West Australian
Monday 24/7/2006
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Gas hold plan under fire

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Premier Alan Carpenter's plan to force gas producers to reserve up to 20 per cent of their reserves for domestic use threatened billions of dollars in proposed investment in WA's liquefied natural gas industry, a new study has found.

The warning, in a report by economic consultant ACIL Tasman commissioned by Collie coal power generator Griffin Energy, comes amid mounting opposition to the controversial plan from industry, coal unions and even Collie State Labor MP Mick Murray.

The Premier believes local industry may be left without sufficient cheap gas supplies by 2020 unless producers are prevented from exporting all their reserves as liquefied natural gas.

According to Government forecasts, WA needs to reserve at least 15 trillion cubic feet of gas — more than remaining reserves at the North West Shelf — to supply projected demand to 2040.

But ACIL Tasman's report warns that the reservation strategy could render new LNG projects planned off the WA coast uneconomic. It also argues the proposal may ultimately reduce the number of domestic gas suppliers, resulting in higher domestic energy prices. ACIL Tasman said it believed sufficient gas was already likely to be available for future domestic use from projects such as the $11 billion Gorgon LNG venture.

Though Gorgon is currently required to reserve just 1.85tcf for domestic use out of its 40tcf reserve base, the forecaster said it would probably supply far more to WA users as long as domestic gas prices were sufficient to support costly "domgas" processing infrastructure.

"Given that additional LNG sales are not likely under the initial field development, the Gorgon joint venture's options for dealing with the surplus proven reserves . . . would be to either sell the gas into the local market or to leave it in the ground for future development," the report says.

Gorgon would therefore be expected to market domestic gas "aggressively" regardless of any domestic gas reservations requirements, the forecaster said.

Conversely, planned LNG developments — most notably Woodside Petroleum's Pluto and Browse ventures, jointly worth $15 billion, Inpex's $8 billion Ichthys project, and BHP Billiton's $5 billion Scarborough project — would only be viable if all production was sold at international LNG prices.

LNG currently fetches more than twice the price of gas sold on the WA market.

Gas reservation could also undermine the viability of smaller gasfields which could not support LNG facilities and were naturally suited to domestic markets, the report said.

By the end of this year, such projects will account for 40 per cent of WA's gas supplies.

While Federal Resources Minister Ian Macfarlane opposes reservation, WA Opposition leader Paul Omodei has expressed qualified support, as has WA's biggest industrial gas consumer, Alcoa.

Alan Carpenter: Bid to reserve gas.