

Lack of competition behind gas shortage

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There is an obvious irony in Burrup Fertilisers chief Pankaj Oswal providing the gas that yesterday helped spare households in Perth and Karratha from the threat of rolling power cuts during the sweltering summer heat.

About six months ago, *The West Australian* revealed how Mr Oswal's plans to invest \$1.2 billion on a second gas-processing plant on the Burrup Peninsula had been frustrated by a lack of domestic gas supplies.

"If someone can get gas right now, well hats off to them because the Government is giving it all away to LNG production," Mr Oswal said in June. "We'll move to where the gas is available."

The source of Mr Oswal's frustration also explains why the reliability of electricity supplies cannot be guaranteed in WA, even in a period when the State is basking in such buoyant economic times.

The fundamental problem is that the gas supplies which are such a critical fuel source for power generation in the South-West grid — and elsewhere in the State — are about 1500km away. And that problem is compounded because most of Perth's domestic gas comes from a single

supplier, the Woodside Petroleum-managed North-West Shelf, and is transported south down a single pipeline.

The events of yesterday underscore that the Dampier to Bunbury natural gas pipeline is one of the State's vital arteries.

The problem with building a second pipeline — which Alinta and Multiplex once contemplated — is that it is not financially viable under the regulated tariff arrangements.

That is because unless a Monty of a project like an aluminium smelter pops up in the south, there would not be enough anchor customers to underwrite such a venture, which would cost up to \$2 billion.

It is why the owners of the Dampier to Bunbury pipeline are incrementally increasing its capacity as new customers commit to take extra gas.

However, even having a second pipeline would not overcome the fundamental gas shortages which have already driven domestic gas prices to the point where companies such as Alinta are shelving their plans to build any more gas-fired power stations. That shortage will not be overcome until alternative sources of domestic gas come on

stream, such as from the proposed Gorgon and Pluto LNG developments.

As former Opposition leader Colin Barnett has stressed, if there is a role for the State Government in all this it is to ensure developments like Gorgon and Pluto produce firm domestic gas supply commitments from the time their backers start exporting LNG rather than allowing the developers to defer their obligations into the future.

Ironically, against a backdrop of heightened greenhouse awareness, the winners from the gas dramas are Perth's two coalminers, conglomerate Wesfarmers and Ric Stowe's Griffin Group.

The WA Government last month underwrote a new \$500 million coal-fired power station for Mr Stowe's company when State-owned retailer Synergy agreed to take all 200MW of generation capacity from the second Bluewaters plant in Collie.

As yesterday's events have highlighted, coal's value as a reliable and cheap source of fuel for electricity generation will continue to make it more and more appealing in WA until there is true competition in the WA domestic gas market.