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MLA Calls For Changes To Ease Domestic Gas Prices

Dr Mike Nahan, the Member for Riverton and Chairman of the Economics and Industry Standing Committee at Parliament, said the Committee's findings following its comprehensive review into Domestic Gas Prices had highlighted the need for more competition to provide a better price for domestic gas for householders.

"No other Australian State is as abundant in natural gas as WA but the lack of new gas capacity in recent years has put the State's gas processing capacity at risk and that has been a significant factor in domestic gas price rises," said Dr Nahan.

"A well-functioning market needs new capacity to come on stream. The Government must move away from relying on a single project under a long term contract like the North West Shelf and encourage more open competition to bring domestic gas prices down."

"There are some new projects on the horizon, such as Gorgon, Macedon and Devil Creek, which should increase the supply of domestic gas once they are up and running."

Dr Nahan said the Committee's ground-breaking review of domestic gas prices should have been undertaken years ago.

"We found that the problems stem back to 2006 and 2007 when the mining demand was shifting the price upwards but no one was watching what was happening with our domestic gas market," said Dr Nahan.

"Western Australia is highly reliant on gas. In the Eastern States, 15 per cent of electricity is generated by gas but in WA, that figure is 55 per cent. At the moment, the prices of new domestic gas contracts in WA are at least double those of the eastern states."

Dr Nahan said another factor impacting the prices of domestic gas has been the rapid growth of the mining sector and its capacity to pay top dollar for gas supplies.

"That impact has come from two sides – mining usage of gas and LNG gas. While mining companies have the capacity to pay higher prices, consumers do not," said Dr Nahan.

"The committee found that our domestic gas prices are increasingly being linked to world oil prices and the Asian gas prices. We must decouple that link and create a domestic market operating on its own merit. We simply cannot allow gas prices to be hitched to the wagon of world oil and gas prices."

Dr Nahan said one of the most concerning factors that the committee found is that despite the differences in the respective markets, LNG prices do impact on domestic gas prices in WA.

“Recent rises in local gas prices have created an environment where domestic prices could trade at or perhaps above the LNG netback equivalent levels,” said Dr Nahan.

“This situation is very hard on consumers and that is why a Domestic Gas Reservation Policy is needed to increase the total supply of gas to the domestic market and to increase the number and competition amongst gas suppliers.”

“The State also needs to look at greater competition through the development of new supply sources, including unconventional gas deposits, which are natural gas resources that are trapped in areas where the permeability of the surrounding rock is too low to permit standard drilling techniques.”

“Unconventional gas discoveries in the Eastern States have seen their gas prices drop by half and in the United States it’s dropped by two thirds. We could see significant reductions like that here too if that new market was opened up.”

“We also need to establish a short term trading market and to appoint a Gas Commissioner, like the Queensland model, who could monitor the market and provide the Minister with advice on what the new reservation policy should be.”

“It is the first time that such an in-depth review has been undertaken of domestic gas prices here in WA and I encourage the State Government to implement our findings to help bring down the price of domestic gas for consumers.”

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