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Manufacturers' report reinforces need for gas expansion

The Australian oil and gas industry welcomes findings of a new report from major customers that highlight the urgent need to remove regulatory constraints and increase production of natural gas across eastern Australia.

The gas customer groups commissioning the report, *Gas market transformations – Economic consequences for the manufacturing sector*, say that increasing natural gas supply and putting downward pressure on gas prices is critical to the competitiveness of manufacturing. It is also clear that gas customers no longer see gas reservation policy as a credible or workable solution to the challenges faced.

APPEA has for some time been highlighting that state government restrictions on industry activity will impact on gas supplies. It is encouraging that customers now both recognise and are advocating for the removal of artificial supply restrictions.

APPEA is also very pleased that the report highlights the enormous economic benefit associated with the continued expansion of Australia's LNG industry. Australia currently has \$200 billion worth of projects under construction and Australia is set to be the world's biggest exporter of this cleaner burning fuel by 2018.

The report finds gas production is one of the highest value adding industries in the Australian economy, which reflects the technologically sophisticated and innovative nature of natural gas production.

The report says: "Given the high value-added contributions associated with the gas sector, summing the industry value added impacts for all sectors gives an overall net increase in GDP over the forecast period".

Australia has plenty of gas available for both domestic and export markets. By allowing market forces, rather than encouraging government intervention, to determine when and how Australia's gas should be developed, these benefits can be realised to the benefit of all Australians.

Rising prices do not equate to market failure, which is why other policy prescriptions contained in the report are unnecessary.

Australian gas producers and customers have entered into at least sixteen gas supply agreements or other commercial arrangements across the eastern gas market since the end of 2012 (see Attachment 1).

The range and scale of these supply agreements suggest there is enough information available to allow supply contracts to be concluded between genuine buyers and sellers.

In addition to removing restrictions on gas supply, the best policy response from governments to assist manufacturers under to pressure to respond to changing market conditions will be to focus on initiatives that boost productivity and encourage investment, including via lower tax burdens, efficient regulation, ongoing investment in skills, and greater labour market flexibility.

This will give all companies – including those in the manufacturing sector – the best chance to adapt to structural pressures and increase their international competitiveness.

Moves to increase the transparency and efficiency of the eastern Australian gas market are under consideration as part of the development of the Australian Government's Energy White Paper.

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ATTACHMENT 1

GAS SUPPLY AGREEMENTS AND OTHER COMMERCIAL TRANSACTIONS THAT HAVE BEEN ENTERED INTO SINCE DECEMBER 2012

1. Origin Energy Limited (Origin) on 20 December 2012 announced¹ the signing of a long-term gas sales agreement with the MMG Group (MMG). Under the terms of the agreement, Origin will supply MMG with a total volume of up to 22PJ of gas over a seven-year period, commencing in 2013.
2. Beach Energy Limited, through its wholly owned subsidiary Delhi Petroleum Pty Ltd, announced² on 10 April 2013 it had signed a gas sales agreement with Origin Energy Retail Limited for the sale of up to about 139PJ of sales gas for a term of eight years. Origin has an option to extend the term of the agreement by two years, which would result in the sale of up to approximately 173PJ of sales gas.
3. Lumo Energy on 14 May 2013 announced³ an agreement with BHP Billiton Ltd and ExxonMobil Australia for the supply of 22PJ of gas over three years starting in 2015.
4. Strike Energy Limited on 16 July 2013 announced⁴ it had entered into a binding term sheet with Orica Australia Pty Ltd, a subsidiary of Orica Limited, for the supply of up to 150PJ of gas over a 20-year period.
5. Origin on 19 September 2013 announced⁵ it had signed a binding gas supply agreement with Esso Australia Resources Pty Ltd and BHP Billiton Petroleum (Bass Strait) Pty Ltd to purchase up to 432PJ of natural gas. Under the terms of the agreement, gas supply to Origin will start in 2014. Annual contract volumes will increase over a nine-year period.
6. ExxonMobil Australia on 11 November 2013 announced⁶ that its subsidiary, Esso Australia Resources Pty Ltd, along with BHP Billiton Petroleum (Bass Strait) Pty Ltd, has executed a long-term agreement for the sale of gas to Orica Limited. The agreement will supply up to 42PJ of gas over a three-year period starting in 2017.
7. Origin on 28 November 2013 announced⁷ the signing of a gas sales agreement with QGC Pty Limited (QGC). Under the terms of the agreement, Origin will supply QGC with up to a total of 30PJ of gas in calendar year 2014 and 2015.
8. Santos Ltd on 4 December 2013 announced⁸ that it had recently signed five domestic gas contracts for a total of 30PJ of gas over generally five-year periods.

¹ See www.originenergy.com.au/news/article/asxmedia-releases/1454 for further information.

² See www.beachenergy.com.au/IRM/Company/ShowPage.aspx/PDFs/2934-16785602/BeachsignsmajorgassalesagreementwithOriginEnergy and www.originenergy.com.au/news/article/asxmedia-releases/1478 for further information.

³ See www.afr.com/p/markets/market_wrap/lumo_strikes_gas_deal_with_esso_FD8v5OF1saveqPKo7T5990 for further information.

⁴ See strikeenergy.com.au/images/stories/pdf/20130716_1%20Strike%20%20Orica%20Joint%20Statement.pdf and www.orlda.com/News---Media/Orica-and-Strike-Energy-sign-binding-term-sheet for further information.

⁵ See www.originenergy.com.au/news/article/asxmedia-releases/1516 and www.exxonmobil.com.au/Australia-English/PA/news_releases_20130919.aspx for further information.

⁶ See www.exxonmobil.com.au/Australia-English/PA/news_releases_20131111.aspx and www.orlda.com/News---Media/-BHP-Billiton for further information.

⁷ See www.originenergy.com.au/news/article/asxmedia-releases/1535 for further information.

⁸ See www.santos.com/Archive/NewsDetail.aspx?p=121&id=1407 for further information.



9. Santos on 19 December 2013 announced⁹ that the GLNG project participants have executed an agreement with Origin Energy for the purchase of 100PJ of gas for supply to the GLNG project. The gas will be supplied over a period of five years starting from January 2016. Under the terms of the agreement, Origin can supply additional volumes of up to 94PJ of gas during the same five-year period.
10. Incitec Pivot Limited on 19 December 2013 announced¹⁰ the execution of a 23-month gas supply agreement for the Phosphate Hill manufacturing plant in north-west Queensland, effective from 1 February 2015. The terms of the agreement are confidential.
11. Strike on 15 January 2014 announced¹¹ that the company has entered into a Gas Supply Option Agreement for 30PJ of gas with Orora Limited. Strike has granted an option to Orora for the supply of 30PJ of gas, to be delivered at 3PJ per annum, at a fixed price over a ten-year term from 2017.
12. Strike on 27 February 2014 announced¹² that the company has entered into a Gas Supply Option Agreement for 12.5PJ of gas with Austral Bricks, a subsidiary of Brickworks Limited. Strike has granted an option to Austral Bricks for the supply of 12.5PJ of gas, to be delivered at 1.25PJ per annum, at a fixed price over a ten-year term from 2017, the expected commencement date of production from the Project.
13. Strike on 24 March 2014 announced¹³ it had executed with Orica a full Gas Supply Agreement (GSA) which adds a further 100PJ to the 150PJ agreed in July 2013 for a total prospective gas supply of 250PJ over a 20-year period, with initial gas supply anticipated to commence in 2017.
14. WestSide Corporation Limited announced¹⁴ on 27 March 2014 that the Meridian joint venture has signed a binding 20-year agreement to sell gas to the GLNG project. The agreement provides for future sales volumes up to 65TJ/d.
15. Strike on 23 June 2014 announced¹⁵ that the company has entered into a GSA for 45PJ of gas with Orora. The GSA adds a further 15PJ of gas to the 30PJ agreed with Orora earlier this year in the Gas Supply Option Agreement (Option Agreement) announced by Strike on 15 January 2014 and supersedes and replaces that Option Agreement. The additional gas has been contracted on the same terms as the Option Agreement at a fixed rate of supply over a 10-year term from 2017.
16. Armour Energy Ltd on 17 July 2014 advised¹⁶ that it had entered a non-binding Memorandum of Understanding with MMG Century Pty Ltd to work together towards gas supply arrangements from Armour's exploration tenements in North West Queensland to MMG's Queensland operations. The study will evaluate gas supply volumes of up to 7-9PJ per annum plus an overlay for potential third party requirements.

⁹ See www.santos.com/Archive/NewsDetail.aspx?p=121&id=1409 and www.originenergy.com.au/news/article/asxmedia-releases/1539 for further information.

¹⁰ See investors.incitecpivot.com.au/phoenix.zhtml?c=170340&p=irol-news&nyo=1 and phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9MjE1NjY3fENoaWxkSUQ9LTF8VHlwZT0z&t=1 for further information.

¹¹ See strikeenergy.com.au/images/stories/pdf/20140115_Strike%20Signs%20New%20Gas%20Supply%20Option%20Agreement.pdf and www.ororagroup.com/about_us/media_centre/news/Media-Release_Gas-Supply-Option-Agreement_150113.html for further information.

¹² See www.strikeenergy.com.au/images/stories/pdf/20140227_Strike%20Signs%20New%20Gas%20Supply%20Option%20Agreement.pdf and www.brickworks.com.au/IRM/Company/ShowPage.aspx/PDFs/1399-1000000/STXStrikeSignsNewGasSupplyOptionAgreement for further information.

¹³ See strikeenergy.com.au/images/stories/pdf/20140325_Orica%20Gas%20Sales%20Agreement.pdf and www.órica.com/news---media/orica-signs-agreement-to-secure-an-additional-100-pj-of-prospective-gas-supply-from-strike-energy#.UzD-s7mKC70 for further information.

¹⁴ See newwebchart.weblink.com.au/clients/pfl/article.asp?asx=WCL&view=2790171 for further information.

¹⁵ See strikeenergy.com.au/images/stories/pdf/20140623_Strike%20Signs%20Orora%20Gas%20Sales%20Agreement.pdf for further information.

¹⁶ See armourenergy.com.au/assets/2014/1345009.pdf for further information.