NARRABRI GAS PROJECT

<u>FURTHER SUPPLEMENTARY</u> SUBMISSION TO THE NSW INDEPENDENT PLANNING COMMISSION

SUBMISSION <u>OPPOSING</u> THE PROJECT

BY

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Office of the Independent Planning Commission
Level 3, 201 Elizabeth Street
SYDNEY NSW 2000

Dear Sirs,

RE: NARRABRI GAS PROJECT
FURTHER SUPPLEMENTARY SUBMISSION OPPOSING THE PROJECT

1. Introduction

My name is John Alden.

I lodged a submission to the IPC dated 22 July 2020 (typo error – the date was incorrectly shown in my document as 22 June 2020) which was uploaded on the evening of 22 July 2020.

I also spoke to the Commission on the afternoon of Thursday 23 July 2020.

I also lodged a supplementary submission dated 8 August 2020.

This further supplementary submission relates specifically to the submission by **Santos** titled: ***"Submission to IPC following public hearing"*** dated 10 August 2020.

I have not repeated the contents of my original and supplementary submissions, which should be referenced when reading this further submission.

Because of time constraints it has only been possible for me to comment on two aspects of the Santos submission, as follows:

a) The general character of the Santos submission, and

b) Project Viability

2. General Character of the Santos Submission

The Santos submission is mainly in the form of a series of relatively general statements, which lack the detail and rigour necessary to form a reasonable basis for reliance in decision making.

For instance, in the Executive Summary, Santos refers to the UK where coal-fired power has been almost completely phased out, and replaced to a fair degree by gas fired power. However, there is no balancing reference to the fact that the UK has had access to extensive conventional gas supplies starting with the development of the North Sea gas fields in the 1960s, which provide lower cost gas, and in general lower fugitive emissions than CSG. It also refers only to CO2 emissions and hence ignores the much greater greenhouse impact of any methane emissions. It also fails to refer to current trends in the UK which are towards renewables rather than increased use of gas, consistent with the UK's commitments to reduce greenhouse emissions and to comply with the Paris Accord.

Also, the Executive Summary refers to *"the role Narrabri gas could play in reducing emissions as aging coal-fired power stations close in eastern Australia over the coming decades"* without reference to the conclusion in AEMO's 2020 ISP that indicates that gas may have a role in new peaking power plants IF it is available below the $4-6/Gj price range. That is, gas will NOT be used to replace (non-peaking) coal fired plants and given that the cost is too high, Narrabri gas will NOT even be used for new peaking gas power plants.

In short, Santos has used selective statements to "dress up" their narrative such that the general impression would be most misleading to the casual reader and could even be misleading for the better informed reader.

Given the history of Santos's role in the Eastern Australia gas industry, and in particular their similar "dressing up" of what <u>turned out to be incorrect assurances</u> relating to the supply of gas for the Curtis Island LNG facility (with consequent dire consequemnces for the Eastern Australia economy), it is clear that <u>the IPC could not place any reliance whatsoever on any general assertions or assurances provided by Santos</u>, but rather would need to look to independent sources of information that are both rigorous and reliable.

Because of time restraints I have just noted two examples of where Santos's statements are "dressed up" and hence likely to mislead. Fortunately the IPC has the professionalism and resources to be able to properly interrogate Santos's claims and of course to see through the inherent proponent bias that permeates their submission.

3. Project Viability

At Section 2 Santos refers to the effect of the project on NSW gas prices, and a supporting study by ACIL Allen.

There is no mention of the ACCC's Gas Inquiry 2017-2025, although Santos would be well aware of the inquiry and of the general tenor of ACCC's concerns when preparing their response. Failure to refer to this is of itself misleading.

The ACCC's interim report was released on 17 August 2020, that is after Santos's submission of 10 August 2020. As noted above, through Santos's extensive involvement with the Inquiry the contents of the report would have come as no surprise.

The ACCC's media statement on release of the report states in part:

> *Australia's east coast gas users are paying prices significantly above export parity prices, the ACCC's latest gas report reveals.*
>
> *The ACCC's Gas Inquiry 2017-2025 Interim Report, released today, shows that prices offered to domestic gas users in late 2019 and early 2020 ranged from $8 to $11/GJ.*
>
> *While this was down slightly from the $9 to $12/GJ range observed earlier in 2019, this price decline was not in line with the significant and sustained drop in LNG netback prices, which were for 2021 delivery below $6/GJ by early 2020 and have been below $5.50 since May.*

“The ACCC is very concerned with the widening gap between domestic and export parity prices, which will have an inevitable impact on Australia’s industrial sector during what is already a difficult economic period,” ACCC Chair Rod Sims said.

“Queensland LNG producers sold 18 LNG spot cargoes into international markets in late 2019 and early 2020, equivalent to more than 10 per cent of annual domestic east coast demand. This gas was sold at prices substantially below domestic gas price offers, showing the importance of our continuing work to understand the drivers behind the price levels we are seeing across the domestic market.”

“It is also clear that recent Australian contract gas prices do not reflect overseas forward prices.”

“I am yet to hear a compelling reason from LNG producers as to why domestic users are paying substantially higher prices than buyers in international markets.”

“When we have lower gas prices around the world, and the Australian market linked to world gas markets, it is vital that Australian gas users get the benefit.”

And also states in part:

Recommendations to address price concerns

The ACCC recommends the extension of the existing Commonwealth Government’s Heads of Agreement with LNG producers, due to expire at the end of 2020, because of the demonstrated capacity of LNG producers to supply additional gas into the domestic market when needed.

“As well as extending this Heads of Agreement, we think the government should consider strengthening the agreement’s price commitments,” Mr Sims said.

“For example, reference could be made to LNG netback price expectations and the prices LNG exporters could expect to receive for uncontracted gas in overseas markets over the relevant period.”

Put simply, the ACCC is recommending <u>both</u> a form of domestic reservation through extension of the Heads of Agreement, and also price constraints linked to net-back targets.

Adoption of the ACCC’s <u>recommendations</u> (not merely suggestions) would make Narrabri gas uneconomic.

Although Santos would have been well aware of the ACCC’s concerns and the potential impact on the Narrabri Project, they have not identified these risks and in so doing have produced a misleading submission. They presumably have their fingers crossed hoping that the ACCC’s recommendations will never see the light of day, but of course that is not an option for the IPC.

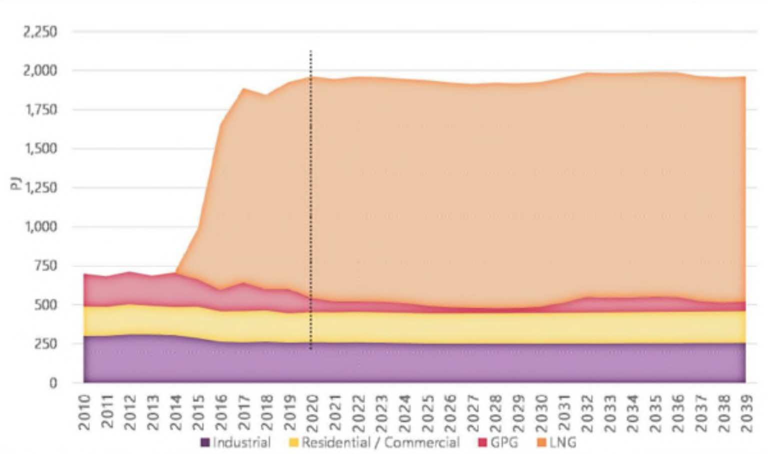
In this respect it is noted that Santos’s assurances that there would be enough new gas developed to feed the full scale of the Curtis Island LNG export facility were unreliable, leading to a major economic disaster for Eastern Australia.

Given the consequences that have flowed from an acceptance of those assurances by the relevant decision makers, I am confident that the IPC, with the benefit of that hindsight, will not fall into the same trap.

ACIL Allen’s report contains the information which amply illustrates the problem with current gas supply and pricing, reflected in the above statements by the ACCC.

For instance, their Figure 2.2 (see below) shows that the vast bulk of gas supply is exported, with the residual consumed domestically. There has been a rapid drop in gas use for power generation in the last decade, particularly as diversion of third party gas to overseas markets pushed the price of gas up and power utilities responded through investments in renewables. In particular South Australia has reduced power prices by reducing its reliance on gas. Hence gas demand in the power industry is elastic in relation to gas prices.

FIGURE 2.2 2020 GSOO EAST COAST GAS CONSUMPTION



SOURCE: (AEMO, FEBRUARY 2020)

ACIL Allen confirm the problem at Section 2.3.1 where they state:

"LNG developments have seen the rapid expansion of gas production from CSG fields in Queensland. A large part of the gas production capacity in Eastern Australia has now been committed to supplying the LNG projects on a long-term basis. This includes not only the Queensland CSG projects controlled by the LNG proponents, but also large volumes of third-party gas reserves that are now committed, under long-term contracts, to supply additional gas for LNG production."

That is, the gas exporters effectively control the whole of the east coast gas supply, including not only their own supply but also third party supplies locked up by them on long term contract terms.

As noted by ACIL Allen, domestic prices tend to fall when overseas demand drops and the gas exporters release more gas into the domestic market. In short, the east coast economy has been and is being held hostage to the decisions of the gas exporters which are made for their own private profit optimisation (or loss minimisation) only.

The circumstances are such that the combined actions of the gas exporters have an effect similar to that of a cartel. The frustration expressed by the ACCC is obvious and understandable.

The ACIL Allen study suggests that development of the Narrabri project could "**potentially"** (my emphasis) place modest downward pressure on the existing excessive and unreasonable gas prices (as per the ACCC Gas Enquiry Interim Report and press release).

The implicit assumption which forms the basis of the study and report is that the existing disfunctional market structure will be allowed to continue, and hence that the gas exporters will continue to control the market and in effect charge whatever it suits them to charge (and impose onerous contract conditions on gas users – another major concern of the ACCC).

This is a totally unreasonable assumption. Either the cartel-like market control will be disrupted by regulators, as the ACCC is recommending, or users will take action to disrupt the current system. For instance, AGL has made it clear that its proposal for an import terminal is aimed at giving it some control over gas supply, in terms of volume, reliability, price, and very importantly contract terms. It might be colloquially described as a cartel-busting proposal.

In other words, the basic premise of Santos's proposals is a totally unreliable assumption that even if sustained in the short term, will most certainly fail in the medium to long term.

4. Conclusion

As stated in my previous submissions, Narrabri gas is simply too expensive, with the project only viable if a disfuntional market which allows domestic users to be grossly overcharged can be sustained.

An assumption that such a situation would be sustained in the medium to long term is a totally unreliable assumption, and could not form the basis of any decision by the IPC. As a result, the IPC has to proceed on the basis that commercial failure is both possible and probable, and that the public purse would then be left wilth the consequences of that, on top of all the other risks that the project involves.

On this basis ALONE the proposal should be rejected.

Yours sincerely,

John Alden

ANNEXURE A

REFERENCES

1. Santos submission dated 10 August 2020

Narrabri Gas Project (SSD 6456)

Submission to IPC following public hearing

10 August 2020

2. ACCC Media Release dated 17 August 2020

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Domestic gas users paying too much

Listen

17 August 2020

Australia's east coast gas users are paying prices significantly above export parity prices, the ACCC's latest gas report reveals.

3. ACCC Gas Inquiry 2017-2025 Interim Report dated July 2020

ACCC AUSTRALIAN COMPETITION & CONSUMER COMMISSION

Gas inquiry 2017–2025

Interim report

July 2020