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Ian Blayney MLA  
 Chairman  
 Economics and Industry Standing Committee  
 Legislative Assembly  
 Parliament of Western Australia  
 Perth, Western Australia, 6000

Dear Chairman

I refer to the WA Legislative Assembly Economics and Industry Standing Committee's proceedings into 'The Compilation of the Gas Statement of Opportunities in Western Australia,' and note that the DomGas Alliance (DGA) and one of its members, FMG, appeared before the Committee on 24 August 2016, making certain representations about the domestic gas market, including a number of references to Santos.

We therefore seek the opportunity to provide some clarity around issues raised by the DGA and FMG relating to our activities, and as directed by you in a phone conversation with Tom Baddeley, please see our responses below (this letter should also be read in support of the Australian Petroleum Production & Exploration Association's correspondence to you dated 21 October 2016).

Firstly, a little background about Santos in WA. Santos does not produce export gas, or LNG, in the west; our gas production in WA is exclusively for the domestic market, drawn from the company's fields in the Carnarvon Basin and processed at Varanus Island and Devil Creek. It is a market we would like to grow, and we are well placed to develop those smaller gas fields not viable for LNG and better suited to the domestic market. But the State's reservation policy makes it very difficult for us to make an assessment of the prospective market opportunity needed to support an investment decision – significantly, the level of uncertainty from this policy does not exist in a normal market.

At page 14 of the transcript of the DGA's evidence, the DGA's Matt Brown makes the assertion that "Western Australian gas is not being used to fuel Western Australian industry." The domestic market is currently oversupplied with WA gas, as evidenced by \$3 spot prices. There are now a variety of supply options available to buyers, and it is not clear to us who Mr Brown has in mind when he says local industry isn't getting local gas. Alcoa has bought gas to 2032, Alinta has just signed up to Wheatstone gas and AngloGold's Tropicana gold mine is now taking gas through the new Eastern Goldfields Pipeline; Santos has provided offers to every enquiry it has received.

At page 16 of the transcript, we note the comment by FMG's Tim Langmead "what we would like to see is a truly competitive market where the price is set by the market. Here you have a market where the price is being set by producers" and we ask, is Mr Langmead suggesting collusion amongst the dozen or so producers? Most buyers are running competitive tenders for their gas

which is as transparent as you can get. If the prices all came out the same, Mr Langmead's claim might carry some weight but our firm expectation is that the difference between the prices offered by the sellers would be in dollars, not cents.

We were nevertheless encouraged to read Mr Brown's comments, at page 9 & 10 of the transcript, where he suggested that, if a supply shortage is looming in 2022 as WoodMac indicates (a forecast that takes into account reservation gas) the government might want to think start thinking about "moving beyond reservation." He says:

"What can we do to further encourage domestically focused producers to come into the market? Is there something that is actually preventing them from doing so? What can we do as a government? Are there incentives?"

There is currently no incentive for a domestic gas-focussed company like Santos to invest in gas exploration and development in WA whilst the uncertainty around the supply of reservation gas continues to distort market investment signals. In fact, the policy is a disincentive, and the so-called 'offsets policy' (where LNG producers can offset their domestic gas commitment by supplying gas from a source other than their LNG projects) is ill-defined. Indeed, our attempts to get greater definition from the Department of State Department have proved unfruitful. An example of the reservation uncertainty was provided by Mr Brown at page 11 of the transcript where he discussed the confidential nature of the reservation commitments of the Pluto LNG project. No one seems to know for sure when Pluto domestic gas will enter the market, if it will at all.

Chairman, we thank you for the opportunity to respond to some of the assertions made by our friends, and we stand ready to appear before the Committee to discuss any of the above or if you believe it would help your inquiry.

Yours sincerely



Joe Ariyaratnam  
**General Manager, WA, NT & Asia**