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SPEAKING ON A PANEL AT AUSTRALIAN DOMESTIC GAS OUTLOOK 2018

4:30PM-5:10PM, 28 FEBRUARY 2018

FOUR SEASONS HOTEL, SYDNEY

BACKGROUND

The 2018 Australian Domestic Gas Outlook Conference is a widely attended forum for energy suppliers, users and governments. The focus of the panel is how the Australian market can improve competitiveness, efficiency and longevity.

PANEL REMARKS BY INNES WILLOX AT AUSTRALIAN DOMESTIC GAS OUTLOOK:

Eastern Australian gas markets are in a better place than they were one year ago. Then, industrial gas users were facing extraordinary price offers, in some cases above $20 a gigajoule, with retailers blaming surging spot prices and a lack of contractible supplies.

Today, the situation has improved after action by the gas industry, taken in response to pressure from the Federal Government, which in turn acted on the urgent advice of Ai Group and horrified energy users.

The commitments that have been made to supply the domestic market are significant. Prices have fallen and more supply is available for contract. There are a number of emerging medium- and long-term options for more suppliers and sources of supply to avoid future shortfalls.

Shell's Arrow gas development in Queensland is very significant at 240 petajoules a year once at full scale. We don't see big barriers to this delivering a significant easing to the market balance.

We now also have at least two serious proposals for east coast LNG imports: AGL at Crib Point, and Australian Industrial Energy at a NSW industrial port to be determined. If they both decide to go ahead this year – and they easily could – we will have the capacity to bring in around 200 PJ a year from 2020-21. That gas could come from WA, the Middle East, the USA – and turn export parity into a price ceiling as well as a floor.

Northern Territory onshore shale gas could be huge, though more drilling is needed to establish commerciality. Some of that gas could come east with expanded or new pipelines. The current NT Fracking Inquiry seems likely to recommend tough regulations to replace the current moratorium. If the Government gives fracking the go ahead, as Ai Group and many energy users have urged, it will take a few years to bed the system down and get development going.

Narrabri gas (up to 50 PJ/yr) would be handy, but faces high costs and significant regulatory hurdles.

Victorian onshore conventional gas is probably eight years away from market, if there is actually commercial gas there and politics is cooperative.

If lots of these options go ahead, we will have a more vibrant and competitive gas market. Scarcity should be banished.

But:

- all of these supply options have significant costs – for extraction, for transport, for compliance.
- Many of them face challenges to their social license.
- And none of them change the expectation of export-linked prices.

That would still see very substantial challenges to gas use in Australia.

Ai Group's member businesses are still reporting gas prices up to the mid-teens, well above a simplistic netback benchmark – though Japanese spot LNG prices have also risen in recent months.

There seems to be an emerging consensus that once Eastern Australia is over the gas pinch, prices will wobble around in a broad range of $8 to $12 per gigajoule. Ai Group doesn't deny that consensus – that seems to be where oil-linked netback and relatively expensive supply options take us.

But there is a very big problem here.

Even after a recent bounce, spot gas prices in the United States are less than $5 AUD per gigajoule. Recent conversations with a range of US gas stakeholders suggest that huge shale resources rich in both oil and gas will keep American prices low. Even businesses bullish on strong American LNG export growth saw this only pushing US prices to the $5-$6 AUD range.

Australia's large unconventional gas resources seem to be relatively high cost, with valuable oils low or absent. We are at risk of a structural disadvantage for gas intensive activities in Australia versus the US, or the Middle East where low-cost conventional resources remain plentiful.

Without great strides in competition and efficiency, we can expect Australian domestic gas demand to decline across all segments. Gas-intensive industry is obviously vulnerable. For many households, electrified heating, cooling and cooking are increasingly attractive. And in power, the two roles of gas – providing large volumes of energy and highly flexible capacity – are both vulnerable to high prices as rival technologies improve.

Ai Group is keen to see Australia's energy-using industries prosper, and so I hope is the gas sector. **Efficiency** is going to be vital on the supply and demand sides.

Can producers and suppliers wring substantial costs out of production, transport and retail? You don't know what you can achieve until the crunch comes, and the Australian gas supply chain has felt intense cost-down pressure over the past few years of low oil prices. Can we achieve further cost reductions? I hope so. But I have two doubts:

- Geology is not cooperative. Gas has been cheapest when co-produced with oil, and most of our new resources are oil-free coal seam gas.
- Even if production costs can be cut further, export parity pricing is likely to remain dominant.

That said, let's see what cost reductions gas suppliers can come up with under strong competitive pressure.

On the demand side, high prices make efficiency and judicious substitution vital. More and more energy users are looking at their options. Some are making use of the information, capacity-building and financial support available through the grab-bag of State Government efficiency initiatives. Scaling up these policies – and making them more consistent and coherent – would be a good investment in jobs and growth.

Efficiency can help gas users remain competitive, particularly if they have high value-added or other strengths to play to. But the most large-scale gas-intensive activities will be increasingly challenged in Australia if we remain a permanently high-cost gas market. Either they won't be gas intensive – or they won't be in Australia. Local suppliers would lose out either way.