NSW Gas – Reserves Development

AIE Forum: NSW Looming Gas Shortage. Fact or Fiction?

Sydney,
24 June 2013

APPEA

Australian Petroleum Production & Exploration Association (APPEA)

Presentation outline

1. An overview of the NSW oil and gas industry and NSW gas reserves and resources.

2. The current situation in NSW.

3. The potential economic significance of the industry in NSW and the economic and east coast energy market implications of an on-going "freeze" in the industry's development.

4. Some thoughts on the way forward.

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Who is APPEA?

- The Australian Petroleum Production & Exploration Association (APPEA) represents the collective interest of the upstream oil and gas industry in Australia. APPEA is funded by subscriptions from its member companies.

- APPEA member companies produce around 98 per cent of Australia's oil and gas.



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The NSW industry and NSW gas reserves and resources

- NSW has been producing natural gas from coal seams for more than a decade.
- NSW has geological systems comparable to those that host the major gas resources in Queensland.
- However, NSW produces around 6 PJ of gas a year – demand is currently around 160 PJ.
- NSW has significant reserves and resources of natural gas.

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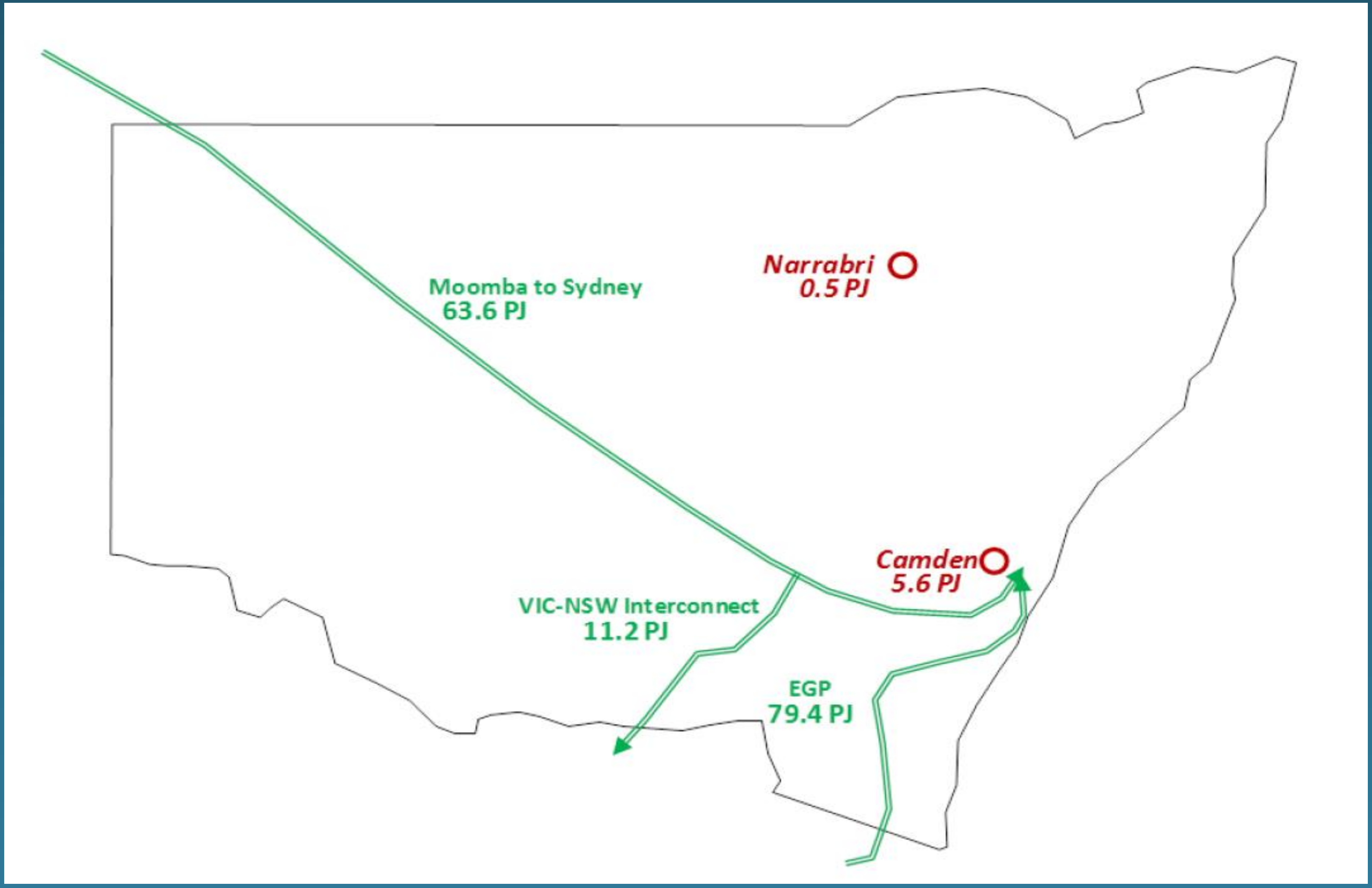
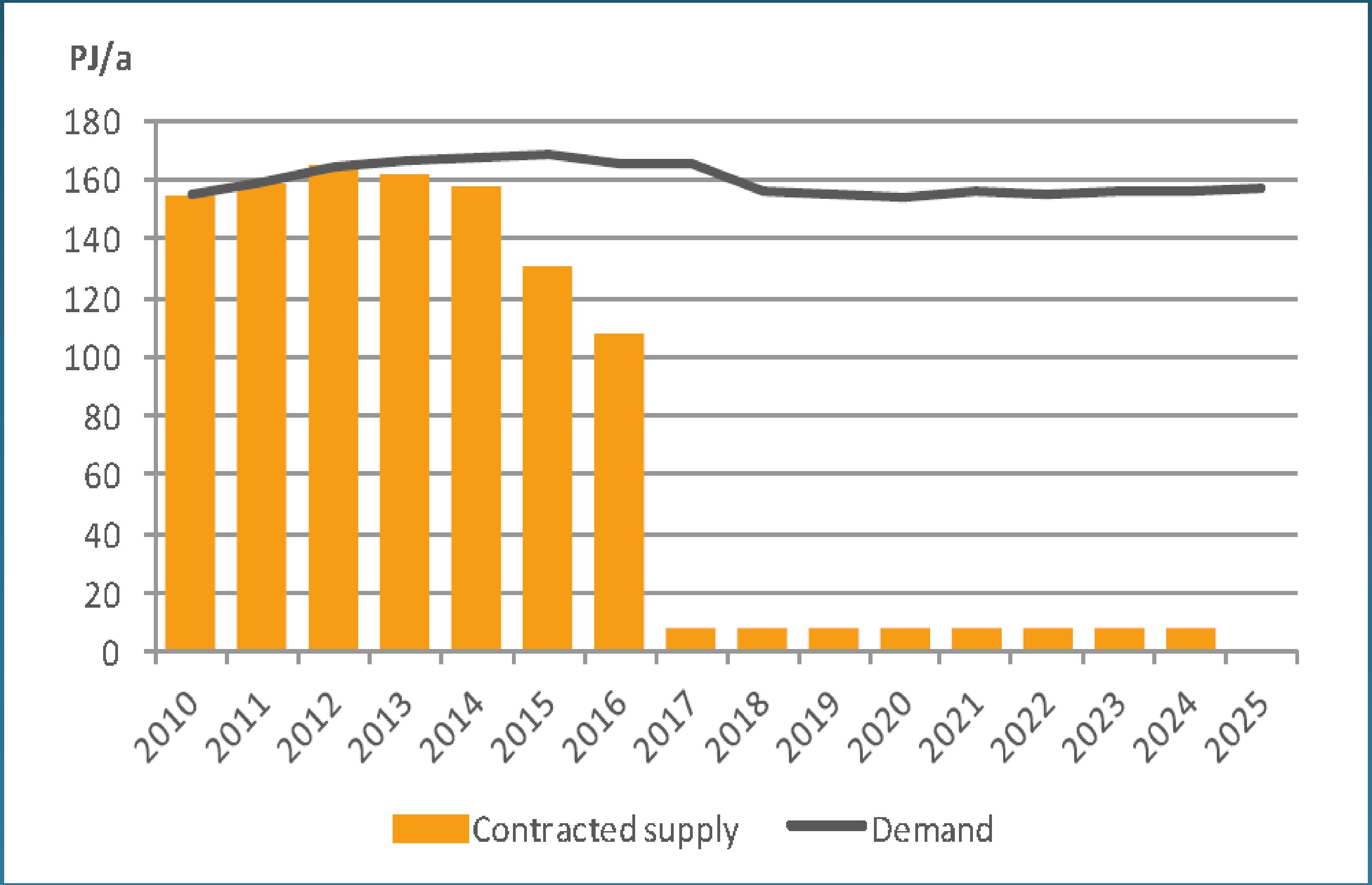
95% of the natural gas consumed in NSW comes from interstate …



Source: National Gas Market Bulletin Board (2013)

Underpinned by contracts that are shortly due for renegotiation / renewal …



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Source: ACIL Allen Consulting (2013)

The potential economic significance of the industry and the implications of a "freeze" (1)

- Natural gas produced from coal seams has the potential to become an important part of the energy supply mix in NSW.
- A growing industry in NSW would deliver economic benefits to the state and to the nation, improve NSW's energy supply security and aid its transition to a lower emissions economy.
- Recent developments have raised considerable uncertainty about the rate and timing of the development of the industry in NSW.

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The potential economic significance of the industry and the implications of a "freeze" (2)

- APPEA commissioned ACIL Allen Consulting to compare two scenarios:
  - A **"Base" Scenario** in which NSW gas production expands steadily so that it becomes the main source of gas supply in the state; and
  - A **"CSG Freeze" Scenario** in which NSW gas production does not expand beyond current levels.


ACIL ALLEN CONSULTING

REPORT TO
AUSTRALIAN PETROLEUM PRODUCTION & EXPLORATION ASSOCIATION
29 MAY 2013

NSW COAL SEAM GAS

POTENTIAL ECONOMIC SIGNIFICANCE OF NSW COAL SEAM GAS
A REASSESSMENT OF IMPACTS ON ENERGY MARKETS AND ON THE NSW AND AUSTRALIAN ECONOMIES

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Key findings: CSG "Freeze" Scenario (1)

- Wholesale gas prices between 25% and 32% higher in NSW, Victoria, South Australia and Tasmania; and 8% higher in Queensland, by 2030

- A reduction of around $4b in direct capital investment in NSW upstream gas development and a loss of around $2.9b of associated recurrent operating expenditure foregone over the period to 2035

  - these losses result in investment moving to other jurisdictions and the net result sees a total reduction in real NSW GSP of $14.2b over the period to 2035;

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Key findings: CSG "Freeze" Scenario (2)

- NSW real income $24.6b lower over the period to 2035 ($7.9b lower in net present value terms, which equates to $1,100 per NSW resident);
- NSW employment falling, by a cumulative total of 34,287 employee years compared to the Base Scenario – equivalent to an average loss of 1,441 FTE jobs each year;
- the NSW Government losing royalty and tax revenues. Royalties and payroll tax over the period to 2035 reduced by about $1.9b;

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Key findings: CSG "Freeze" Scenario (3)

- a loss in average NSW household real income of $290 per household per year
  - an increase in average NSW household electricity bills of $31 per household per year, and
  - an increase in average NSW gas bills of around $22 per household per year.

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The way forward: industry has a key role but there is action governments can take…

- Enable large-scale investment and therefore – new supply.
- Support the development of the State's natural gas reserves and resources.
- Work to overcome existing barriers to resource development.
- Establish more effective regulatory arrangements, more efficient planning and permitting processes and more timely approvals processes.

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