

Gas Crisis – Fact or Fiction??

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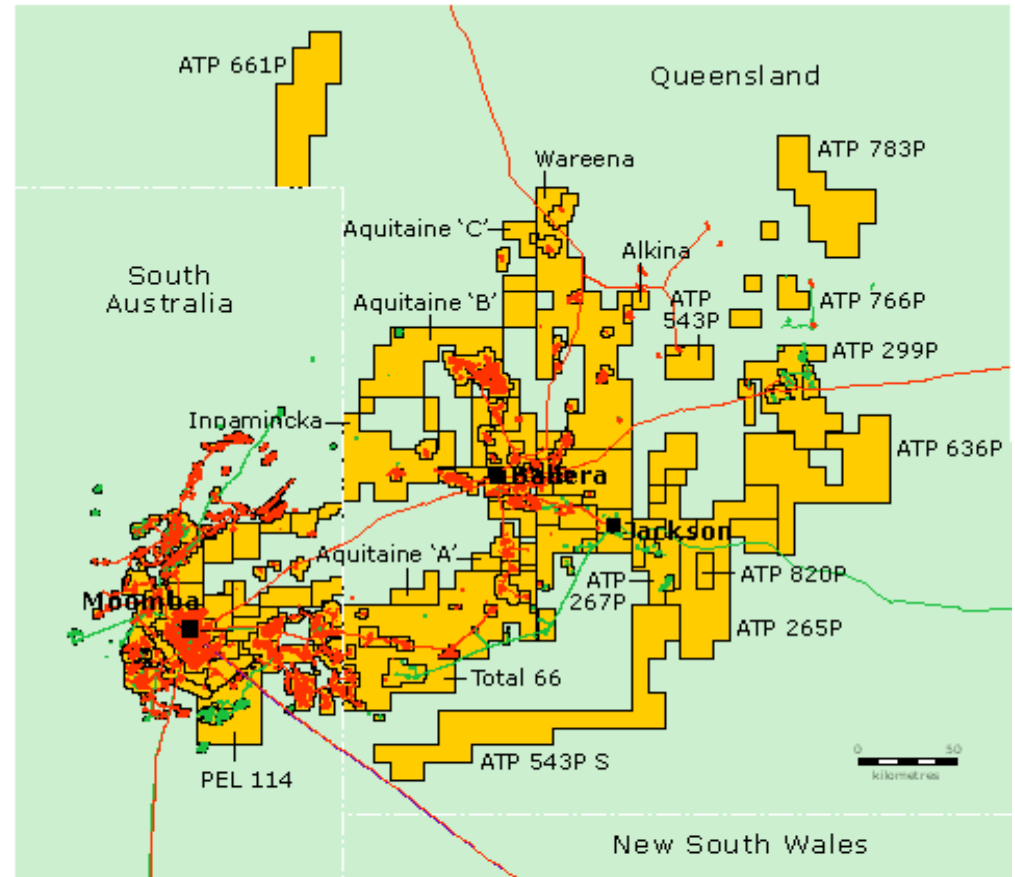


The Upstream Market

- ❑ 6 major producers met 65% of domestic gas demand in 2011-12.
- ❑ They were:
 - ❖ Santos
 - ❖ BHP Billiton
 - ❖ Exxon Mobil
 - ❖ Origin Energy
 - ❖ Woodside
 - ❖ Apache Energy
- ❑ Most producers have invested in LNG projects.
- ❑ Fear is domestic supply will be a secondary concern for gas producers.
- ❑ Energy users report a lack of long-term supply contracts and likely price increases when current contracts (\$3 -4) expire in 2015-16.

Upstream Supply-Is there a problem?

- ☐ New South Wales receives gas via the Moomba to Sydney Pipeline (MSP) and Eastern Gas Pipeline (EGP) from Victoria.
- ☐ Acreage and gas fields around Moomba and the Ballera production zones which supply gas to the MSP owned by one of the major domestic suppliers with LNG interests.
- ☐ Will these gas fields supply the domestic market from 2015?



LEGEND

- Santos Acreage
- Oil Field
- Gas Field
- Oil Pipeline
- Gas Pipeline
- Ethane Pipeline



Mergers & Acquisitions

- ❑ Most of the recent merger and acquisition activity has been in New South Wales and Queensland.
 - ❖ In July 2011 Santos acquired Eastern Star Gas, which has CSG assets in the Gunnedah Basin (New South Wales) it subsequently sold a 20% interest to TRUenergy.
 - ❖ In September 2011 Arrow Energy (Shell and PetroChina) announced that it had agreed to pay \$535 million for gas explorer Bow Energy, to source additional CSG resources for its Queensland LNG project.
 - ❖ Sale completed in January 2012 after ACCC approval.

Coal Seam Gas-an alternative option for NSW?

- ☐ Over 90% of NSW gas consumption is imported
- ☐ PlanetGas, Dart Energy and Metgasco have walked away from involvement in CSG.
- ☐ AGL's CSG activities have also been impacted.
- ☐ CSG reserves in Sydney, Gunnedah & Clarence Morton basins totalling over 2,100PJ
- ☐ NSW CSG reserves are the only large scale gas reserves in the state.
- ☐ NSW annual consumption is @ 160PJ.
- ☐ Predicted supply shortage in 2015/16 should developments continue to be curtailed.
- ☐ NSW government policies have been unfriendly to CSG developers.
- ☐ The Producers have failed to sell their message against the "Lock the Gate" movement

Are Users Concerns Justified?

No Crisis :

- Origin Energy – enough gas to supply both markets, but at historically higher prices.
- AGL has reserves as advised by the financial markets to its investors
- A few long-term gas contracts available depending on who you talk to (for post 2015).
- A matter of price - will be higher before they stabilise.
- New contracts to link gas price changes with oil.

Crisis is Coming:

- Conventional supply is declining and 85% of current 2P reserves are CSG based.
- CSG will be used by the current LNG projects.
- 75% of domestic supply is unavailable to the domestic market assuming all current projects continue.
- Analysts predicting wholesale gas prices in the \$7/GJ to \$12/GJ price range.
- Prices skyrocketed from \$2/GJ to over \$6/GJ in WA when LNG exports commenced and are in the \$7-\$9 range.

What are Gas Users Facing? (1)

- Existing gas pipeline reaching capacity for future domestic gas supply demands.
- Any increase capacity along the EGP from Vic to NSW will come at a higher price
- Capacity increase attractive for pipeline owner and gas producers in Vic.
- Gas prices will be significantly higher.
- Likely shorter-term contracts with greater price movements due to oil price linkage.

What are Gas Users Facing? (2)

- Continued development of alternative supply sources at risk from government policy.
- Likely stronger regulations for CSG developers will increase costs and flow to users.
- CSG resources destined for the international market.
- Existing LNG developer and supplier “banking gas” as a marketing response to other competitors' likely failure.
- All users will pay similar high prices as LNG contracts take up most of the supply
- Little left for domestic users.

This is as “Good as it Gets”

- The east-coast gas market is the only market in Australia not linked internationally.
- No Domestic Reservation
 - sovereign risk issues
 - Australia has international competitors
 - LNG is an international market with international forces of supply and demand
- Domestic users will face international competition for supply.
- Higher prices are coming → expect collateral damage
- Large users should have seen this coming – get used to it!
- Large users to become gas producers – “stump up your investment”
- NSW has credibility problem with the public over ICAC – avoiding the problem.

What is the EUAA doing?

- Gas Supply Committee to specifically look at gas market issues.
 - Econometric modelling of the effects of varying price movements
- Participating in five inquiries – related to Gas
 - Vic Reith Taskforce, NSW Parl, AMEC, DRET (and PC)
- Focus on DRET Review:
 - ✓ What works overseas that can be considered here?
 - ✓ Point 2 of DRET reference critical (get the facts and avoid the emotion)
 - ✓ Public Interest Test as applied in the USA
 - ✓ Dom Gas Reservation on prospective exploration and production (how realistic without government intervention?)
 - ✓ Partial Market based procedure
 - eg. Canadian export licence applications assessed by an independent regulator.

Conclusions

- ❖ Uncertainty for users as to supply and the price of gas once LNG exports commence
- ❖ Uncertainty of overseas gas market movements and their impact domestically.
- ❖ The story changes depending on who you talk to.
- ❖ Prices will be higher, contract terms and conditions different to previously.
- ❖ Current Business models will not stand up to supply and price movements.
- ❖ Strengthened lobbying to ensure adequate supply for the domestic market.