

BUSINESS NSW

2 February 2021

Gas Taskforce
Department of Industry, Science, Energy and Resources
GPO 2013
CANBERRA ACT 2601

Dear Gas Taskforce

BUSINESS NSW SUBMISSION ON GAS FIRED RECOVERY PLAN

Business NSW welcomes the opportunity to consider and respond to the Australian Government's plan for a gas fired recovery from COVID-19, including the National Gas Infrastructure Plan (NGIP).

In December 2019, *Business NSW* released our report *Running on Empty*, which highlighted the challenges facing NSW businesses if new sources of gas production and improvements to gas transport infrastructure were not found.

Our analysis found a commercial bakery in NSW would pay a premium of \$26,400 a year over an equivalent business in Queensland, a galvaniser \$66,000 more, and a tomato processor a staggering \$369,000 in gas transportation costs alone. At least 300,000 jobs in NSW, including 250,000 in manufacturing industries, depend on adequate and affordable gas.

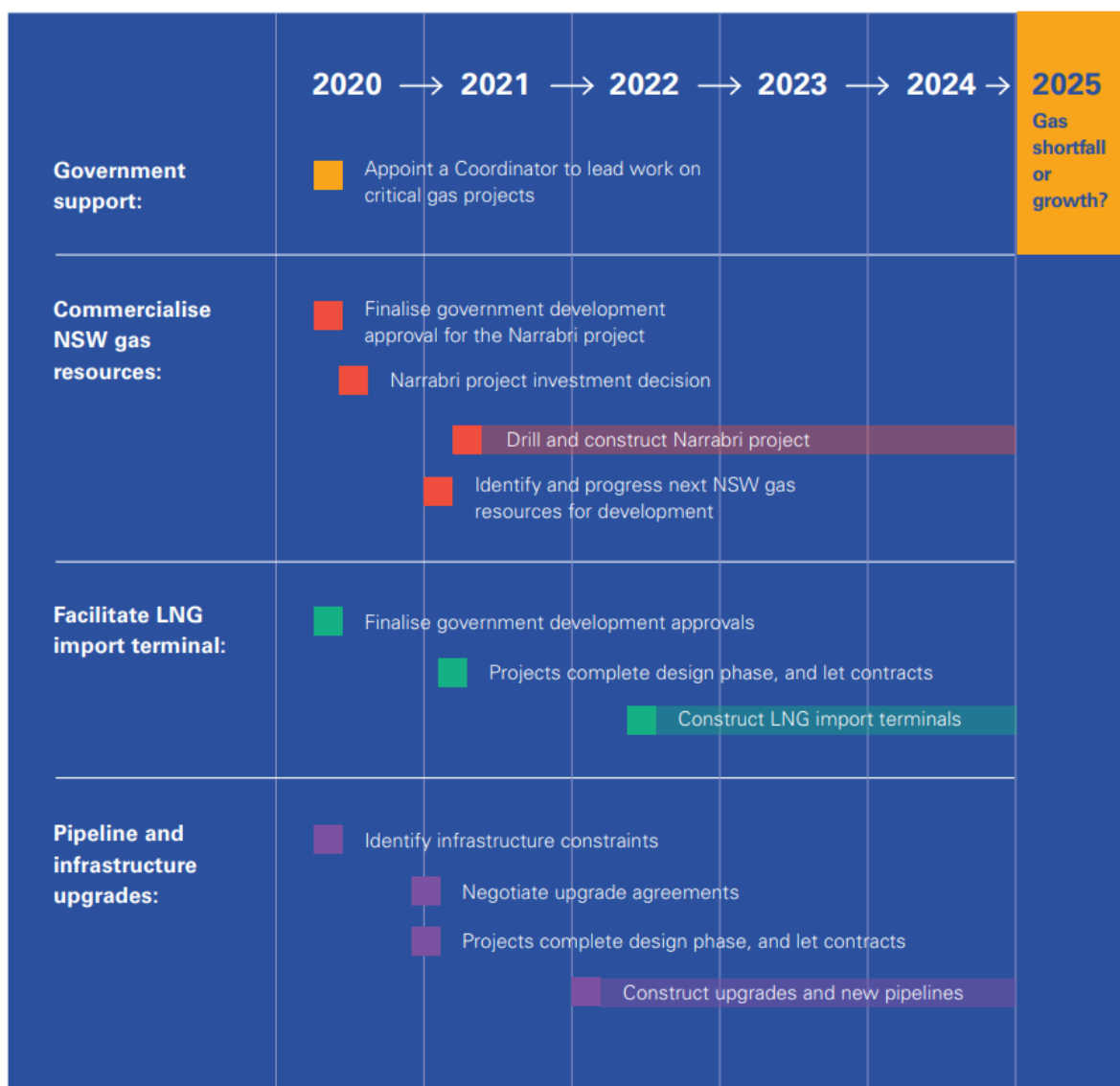
Running on Empty backed a program of pipeline and infrastructure upgrades to expand capacity, as part of its Gas Road Map to bolster the NSW gas market (Figure 1).

Development at Narrabri

The Narrabri Gas Project was the most significant and urgent element of that road map to avert the supply shortfalls projected by AEMO for the winter of 2025. With State and Federal government approvals now in hand, Business NSW awaits the final commercial decision by Santos to proceed with the development.

If gas-fired electricity generation is commissioned as part of the NSW Government's Electricity Infrastructure Roadmap (firming component), there may be the opportunity to co-locate it in the New England region, particularly with new electricity transmission capacity also forthcoming. However, *Business NSW* recommends that decisions around the location (and technology) of firming generation emerge from the auction processes being developed, rather than being prescribed by this or other policy initiatives.

Figure 1: Business NSW Gas Road Map



Source: EnergyQuest analysis

Facilitating LNG import capacity for NSW

There are two LNG import facilities proposed in NSW: the Australian Industrial Energy (AIE) project at Port Kembla and the EPIK project at Newcastle. Both would utilise Floating Storage Regasification Units (FSRUs).

AIE has flagged it would take between 12 and 14 months to install its regasification facility, allowing for a slightly less urgent construction timetable. *Business NSW* supports one or both LNG import terminals moving to construction by 2022.

Benefits of LNG import capability

In a tight gas market, supply disruptions are most likely on peak demand days. As already discussed, current forecasts indicate that there will be insufficient gas to meet winter peak

demand in 2025. The ability to source and process additional LNG shipments, up to the capacity of the regasification and pipeline infrastructure, is an additional flexibility for adding gas supply volume to NSW, especially for the peak winter season.

NSW relies on three long distance pipelines from other states for its gas supply. The increasing requirement for additional gas from Queensland, especially for peak days, will be constrained in the future. LNG regasification in NSW would provide high volume gas supply which does not rely on the interstate pipelines. Moreover, regasification would be a competitive alternative to incumbent pipeline assets creating market alternatives for gas buyers and limiting the prices pipeline owners are able to charge.

With decreasing gas reserves, producers become more averse to agreeing to long-term contracts which may extend beyond their reserves portfolio or lock out higher price opportunities. The trend is to write shorter contracts to minimise these risks. However, for large gas users this can be a problem as they may require long-term gas supply certainty to underpin multi-million dollar investments.

As an LNG import terminal has access to the global gas supply market it is not limited by local production trends. There will still be issues regarding the cost of the imported gas, but there are normally options to link it to oil prices, the US Henry Hub or other international benchmarks to mitigate some risk.

Within the competitive gas industry of the east coast, prices are influenced by gas production for the domestic market and LNG net back gas, i.e. gas that could otherwise have been exported, but is redirected into the domestic market. LNG import terminals would give NSW access to the large volumes of LNG traded on the LNG spot market – providing NSW gas users are willing to bear the price.

Pipeline and infrastructure upgrades

Pipeline infrastructure needs to reflect that the balance of NSW's gas supply has shifted from Victoria to Queensland. Existing pipeline bottlenecks need to be identified and upgraded to ensure reliable gas supply to users. However, actions to only improve pipeline capacity will have limited effect on gas supply, at best, deferring the projected shortage from 2025 to 2027.

Business NSW recommends attention be focused on pipeline infrastructure to support:

- proposed LNG import terminals, including
 - pipeline capacity from Australian Industrial Energy's (AIE) Port Kembla regasification facility to the Sydney gas hub at Wilton. The new pipeline proposed by APA would need to transit populated and environmentally sensitive areas which may slow the construction timeframe
 - pipeline capacity from EPIK's Newcastle regasification facility to Sydney
- gas conveyance from Moomba and northern Australia, including:
 - the proposed pipeline from Narrabri to the Moomba Sydney Pipeline (MSP), including peak day modelling and compression requirements for despatch into the MSP
 - MSP pipeline capacity and utilisation
 - Moomba hub pipeline connections and compression limitations on the south-west Queensland pipeline to Moomba and the MSP
 - utilisation of Moomba underground storage to support NSW peak days and supply constraints

- large scale pipelines to connect NT pipelines to Moomba and the east coast.

Energy transition

Running on Empty focused on meeting the gas supply needs of businesses in the second half of the 2020s, a time when AEMO has warned about potential shortfalls in gas supply. While biogas and hydrogen are intriguing possibilities for the future, it is unlikely that they can be developed quickly enough to make a material contribution to NSW's gas supply before the forecast gas shortfalls emerge.

Government will need to strike a balance between averting precipitous supply shortages in the 2020s, while facilitating transition to low-emissions energy supply through the 2030s and '40s. Designing new pipelines and equipment like compressors or storage facilities to be hydrogen-compatible will help. Infrastructure which is solely natural gas dependent, and does not have applicability to hydrogen or other greenhouse gas emission-free technology, should be funded and depreciated in a way that does not rely on any mandatory repayment from taxpayers or regulated billpayers after 2050.

While some private enterprises may wish to take the risk that their projects are still viable in a carbon-constrained future, that risk should not be transferred to gas-consuming businesses or taxpayers. The NGIP process should ensure that, as far as possible, infrastructure which is supported has sufficient adaptability to cope with the inevitable transition, and avoids using taxpayer/billpayer money to underwrite projects at a significant risk of becoming stranded assets.

If you have any questions about our submission or would like to discuss in more detail, please feel free to contact me at simon.moore@businessnsw.com.

Yours sincerely

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