

**ECONOMICS AND INDUSTRY
STANDING COMMITTEE**

INQUIRY INTO DOMESTIC GAS PRICES

**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
MONDAY, 18 OCTOBER 2010**

SESSION THREE

Members

Dr M.D. Nahan (Chairman)
Mr W.J. Johnston (Deputy Chairman)
Mr M.P. Murray
Mrs L.M. Harvey
Mr J.E. McGrath

Hearing commenced at 3.00 pm**CALLACHOR, MR DAMIAN CHARLE****Director, Chamber of Minerals and Energy, examined:****CHIASSON, MS MICHELE****Project Officer, Infrastructure, Chamber of Minerals and Energy, examined:**

The CHAIRMAN: Thank you for your appearance before the committee today. This committee hearing is a proceeding of the Parliament and warrants the same respect that proceedings in the house itself demand. Even though you are not required to give evidence on oath, any deliberate misleading of the committee may be regarded as a contempt of Parliament.

Have you completed the “Details of Witness” form?

The Witnesses: Yes.

The CHAIRMAN: Do you understand the notes at the bottom of the form?

The Witnesses: Yes.

The CHAIRMAN: Did you receive and read the information for witnesses briefing sheet regarding giving evidence before a parliamentary committee?

The Witnesses: Yes.

The CHAIRMAN: Do you have any questions relating to your appearance before the committee today?

The Witnesses: No.

The CHAIRMAN: The committee has received your submission, thank you. Do you wish to propose any amendments to your submission?

Mr Callachor: No.

The CHAIRMAN: Before we ask questions, do you want to make a statement in addition to your submission?

Mr Callachor: Just a few brief remarks. The CME is the peak resources sector representative body in WA. The role of the CME is to champion the WA sector and assist in achieving its vision to lead the world in sustainable practice through innovation and to underpin Australia’s position in the global economy. The CME represents companies directly involved in the resources sector, including mining, oil and gas and all those providing services to it. CME’s member companies generate 90 per cent of all mineral and energy production and employ 80 per cent of the resources sector workforce in the state. Accordingly, CME member covers all sectors of the energy supply chain from producers and energy transporters through to consumers.

The chamber is not privy to the commercial arrangements of member companies and is not in a position to comment on the validity of existing gas pricing arrangements. While we welcome the opportunity to comment to this inquiry, the CME is not in a position to address the specific terms of reference, as we do not maintain or have access to information required; that is, the price of gas or customers throughout WA. However, we would like to say that investments in energy infrastructure for both suppliers and consumers are usually long term and involve significant capital outlays. Government intervention can significantly change rationale and likely returns for these investments. Hence, the role the state government intends to take on the WA energy market should be well

considered, coordinated and clearly articulated in order to provide certainty for suppliers and end users alike to make their investments and plans. CME has pursued this position through the state energy initiative process, and we sought to contribute to the information base for energy infrastructure issues, including in regard to gas through our state study that was released in 2008. We are currently updating our state growth outlook to be released early 2011.

The CHAIRMAN: As shown in the terms of reference, the motivation of this committee is that there is concern in the community and more widely that the state is facing, potentially, a physical shortage of gas and steeply rising prices and that the industry is being driven to an excessive extent by LNG at the expense of the domestic market. Does the centre have any comment on this?

Mr Callachor: No. As I said in my opening statement, we do not tend to comment. Obviously, given the chamber's membership there are competitive forces at work and the market dictates those arrangements at this time. If there is an issue of demand and supply, obviously, the chamber would like to work with the government to address any policy settings that may need to be amended.

The CHAIRMAN: You have no comment on the rising gas price?

Mr Callachor: Not from the chamber's perspective.

The CHAIRMAN: What about the government's reservation policy?

Mr Callachor: Obviously, while CME has consistently maintained that the state reservation policy was developed in isolation, we believe it would perhaps be more appropriate that it be included in the statewide energy policy.

The CHAIRMAN: Do you therefore see it as an important part of an energy policy?

Mr Callachor: Certainly it needs to be considered as a factor, yes.

The CHAIRMAN: Do you support it?

Mr Callachor: I am not in a position to say whether the chamber supports it.

The CHAIRMAN: What about joint marketing arrangements?

Mr Callachor: Certainly if a case can be made, the chamber would examine that.

The CHAIRMAN: But no position? There has been a debate in the industry among your members of whether a joint marketing arrangement of domestic gas, particularly from the North West Shelf, should be maintained or otherwise. Do you have a position on that?

Mr Callachor: No. I apologise. This is obviously perhaps one of the curses of being a representative body in such a broad church.

The CHAIRMAN: We have a very tightly structured industry. There are few major producers, few pipelines that are regulated and few major consumers. Markets do not work very well when you have few, few, few. Do you have any suggestions for how we can move towards a more market-driven approach?

Mr Callachor: At this stage, the chamber is obviously looking for accurate or market-friendly ways of allowing a market to behave so that obviously demand is met by supply and that, where possible, the price to the end consumer is obviously lessened. If the energy policy settings around that can address those issues, we would obviously seek to work with all participants to manage that.

The CHAIRMAN: We have to find something you can talk about! Unconventional sources of gas: are your members actively discussing the potential for this in Western Australia and, if so, in what way?

Mr Callachor: Obviously our membership includes some of the larger producers in WA. Our understanding is that they would be actively looking for new deposits of oil and gas. Obviously, the more exploration that can happen will unearth the more commodity and therefore allow for it to be sold at market.

The CHAIRMAN: Any questions?

Mr W.J. JOHNSTON: Do you have any views about the adequacy of the pipeline infrastructure in WA?

Mr Callachor: At this stage our state growth outlook work that was done on behalf of the industry indicated that late 2007–08 the pipeline infrastructure was meeting supply. Obviously, that will not last forever. As I mentioned in my opening statement, where infrastructure is to be made, in this area it is generally costly, and we need to ensure that the state energy policy settings are such that, where that infrastructure is to be made, it can be made on a strategic basis.

Mr W.J. JOHNSTON: What does that mean; what are you hoping?

Mr Callachor: If there is a need for a new pipeline, obviously, we need to have arrangements set in place so that wherever the demand is to be met, the companies can invest and ensure that supply is met.

Mr W.J. JOHNSTON: It has been put to us that mining projects in the Goldfields are relatively close to the Goldfields transmission line but still truck gas. Is that an issue that has been raised with the CME or do you have any comment about that?

Mr Callachor: It is an issue that has been raised, but we have not been provided any evidence nor have we been asked to take action on it.

Mr J.E. McGRATH: Looking forward, what role do you see for domestic gas in the development of the mining industry in the north west through the Pilbara, the Mid West and those sorts of regions where some quite big mines are coming on stream at the moment. Do you see gas playing an important role in developing that industry or do you think they can get their energy from other sources?

Mr Callachor: We see it as an incredibly important component of energy transmission throughout the north west in particular. Obviously, one of the major projects, the CITIC Pacific project uses its own gas-fired electricity power station. There are a number of other projects up there that will require significant gas-fired energy power. In the case of the Mid West, yes, there will be projects there that will require significantly large deposits for use of domestic gas. For the benefit of the industry, yes, gas-fired electricity is a big component.

Mr W.J. JOHNSTON: In its paper to the Strategic Energy Initiative, CME argues that “energy storage is of critical importance to the future energy security”. I understand that quote comes from page 5 of your submission. What role do policy makers have in ensuring the state’s storage capacity is sufficient to maintain adequate supplies of gas?

Ms Chiasson: All I can say about that, I suppose, is that the chamber is aware that storage would be an issue. I think we would support expanding the storage capacity. But, at this stage, that is not an issue we have on board with our energy members at the moment.

Mr W.J. JOHNSTON: The Varanus explosion is probably the thing that crystalises in people’s minds. Do you think that storage is an answer to that situation arising again? If so, how much gas do you think we need to store to give ourselves security of supply?

Mr Callachor: Storage is always going to be an issue, and perhaps an effective way of managing peaks and troughs in a market supply mechanism. Obviously our members would seek to look at that. In the case of the infrastructure required to do so, it is incredibly expensive so it is obviously a demand-driven decision to be made. In terms of managing the safety aspects of it, certainly, if there is a significant safety case to be made by changing the way the storage is managed or increasing the amount of gas that is stored, we would like to look at that.

Mr W.J. JOHNSTON: You talked about peaks and troughs. How peaky is Western Australia’s gas demand?

Mr Callachor: Until now, it has not been. Obviously, ventures like the North West Shelf have consistent supply. As our state growth outlook has mentioned for the near future, demand is being met, so it has not been particularly peaky or troughy. But, obviously, if it were to become lumpy in that way, storage could be possible.

[3.15 pm]

Mr W.J. JOHNSTON: We are not like Victoria, where there is high winter demand and low summer demand. We are pretty much even over the whole year, so storage is only going to have a very minimal role in managing the peaks and troughs in Western Australia, compared with the quite considerable activity in Victoria—is that your assessment?

Mr Callachor: Yes.

The CHAIRMAN: Any other questions?

Mr M.P. MURRAY: What level of electricity demand do you forecast—we know the growth has been four per cent over many years—with the variation in who produces that between coal and gas? Do you see that coming back towards coal, or has there been any discussions in your group about that?

Mr Callachor: No, there have not been, I must admit, however, at the moment the market does not appear to be competing in that way. In some senses, Mick, it is a bit like road versus rail—there is a market share for both and we are not seeing any direct competition. Obviously, there is an emergence, or a growing number, of companies using gas-fired power stations, but whether that is taking away market share from coal is not an issue I can comment on at the moment.

Mr M.P. MURRAY: Okay.

Mr W.J. JOHNSTON: I have one last question if I may, Mr Chairman. I am just reading a quote from the Premier from when he addressed the Baker Institute on 13 April this year in America. This is discussing domestic gas, and he said —

Moreover, the price at which it is made available to the domestic market should not be above the effective price at which the gas is fed into the LNG plant. It is not an acceptable situation to have domestic gas prices well above world prices, as is the case at present with current domestic gas prices in Western Australia.

Does the chamber have any comments on the Premier's remarks? Perhaps you want to show the witness the text.

Ms Chiasson: I think our response to that would be that we do not actually have access to the actual cost of domestic gas within the state. The energy, or the gas spot market, would obviously be set, or is obviously a lot higher than the contracted price of gas. From my understanding, a considerable percentage of domestic gas within the state is bought on a contracted price, which would be considerably lower than the spot price, so I do not understand—I am not entirely sure I understand the accuracy of that quote.

Mr W.J. JOHNSTON: Is Burrup Fertilisers a member of —

Ms Chiasson: No, they are not.

Mr W.J. JOHNSTON: They are not? Okay. So you do not have anybody in the market of using the gas to produce—okay. Perdaman, the proposal down in Collie, are they member of yours?

Ms Chiasson: Recent members, yes.

Mr W.J. JOHNSTON: They are?

Mr Callachor: Only very recently. Obviously, as they are not in production yet, we are not aware of the impact on the market.

Mr W.J. JOHNSTON: Sure. This question of the gas price for process rather than for energy—do you see what I mean?—there is a difference, is there not?

The Witnesses: Yes.

Mr W.J. JOHNSTON: Does the chamber have any view about the opportunities in Western Australia for gas processing as opposed to gas for energy?

Ms Chiasson: Well, I think that comes back to the fact that this is an answer we cannot give you, because we have members who would use it for processing, and although they may have an issue, we also have members who use it for other reasons, and then we have the sellers. So, again, it is because we represent —

Mr W.J. JOHNSTON: Both sides of the chamber.

Ms Chiasson: — every side of the equation, we do not have an appropriate response.

The CHAIRMAN: For Perdaman you can answer that it is not planning to use any gas at all.

Mr W.J. JOHNSTON: You are quite right, too.

Mr Callachor: Again, I did not want to —

The CHAIRMAN: Very diplomatic, guys. I think we can call it a day here.

Thanks for your evidence before the committee today. A transcript of this hearing will be forwarded to you for corrections of minor errors. Please make these corrections and return the transcript within 10 working days of the date on the covering letter. If the transcript is not received within this period, it will be deemed to be correct. New material cannot be introduced via these corrections and the sense of your evidence cannot be altered. Should you wish to provide any additional information or elaborate on any particular point, please include a supplementary submission for the committee's consideration when you return the transcript.

Hearing concluded at 3.20 pm