

Opening Statement by James Baulderstone

NSW Legislative Council *Select Committee on gas and liquid fuels supply*
28 January 2015 – Check Against Delivery

INTRODUCTION

Mr. Chairman and members of the Committee - Santos welcomes this opportunity to discuss the operation of the Eastern Australian natural gas market and in particular two central questions:

- What is driving increased gas prices for NSW families and businesses; and
- What can the NSW Government do to ensure the reliable and affordable supply of natural gas to the citizens of the State?

KEY FACTS

Santos is well positioned to comment on these questions.... we are the only supplier of natural gas that has a presence in all Australian States and have been a major supplier of this essential product to the families and businesses of NSW for over four decades.

The natural gas debate in this State has become increasingly heated, resulting in some important facts being overlooked:

- Gas is essential to our everyday life. It provides the primary energy source for over 1 million families in NSW and underpins over 200,000 jobs in the manufacturing sector;
- Gas is one of the prime drivers of reducing global carbon emissions – all major countries are looking to gas as the fastest way to lower emissions;
- As such, the International Energy Agency forecasts that gas will play an increasing role in our lives over the next 30 years.... with use set to increase globally from approximately 25% of our energy mix today to over 30% by the year 2030; and finally
- For 40 years NSW has imported its gas requirements – half coming from offshore Victorian fields and half coming from tight and unconventional resources - that is, Queensland Coal Seam Gas and South Australian fracture stimulated gas.

It is against this background that our submission should be considered.

GAS PRICES

The answer to what is driving NSW gas prices has two parts:

- First, gas extraction costs have increased due to a variety of factors including more difficult reservoirs, labour rates and regulatory and compliance costs; and
- Secondly, NSW electing not to efficiently develop its own resources.

Due to these delays NSW finds itself as the only State in Australia that will not produce more gas than it needs.

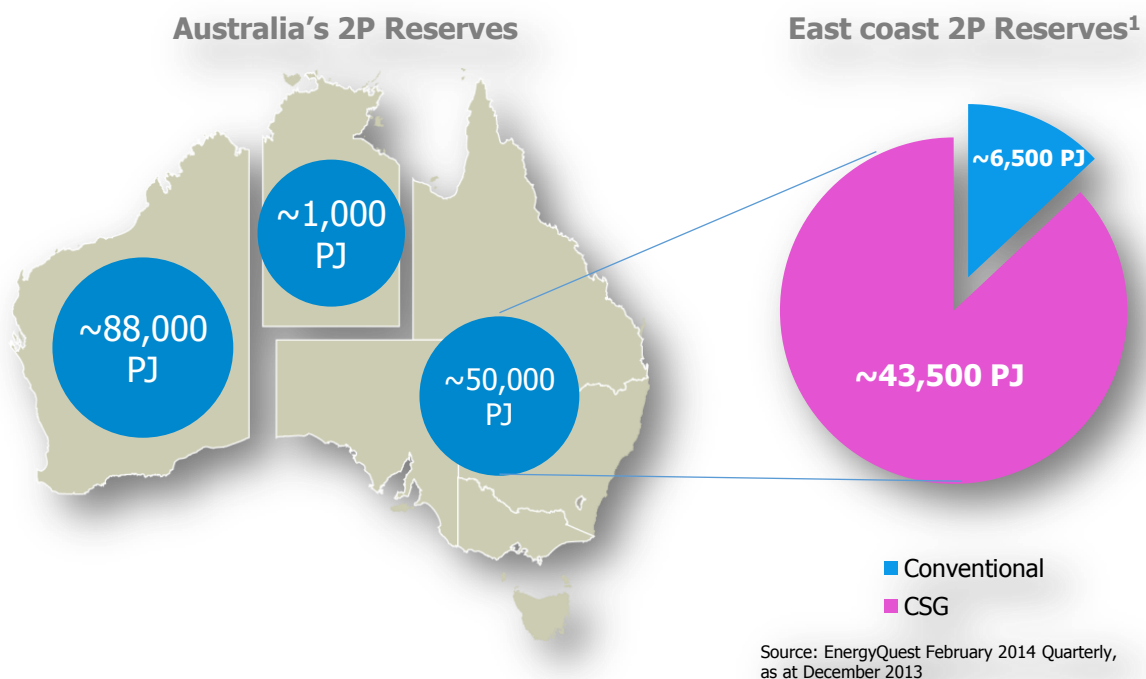
As is clearly outlined in our submission, the East Coast Gas market will triple in size by 2016 precisely at the same time NSW historic gas contracts expire.

Fortunately the answer for NSW is simple - producing its own gas will put downward pressure on prices. The basic economic principle of supply and demand - more supply will result in a cheaper price is as true for NSW as it is for the United States, Queensland or the Northern Territory.

Again, fortunately for NSW, it has abundant gas resources. As our submission outlines, NSW has one of the largest undeveloped resources on the east coast of Australia. Local projects such as Santos' Narrabri Gas Project, could meet up to half of the State's demand, and thereby put downward pressure on gas prices

It is interesting that some political parties and affiliated groups have called for a total ban on developing natural gas held in coal seams. It is important to understand what this would mean in practice – this chart of the **Eastern Australia Gas Reserves** highlights that over 85% of Eastern Australia's known natural gas reserves are found in coal seams.

Eastern Australia 2P reserves



CSG is not new; today over 30% of the gas we use comes from these coal seams.

The impact such a ban would have on gas prices to families and job losses by industry would be hard to quantify.

COUNTERING ARGUMENT

There are some submissions before the committee that argue that no amount of additional NSW gas production will impact price. These arguments are fundamentally flawed. Amongst other errors they ignore three basic factors:

- The Queensland LNG facilities are not an unlimited sink for new gas supply. The three projects have a fixed demand due to the size of their processing equipment;
- Global precedent - the recent US example has seen a more than halving of price due to new supply sources in a demand market ten times the size of Eastern Australia's recently expanded market; and
- Transportation costs. If NSW continues to seek to rely on interstate supplies alone it will pay the additional cost of transporting gas produced in those States thousands of additional kilometres.

NSW GOVERNMENT RESPONSE

The NSW Government has the ability to mitigate future natural gas price rises.

Energy users in this State, like all other States in Australia, require the Government to put in place regulations that:

- protect the environment;
- enable co-existence with traditional land use; whilst
- supporting the safe and timely development of natural gas projects..

This has been done in every other State in Australia and I am sure NSW will be able to rise to this challenge.

CONCLUSION

In conclusion - NSW has the ability to become self-sufficient in its natural gas requirements for decades if it takes the opportunity to develop its own natural gas resources.

Alternatively, failing to develop these resources will result in:

- less secure energy supply; and
- higher and more volatile gas prices for NSW families and businesses into the future.

It will also cost the State jobs and royalties, which could deliver roads, schools and healthcare - particularly in regional NSW.

Santos is committed to playing our part, pursuing any development of the Narrabri Gas Project in a safe and sustainable manner while ensuring the environment is protected... so as to deliver energy security for the people and businesses of NSW.

Thank you.

I look forward to your questions.