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DomGas calls for producer incentives

■ Rebecca Lawson

A GROUP of the state's big gas users have called on government to adopt a fiscal incentive package that will encourage domestic gas supply and reduce the current focus on liquefied natural gas (LNG) exports.

The DomGas Alliance, which includes Alinta, Burrup Fertilisiers, Horizon Power and Verve Energy as members, released a report last week for the both the state and federal governments consideration.

The alliance calls for a number of incentives for domestic gas developments, including: state grants; state royalty concessions such as royalty holidays or reduced royalty rates; increased tax deductibility for pre-wellhead expenses incurred by domestic gas developments; and flow-through share scheme for domestic gas exploration and development companies.

> **"...government can play a key role in promoting domestic gas exploration."**
>
> \- Stuart Hohnen

The report concluded that no single tax incentive could ensure domestic gas supply, and that a package was needed to promote the exploration and development of domestic gas fields.

Western Australia is the most energy and gas-dependent economy in Australia, with natural gas supplying half of the state's primary energy needs. Natural gas also fuels 60 per cent of WA's electricity generation.

DomGas Alliance chairman Stuart Hohnen said fiscal incentives were needed to balance the oil and gas industry's current focus on LNG exports.

"Under current tax and royalty arrangements, there is an incentive for producers to develop Australia's natural gas resources as large-scale LNG projects," Mr Hohnen said.

"Through targeted incentives, government can play a key role in promoting domestic gas exploration and development."

Mr Hohnen added that governments had long used fiscal incentives to promote national goals like promoting investment and the environment.

He said ensuring energy security was of national interest and crucial to Australia's economic future.

"Governments benefit by having access to tax and royalty streams over the life of a project," Mr Hohnen said.

"And the wider economy benefits from greater competition, diversity and security of energy supply."

The report says smaller gas fields are subject to a royalty and excise regime, where royalties are calculated on the wellhead value of the petroleum produced, as opposed to profits.

Because of this, producers may incur royalty liabilities for years before fields become profitable. This will impact upon the net present value of the investment.