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Policy risk to eastern gas market must be addressed

Regulatory failure remained the biggest risk to a more competitive eastern Australia gas market, the Australian Petroleum Production & Exploration Association has warned.

“The greatest risk to the market is regulatory failure, not market failure,” said APPEA Chief Executive Malcolm Roberts.

“Australia has ample gas resources to supply domestic and export markets. But at a time of unprecedented demand, recent government policies risk creating an artificial shortage of gas and higher prices.

“Removing unnecessary government restrictions on exploration and development is the most effective way to enhance supply and put downward pressure on prices. APPEA trusts that the Australian Competition and Consumer Commission, in its East Coast Gas Inquiry, will highlight how sensible policy changes will help producers and users alike.”

Mr Roberts said there had been several positive developments in the market, including:

- The market share of the three leading producers in the east coast market has declined significantly in the last nine years – from nearly 85% of the market to 62%.
- Several smaller companies involved in exploration are expected to bring gas to market.
- A substantial number of new gas supply agreements have been settled since December 2012.
- New sources of supply have been created, often by new developers, including onshore gas spurred by LNG investments.
- Infrastructure investment has lifted to provide a much more interconnected eastern states.

Mr Roberts said the upstream oil and gas industry was making a significant and growing contribution to the Australian economy and to the welfare of all Australians.

“In recent years, producers have invested more than \$200 billion in exploration and development, infrastructure and innovation to supply a rapidly evolving market. Many of these investments are inherently risky.

“But we are now in an era of rapid change for gas producers and their customers as the local gas market becomes increasingly connected with global markets.

“As is the case with many other resources, gas producers face rising cost curves. APPEA has released independent analysis by Energy Quest¹ that shows that finding and development costs have increased sharply in recent years.

“As established reserves are drawn down, producers must develop new, more costly sources of supply.

“In particular, conventional gas reserves in eastern Australia are declining.

“Without the stimulus of LNG exports, we would not have seen the massive investment in unlocking unconventional reserves and upgrading infrastructure which all of our customers need.”

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¹ EnergyQuest (2014), *Oil and Gas Industry Cost Trends*, 1 November (available at www.appea.com.au/wp-content/uploads/2014/11/APPEA-Cost-Report-Final.pdf).