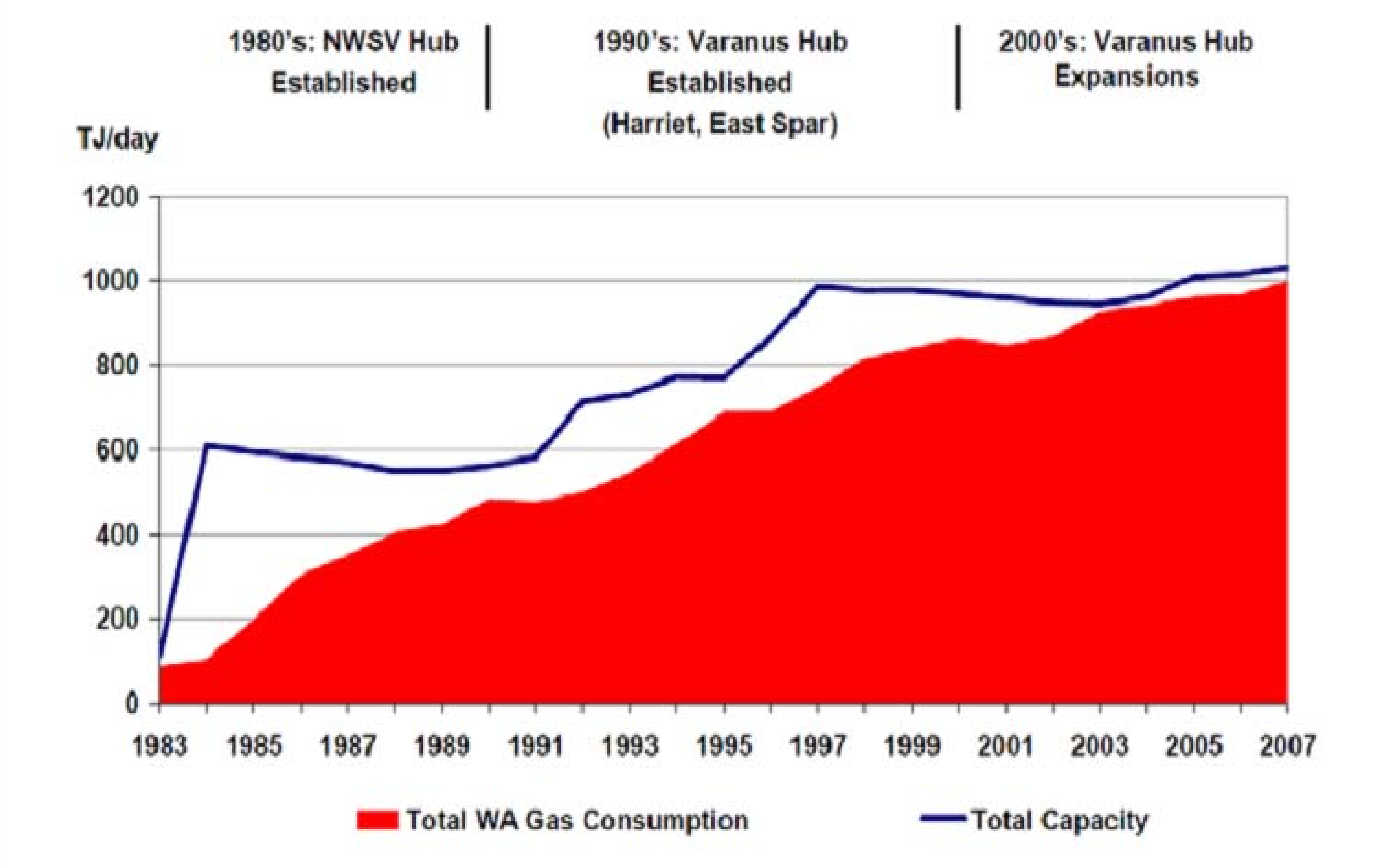
Problem: Access, Demand & Costs

- Growing tightness in Domgas Processing Capacity.

- Rising Demand from Miners & for LNG

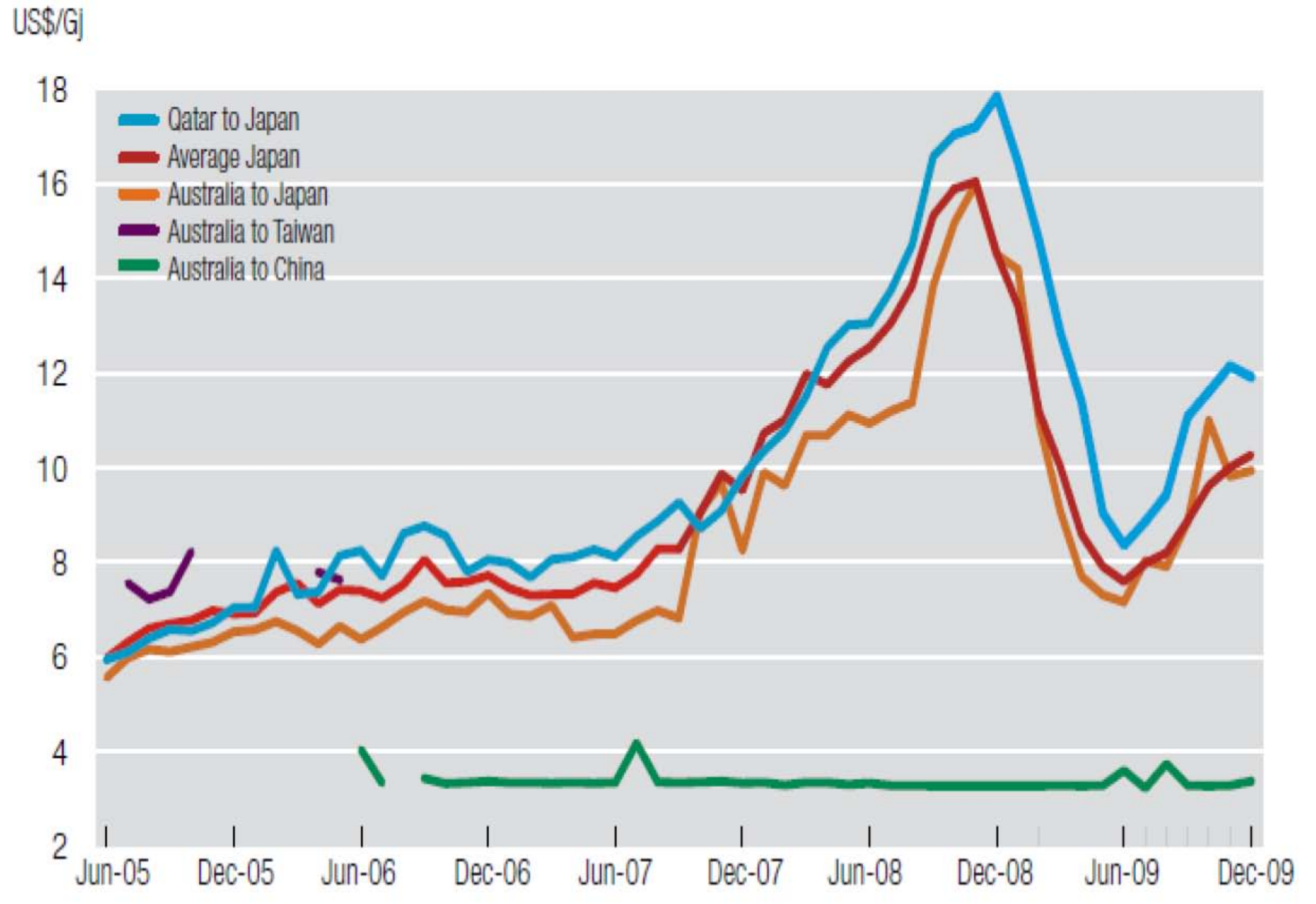
- Rising Upstream Cost

Figure 12 Gas Consumption and Capacity Profile (EISC Report No 6, p. 37)



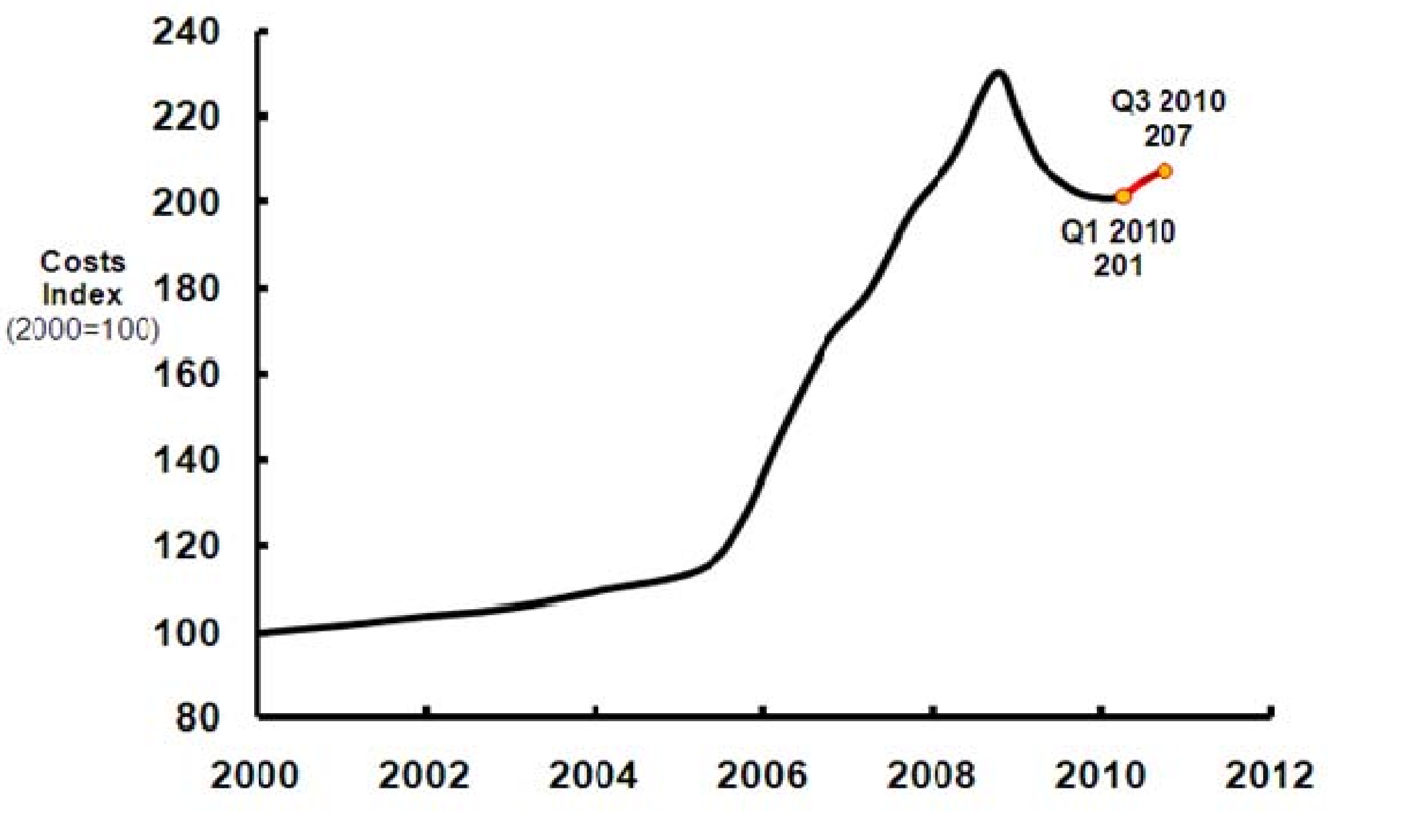
Submission No. 16 from North West Shelf Project Participants, 2 July 2010, p. 9.

Figure 20 LNG Import Prices - Various Locations (EISC Report No.6, p. 68)



As cited in Submission No. 10 from APPEA, 25 June 2010, p. 22.
As provided in Submission No. 13 from Economic Regulation Authority, 1 July 2010, p. 12.
Original chart attributed to Argus Monthly LNG.

Figure 9 Upstream Capital Costs Index - IHS CERA (EISC Report No 6, p. 29)



Source: http://ihsindexes.com/ucci-graph.htm

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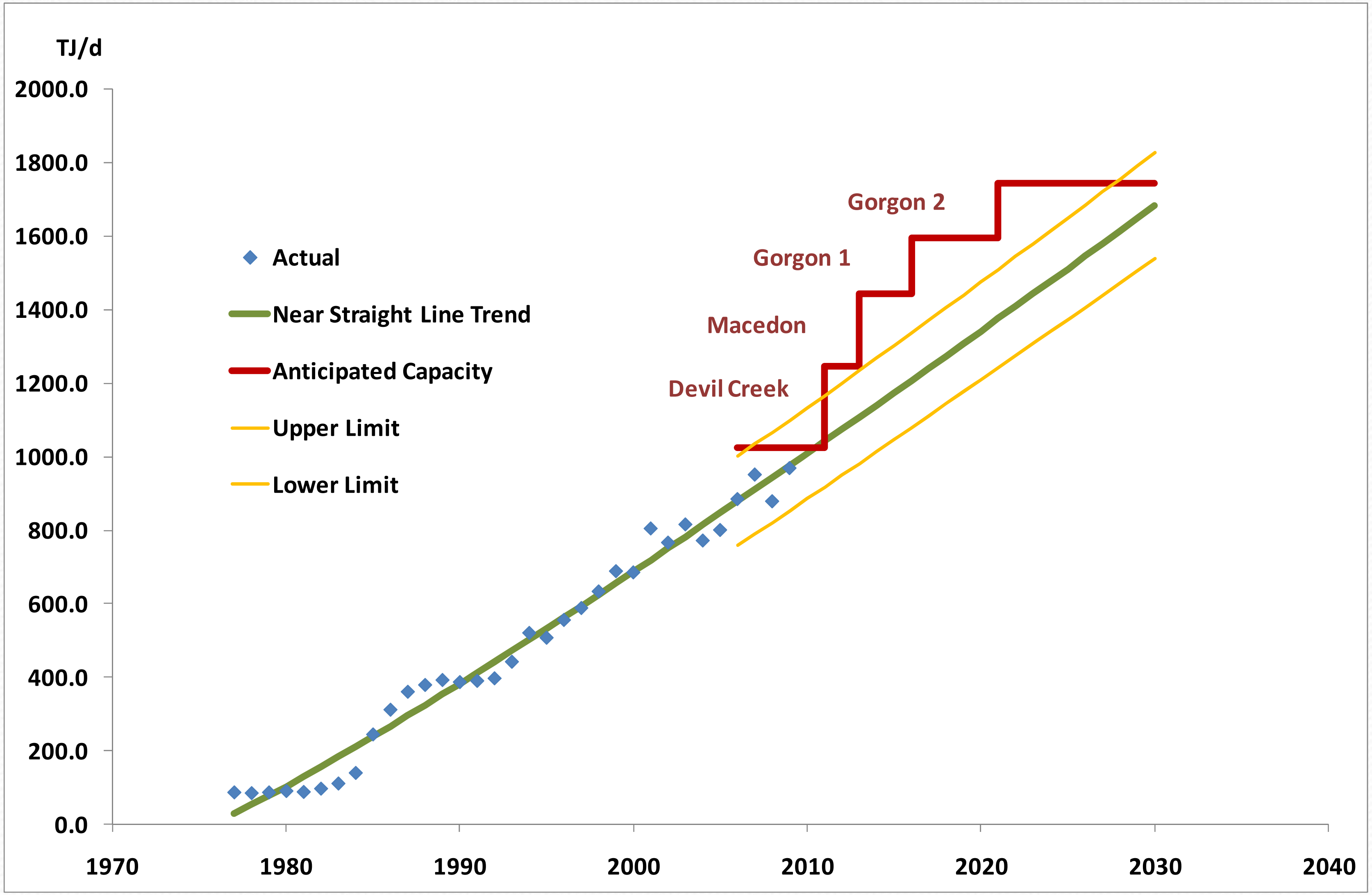
Policy Response

- Facilitate development of LNG
  - Infrastructure
  - labour supply

- Reservation Policy

- Promote onshore, unconventional gas

Figure 13 Existing Effective and Planned Gas Processing Capacity (Calendar Years) (EISC Report No 6, p. 42)



Reservation Policy

- Necessary but not sufficient
- Needs to be consistent but flexible, and adaptable
- Mindful of adverse consequences.

Market Enhancing Policies

- Short term Trading Market
- Gas Market Bulletin Board
- Gas Statement of Opportunities
- Retention lease
- Joint Marketing
- Review pipeline regulation
- Gas storage

Unconventional Gas

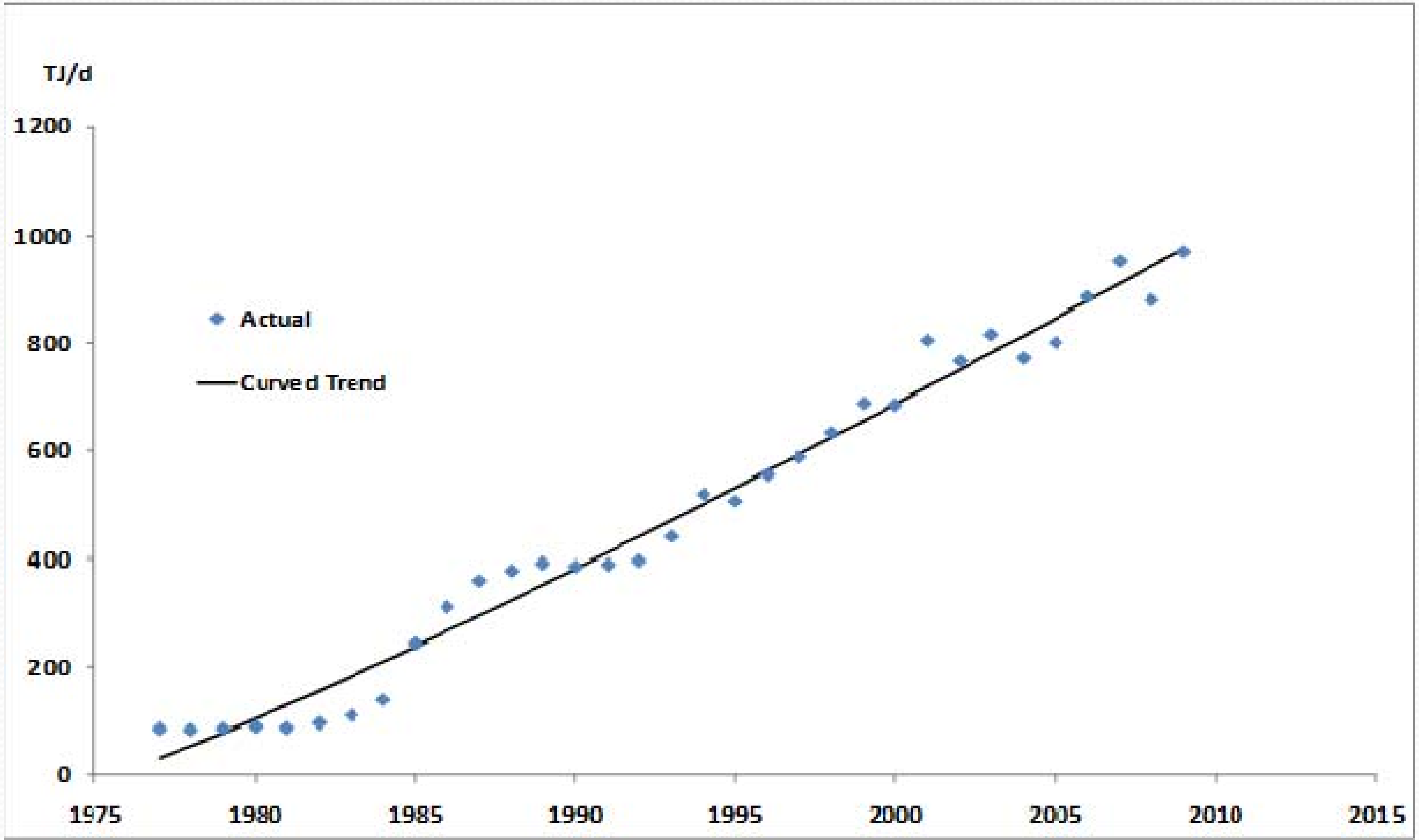
- Important & Prospective
- Needs price signal & market
- Fracing debate

Table 7 Domestic Obligations Applicable to LNG Projects in Western Australia (EISC Report No. 6, p. 80)

Project	Domestic Gas Obligation
North West Shelf	**State Agreement:** 5,064 PJ to be supplied over the life of the project. Commitment due to be met by 2014. Provisions exist within the agreement for further supplies to be negotiated.
Gorgon	**State Agreement:** 2,000 PJ supplied over the life of the project. Domgas plant with 300 TJ/day capacity to be constructed. Delivery of 150TJ/day to commence at 31 Dec 2015 with balance to be supplied by 2021. Supply subject to commercial viability provisions.
Pluto	**Reservation Policy:** 15 per cent of LNG production to be supplied within 5 years of LNG exports commencing or after 30 million tonnes of LNG has been shipped. Supply subject to commercial viability provisions. Manner of supply subject to further negotiation.
Wheatstone	**Reservation Policy:** Under negotiation
Browse	**Reservation Policy:** To be negotiated
Scarborough	**Reservation Policy:** To be negotiated

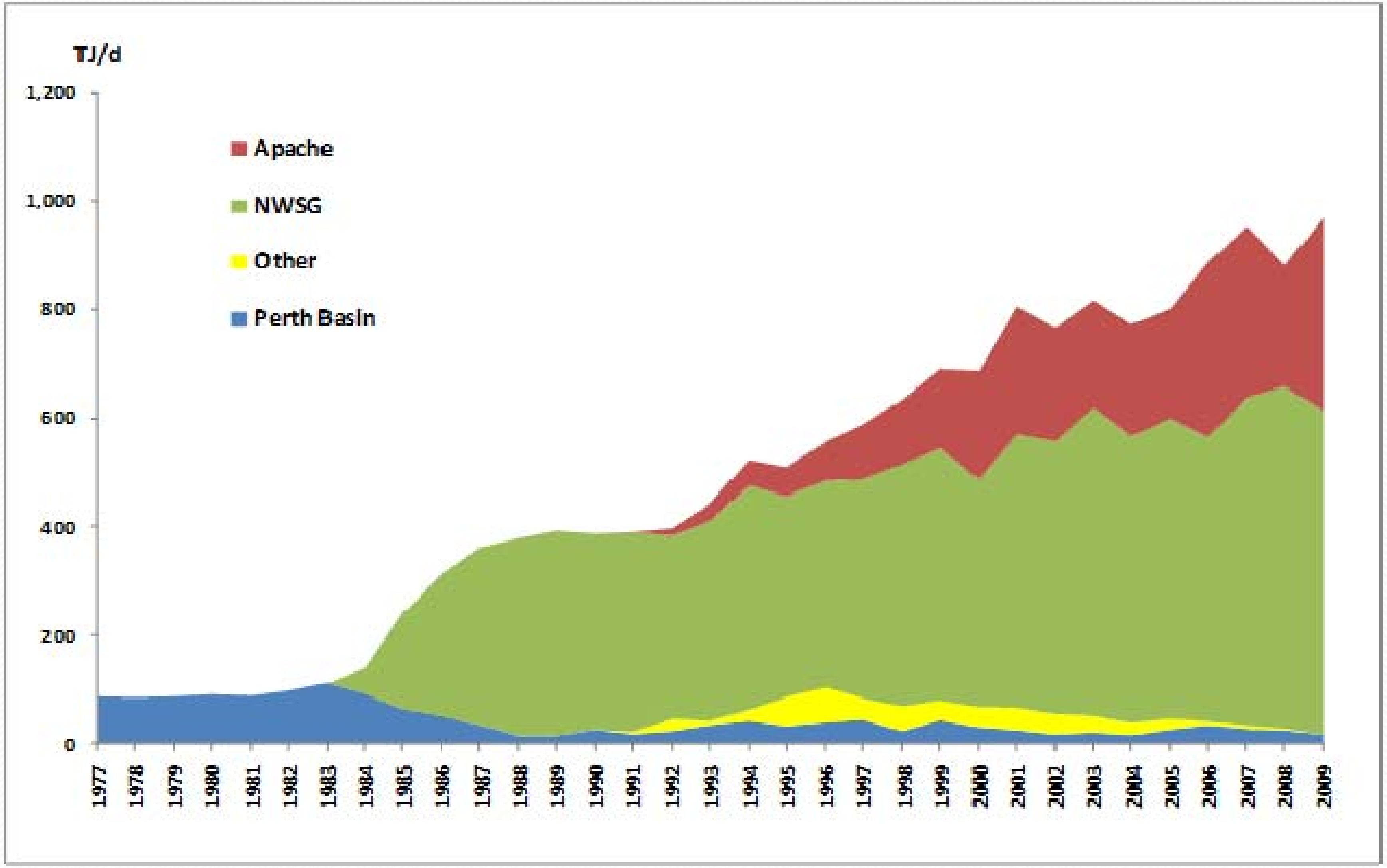
Submission No. 19(A) from Department of State Development - Response to Question on Notice, 29 September 2010, p. 2.

Figure 7 Sales Gas Trend Western Australia 1977 to 2009 Calendar Years (EISC Report No 6, p24)



Committee's calculations in Figure 7 are based on APPEA Production Statistics, Sales Gas Western Australia
http://www.appea.com.au/index.php?option=com_content&view=section&layout=blog&id=53&Itemid=600003

Figure 6 Sales Gas Western Australia 1977 to 2009 Calendar Years (EISC Report No 6, p23)



Committee's calculations in Figure 6 are based on APPEA Production Statistics, Sales Gas Western Australia.
http://www.appea.com.au/index.php?option=com_content&view=section&layout=blog&id=53&Itemid=600003

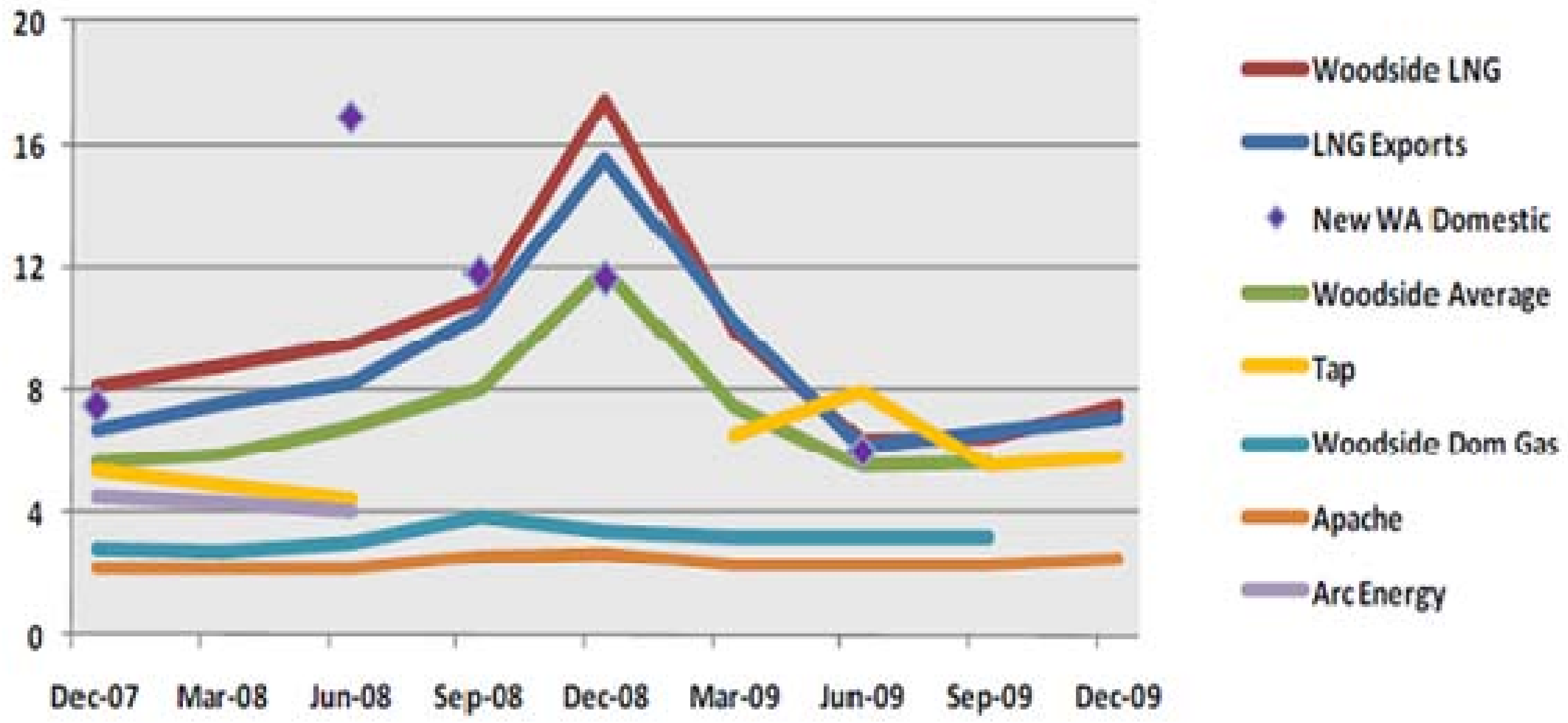
Figure 26 Components of Residential Retail Gas Price 2007-2008 (ACIL Tasman) (EISC Report No. 6, p. 144)

Source: ACIL Tasman analysis based on wholesale gas price estimates, regulated and posted tariffs for transmission and distribution services, and published retail gas prices for residential customers.

ibid., p. 308.

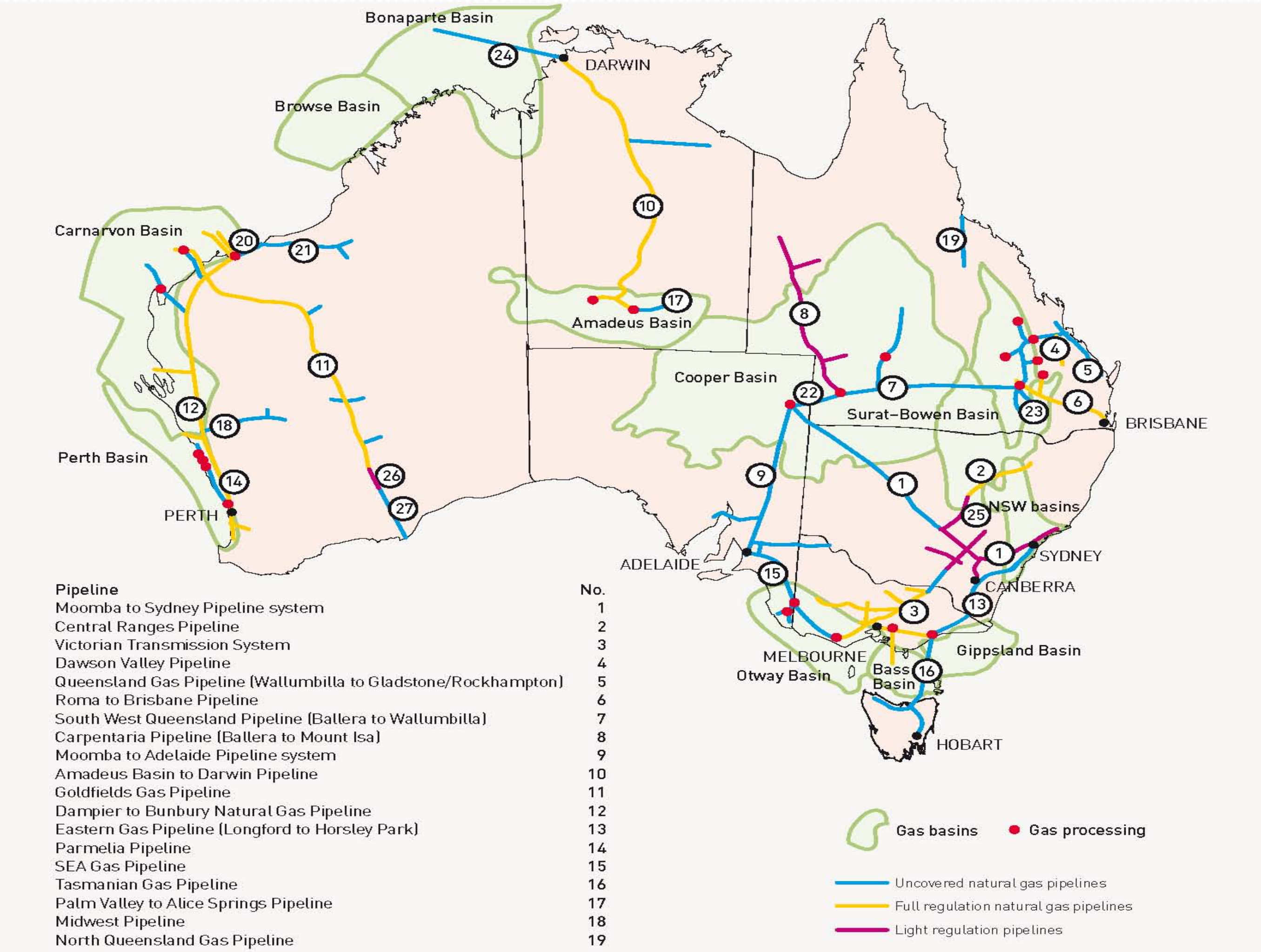
AER, *State of the Energy Market 2009*, ACCC, Canberra, 2009, p. 33.

Figure 10 West Coast Gas Prices 2007 to 2009 $/GJ (EISC Report No 6 p30)



Source: EnergyQuest, Energy Quarterly, Feb 2010, Figure 18.

Figure 18 Gas Basins and Pipeline Infrastructure, Australia (EISC Report No. 6, p. 58)



Pipeline	No.
Moomba to Sydney Pipeline system	1
Central Ranges Pipeline	2
Victorian Transmission System	3
Dawson Valley Pipeline	4
Queensland Gas Pipeline (Wallumbilla to Gladstone/Rockhampton)	5
Roma to Brisbane Pipeline	6
South West Queensland Pipeline (Ballera to Wallumbilla)	7
Carpentaria Pipeline (Ballera to Mount Isa)	8
Moomba to Adelaide Pipeline system	9
Amadeus Basin to Darwin Pipeline	10
Goldfields Gas Pipeline	11
Dampier to Bunbury Natural Gas Pipeline	12
Eastern Gas Pipeline (Longford to Horsley Park)	13
Parmelia Pipeline	14
SEA Gas Pipeline	15
Tasmanian Gas Pipeline	16
Palm Valley to Alice Springs Pipeline	17
Midwest Pipeline	18
North Queensland Gas Pipeline	19
Pilbara Pipeline	20
Telfer Pipeline	21
QSN Link	22
Berwyndale to Wallumbilla Pipeline	23
Bonaparte Pipeline	24
Central West Pipeline	25
Kalgoorlie to Kambalda Pipeline	26
Kambalda to Esperence Pipeline	27

Source: AER.

AER, *State of the Energy Market 2010*, ACCC, Canberra, 2010, p. 70