

Question tabled at Narrabri CCC #5

Q. Why does the NSW Government continue to support the Narrabri Gas Project as a 'strategic energy project' despite the recent NSW Parliamentary Inquiry into the Supply and Cost of Gas and Liquid Fuels in NSW, finding that 'increased domestic supply of gas will NOT by itself lead to reductions in gas prices, or even a reduction in the rate of price increases, because the predominant driver of domestic gas prices will be the international gas price and an indigenous NSW gas supply would be very small in the context of the world market and will not impact upon the world price?'

Gas Supplies

The eastern Australian gas market is facing a period of significant change in both supply and demand dynamics over the coming years.

NSW is heavily dependent on gas imported from other States. Of the 160 petajoules of gas we use each year, 95 per cent comes from South Australia, Victoria and Queensland.

However, long-term, low-cost contracts associated with these imported supplies are coming to an end over the next three years.

While some new contracts are being agreed, the volume secured may not be sufficient for the State's needs and the price will be higher.

These price increases are being driven by new liquefied natural gas export facilities coming online in Queensland. These dynamics are playing out swiftly – there is no gentle transition.

The Australian Energy Market Operator (AEMO) has now conceded shortfalls are highly unlikely for at least 20 years, overturning previous forecasts of anticipated shortages.

A more careful reading of the report clearly indicates that the reason for this extra supply is the forced closure, in part, of a number of high gas use major industries.

It's simple economics – less demand means greater supply. But that simple economics hides a major vulnerability for New South Wales in the shape of thousands of jobs lost.

NSW manufacturers, electricity generators and other industries relying on gas employ over 300,000 people and require affordable and competitive gas supplies. It remains a critical issue for NSW.

This was highlighted in submissions from manufacturing companies to two inquiries in the NSW Parliament over the last two years looking at gas supply issues.

Those submissions provided examples of job losses and decisions to locate businesses in other states. The impacts of these are real and often in regional economies.

This includes a decision by a major food processing company to build a new plant in Victoria rather than expand operations in NSW.

There is still an urgent need for increased gas supplies in this state to allow industry to remain viable and competitive. They need regular gas supplies, at a sustainable price.

AEMO's report notes a number of decisions by companies to cease or scale back operations which is driving down gas demand – Shell Clyde Refinery, Caltex Kurnell Refinery, AGL Hydrocarbon Extraction Kurnell, Alcoa Yennora and CSR's Viridian Ingleburn.

Rising gas prices are cited as one of the factors influencing these decisions.

The NSW Government, through the Gas Plan, is implementing a number of measures to improve affordability and keep manufacturing in NSW.

To put downward pressure on energy prices we need the growth of our own viable gas projects.

Increasing gas supplies is about working on all options, including expanding existing gas pipeline capacity from other States and examining the proposed pipeline from the Northern Territory.

These measures are actions that others, including the Grattan Institute, have proposed as necessary to keep downward pressure on prices.

Manufacturing Australia's action plan for gas market reform released on 13 April 2015 also highlights that the NSW Government is moving in the right direction.

If the current rate of gas consumption remains static, NSW will have enough gas supply for at least the next 20 years.

It might even be longer if more industries close their doors as a result of uncompetitive energy prices.

The reality is that if we want industry to thrive in NSW and employment to increase, we must ensure that gas supplies are constant, affordable and produced in an efficient and environmentally sustainable manner.