NWS Project applications for authorisation A91220-A91223

Domgas Alliance - record of meeting

Tuesday 1 June 2010

Domgas Alliance:	ACCC:
Tony Peterson	Commissioner Willett
Frank Tanner	David Hatfield
Allan McDougall	Simon Mitchell
Gavin Goh	

The ACCC discussed the issues raised by the Domgas Alliance in its submission. In addition, the Domgas Alliance made the following key points:

- The WA gas market has changed since the ACCC's Gorgon decision – including announcements by the WA Government regarding funding for the establishment of a gas trading bulletin board and expansion of APA's gas storage facility.
- Energy Access Services is soon to launch a bulletin board/gas trading facility with 4 hubs and at least 12 participants initially.
- It does not consider "LNG-netback" prices are an appropriate benchmark for domestic gas. LNG netback ignores the fact that LNG plants involve significantly higher capital costs (including liquefaction and shipping infrastructure) compared to domestic gas plants. These higher costs must be recouped through higher LNG prices. Conversely, the same return on investment could be achieved from domestic gas prices that are well below LNG or even LNG netback prices.
- It described two reports (by McLennan Magasanik and EnergyQuest in regard to Queensland LNG) which conclude that prices of around $4 per gigajoule for domgas would provide producers with an equivalent return to what they are achieving from LNG. This is substantially lower than the LNG netback price. As a result, the Alliance considers "LNG-netback" pricing would constitute evidence of market power by gas producers.
- There is evidence available that the WA gas market has significant excess demand at present, with the highest gas prices in Australia – so it should be expected that the NWS producers would still supply gas to this market if marketing separately and continue to make investments needed to maintain or increase supply volumes.
- While production and development costs might have increased in Western Australia, they in no way justify the price rises being demanded by the NWSJV producers.
- Current long term domgas contracts start to conclude in a couple of years and there is significant recontracting risk in terms of securing supply at competitive prices.

- International oil and gas companies choose to devote resources to developing fields in countries that place the greatest pressure on them. So Australia's current retention lease system allows producers to delay production of otherwise commercial reserves.
- For example, West Tryall Rocks, operated by Chevron, is subject to a retention lease. A UK company sought permission to develop the field recently, believing it to be commercial, but was denied.
- If authorisation were denied, there are a number of possible ways to transition to separate marketing, particularly with respect to giving effect to existing contracts. For example, existing contracts could be assigned to individual partners according to their ownership share in the joint venture. Alternatively, existing contracts could be grandfathered and any renegotiation or extension be done separately.
- It noted that the NWSJV producers claimed in 1998 that authorisation for joint selling would allow them to double the capacity of the domestic processing plant and increase domestic supply. This expansion was not undertaken despite the ACCC granting authorisation and the NWSJV producers continuing to sell jointly.
- It did not accept the NWSJV producer's justifications for joint selling. In particular, claims by the NWSJV producers that separate selling might result in producers withdrawing from the domestic market was not likely for the following reasons:

    - WA domestic gas prices are now the highest in the country and up to three times that in the Eastern States;
    - producers were deriving premium returns from domestic customers;
    - All projections, including by the WA Department of Mines and Petroleum, point to a significant domestic gas shortage and a "sellers market" until at least 2020;
    - Woodside's public statements have described the Alinta price outcome as providing significant potential for additional revenues and will form a new price foundation to work from for new contracts and renegotiating existing contracts.
    - Woodside's investor statements did not appear to identify the same risks as the NWSJV' producers claim would result should authorisation be refused. Presumably such risks would have been disclosed to the market if they were as significant as claimed.
    - Woodside's investor statements in fact point to the company continuing to undertake new investments to secure ongoing production from the NWS Project.

- The Domgas Alliance has assessed the likely implications of separate marketing and consider that it will deliver competitive benefits and that they recognise that as gas buyers, ultimately they will bear the risk of any negative outcomes associated with separate marketing.