

The Earth Resources Foundation / University of Sydney

Oil and Gas in South East Australia

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NSW Gas Market

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Executive Summary:

Natural gas, or methane, has long been recognized throughout the world as the cleanest and most efficient hydrocarbon energy source. As world wide gas supplies have grown, gas related infrastructure developed, and environmental and resource stewardship issues escalated, the phrase “dash to gas” has become prevalent, especially in OECD countries. Gas that was once considered, in places such as the United States and the U.K., too valuable to “waste” on such applications as power generation is now displacing coal, uranium, and hydro in the high growth rate power generation sector.

U.S. based energy giant, Enron Corp, is widely recognized as a leading source on energy matters and predicts that gas will overtake coal as the second most widely used fuel worldwide (behind oil) by the year 2015. Gas is considered to be by far the best fuel to bridge the current hydrocarbon energy era with the renewable energy era of the future. The only disadvantages of gas are that it is not easily stored or transported. For this reason, its use in the large transportation fuel sector of the energy market is very limited.

The six million residents of New South Wales consume about 30% of the nations total energy demand. Despite the inherent advantages of utilizing gas, the energy mix of New

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South Wales is approximately: 54% coal, 39% oil, and 7% gas. This compares to a gas penetration of 23.7%, 22.3% and 17.7% on a world, OECD, and Australia wide basis respectively. New South Wales is clearly lagging in the use of gas for its energy requirements.

Gas was first supplied to New South Wales from gas fields located in South Australia in 1976 and its use rapidly grew until the early 1980's. Since then, however, gas demand in New South Wales has been rather stagnant, reflecting a strong bias towards far less environmentally friendly, less efficient, and lower cost indigenous black coal. Delivered prices for gas imported by pipeline from South Australia have historically been relatively high; thereby exacerbating the problem.

Current annual gas consumption in New South Wales is only 128 petajoules or less than 16% of Australia's total gas consumption. Historically, the gas supply chain has been dominated by two monopolies, namely the Cooper Basin gas producer joint venture and AGL's pipelines, distribution, and retail businesses. The lack of supply competition for in excess of twenty years has resulted in low levels of service, excessively high margins or monopoly rent extraction, and general customer dissatisfaction. The "gas franchise" of the past has created a gas market that is full of distortions and perverse incentives. The high volume price sensitive segments of the gas market, namely power generation, petrochemicals, and mineral processing, have been severally stunted.

The introduction of gas reform in Australia, the commencement of gas exploration in New South Wales, and the construction of new gas pipelines from alternative gas fields should assist in unleashing market forces. There is a tremendous amount of latent gas demand and corresponding public benefit in New South Wales. The key to continued prosperity for New South Wales is far greater reliance on gas as an energy source. The key for the gas industry is greater competition along the entire supply chain.



The global economy, however, does not wait on stragglers. Time is of the essence! Now is the time to:

- lower delivered gas prices through the promotion of greater competition;
- stop subsidizing the destruction of the ecosystem;
- remove the many distortions prevalent in the New South Wales gas market; and
- generally promote gas as the preferred energy source until such time as renewable energy sources can make a significant contribution to meeting energy demand.

