QUESTION ON NOTICE

No. 197

asked on Tuesday, 28 February 2017

MR KATTER ASKED THE MINISTER FOR STATE DEVELOPMENT AND MINISTER FOR NATURAL RESOURCES AND MINES (HON DR A LYNHAM)—

QUESTION:

With reference to the significant issue of energy prices, particularly as our global energy competitive advantage is lost—

Will the Minister advise (a) the amount of revenue the government has received from the export of LNG, (b) how this compares to Treasury estimates of government revenue from LNG exports at the time the LNG export terminals were approved by the government, and (c) the increase in gas prices for large industrial users in Queensland since the LNG export terminals were approved by the State Government?

ANSWER:

As matters (a) and (b) need to be addressed by Queensland Treasury, I refer the member to my colleague, the Honourable Curtis Pitt MP, Treasurer and Minister for Trade and Investment

In relation to matter (c), gas prices for large industrial users in Queensland have increased since the establishment of the coal seam gas (CSG)-liquefied natural gas (LNG) export industry in Queensland. It is estimated that since the three Queensland LNG export projects were approved by the Queensland Government in 2010–11, gas prices for Queensland's industrial consumers have increased from approximately $5.16 per gigajoule to $10.44 per gigajoule (GJ) in 2015 on a weighted basis. These estimates are derived from the 2015 Oakley Greenwood report—*Gas Price Trends*—and represent the average gas price delivered to Queensland's large industrial customers. Of the $10.44 per GJ, $9.43 (90 per cent) was the average wholesale gas cost and $1.01 (10 per cent) was the average pipeline transportation costs.

There are a number of complex factors believed to be contributing to the current high domestic gas prices. Of note is that these factors combined all mean that gas prices are unlikely to ever return to levels prior to the establishment of this LNG industry, particularly, as historic gas prices reflected the fact that gas was a by-product of oil extraction in conventional fields.

The potential for a gas supply shortfall against current LNG contract requirements has resulted in uncertainty and, consequently, fewer domestic gas contract offers are being made and prices are higher than they may be otherwise. The increasing influence of the LNG netback price[1] as a determinant of domestic prices means gas producers previously supplying gas into the domestic market now have a strong incentive to supply their gas to LNG projects. Notwithstanding current low global oil and gas prices (relative to past trends), these LNG netback prices and the subsequent

[1] Netback price is the market value of the gas at the wellhead for gas supplied to LNG facilities. The netback price is worked out by deducting the costs of gathering and compression, pipeline transportation and sea freight from delivered LNG export prices.

price floor in the domestic market are setting prices considerably higher than past domestic gas prices. Furthermore, higher production costs, as gas supply moves from conventional to unconventional resources, are being passed on to consumers.

It is estimated that the average cost of production for gas from the Surat Basin is in the vicinity of $6.00 to $8.00/GJ. The higher costs are associated with the intensive infrastructure needed to support gas development—compression stations, water treatment facilities and gas gathering systems. It would be assumed that a gas producer will want to sell their gas at least at a value equal to average costs plus a return on capital.

At an oil price of US$60 a barrel (and 0.75 AUD:USD exchange rate), a seller supplying gas from the gas hub at Wallumbilla would seek a minimum netback value of $8.72/GJ to sell to either a domestic or export customer. Data from the Australian Energy Market Operator indicates that the benchmark price for gas sold to the domestic hub from the gas hub at Wallumbilla over the week commencing 27 February was on average $9.02/GJ. This demonstrates that domestic gas users need to pay at least the LNG netback to secure gas. It should be noted that, at times, domestic gas consumers do secure gas at prices below the LNG netback.

The policy solutions currently being pursued at both the state and national level seek to address the factors described above to put downward pressure on domestic gas prices. In particular, the Queensland Government is pursuing policy measures through the development of the Queensland Gas Supply and Demand Action Plan to help increase the supply of gas by reducing the costs of exploration and production. The government has also sought to release new acreage in the Cooper, Surat and Bowen basins to encourage exploration. In particular, the government has moved to release 58 square kilometres of land in the Surat Basin which has attached to it an Australian market supply condition. This acreage was released on 10 February 2017 and tenders will close on 20 April 2017. I have also met recently with junior gas explorers to seek their input on how Queensland can bring more gas to market.