The Northern Gas Pipeline
AEMC Presentation

7 May 2019

Bruce Robertson – Analyst Gas/LNG Australasia

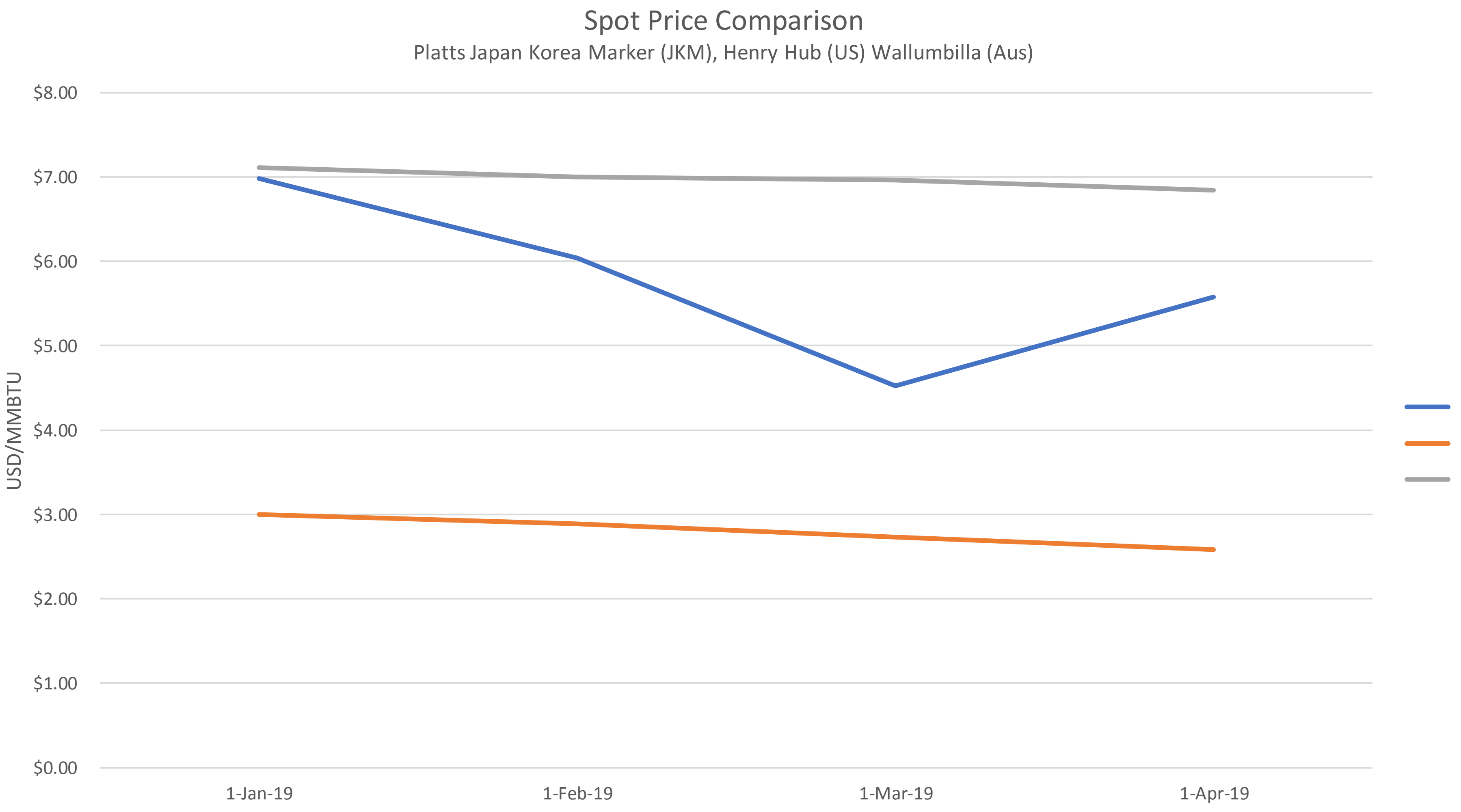
Institute for Energy Economics
and Financial Analysis
IEEFA.org

Introduction

- The AEMC has a fundamental remit:

"to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to price, safety, reliability and security of supply of natural gas "

- The AEMC has been negligent in not doing the necessary work to ascertain if the high price being charged by Jemena is in the long term interests of the gas consumer.
- The derogation gives Jemena the opportunity to charge even higher tariffs with little oversight.
- The granting of the derogation to the National Gas Law for the Northern Gas Pipeline is not consistent with the National Gas Objective and should not proceed.



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Some perspective on prices

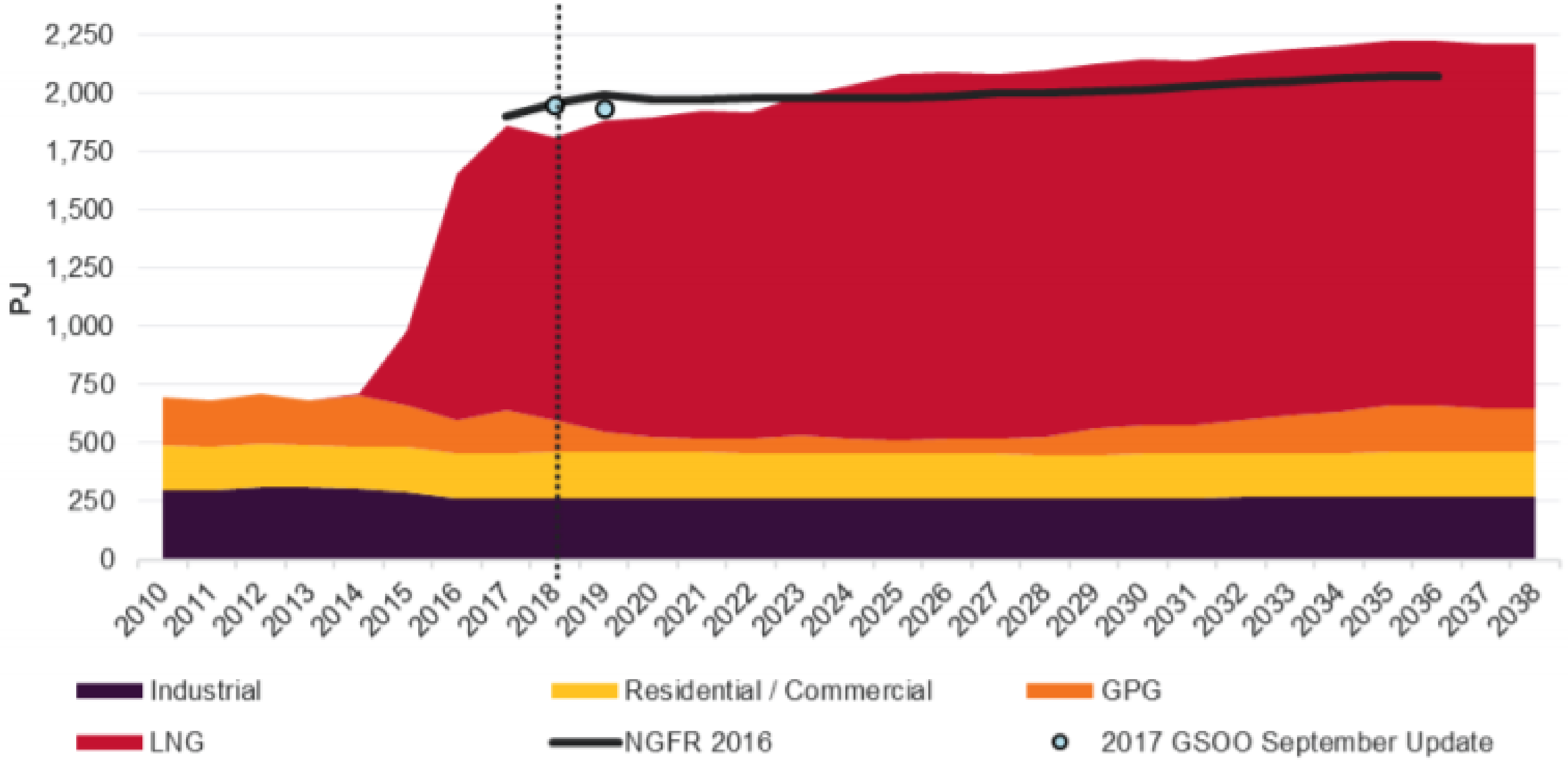
- The current spot Australian price (Sydney) is over 60% higher than theoretical ACCC LNG netback price
- The current spot price in Australia (Wallumbilla) is over 160% higher than the US Henry hub price
- Australians pay 23% more than our customers in Asia

Consequences

- High gas prices, caused in part by high pipeline costs, has resulted in industry closure and will see further industrial destruction.
- Gas is no longer a competitive fuel for electricity production in Australia and its usage is falling. Gas usage for power generation is at its lowest level in a decade at just 7.6% of the National Energy Market (NEM) in 2018. While wind and solar have increased from less than 0.5% to 11.9% over the last decade, gas usage has fallen. Simply put, gas is not a transition fuel in Australia. It is too expensive
- Gas sets the price for electricity in the NEM. High gas prices have lead to very high wholesale power prices.
- The extent of the gas price gouge means it is now economic to import gas into Australia. There are currently five gas import terminal proposals in Australia. If all are built, they will have the capacity to supply over 90% of Australia's east coast market (Section 6). Australia - the world's largest gas exporter - will be an import supplied market.

Australian Domestic Gas Consumption

Figure 1 Gas consumption actual and forecast, 2010-38, all sectors, Neutral scenario (PJ)



The failure to assess prices charged

- The AEMC is granting a derogation, which allows prices to increase with little scrutiny, when it does not know if the tariff charged is reasonable.
- The existing tariff (excluding the $0.72 nitrogen removal charge) makes the Northern Gas Pipeline (NGP) the most expensive in Australia on a per km basis
- The NGP will charge the highest tariffs in Australia for the transport of gas at 0.23 cents per kilometre. This is almost double the average 0.13c tariff/km charged in Australia. There is little justification for such a rich charge in any of the investigations done by the AEMC

The failure to assess prices – Nitrogen removal

- The tariff proposed is broken up into 2 components a $1.40/GJ charge to ship gas and a $0.72/GJ charge to remove nitrogen
- The total tariff charged by Jemena, to ship the gas from Tennant Creek to Mt Isa, is A$2.12. One third of that charge is Nitrogen removal
- The total tariff is equivalent to 60% of the current Henry Hub price for gas just to transport the gas from Tennant Creek to Mt Isa.
- There appears to have been no attempt by the AEMC to ascertain if the Nitrogen removal fee is a reasonable charge

The failure to assess prices paid and costs incurred

- There appears to have been no attempt to ascertain what the tariff paid by the anchor customer, Northern Territory Power and Water Commission. This tariff has a material effect on the economics of the pipeline.
- The AEMC has relied on the proponent, Jemena's press release of its overall costs of the NGP, without doing its own independent investigations.
- The AEMC should do independent investigations if the costs claimed are indeed the costs incurred. It does not appear, for example, that the AEMC has sighted the contract for the physical construction of the NGP and the expense incurred.

Failure to use current investment assessment tools to assess risks

- The AEMC has failed to take account of Climate Change
- Institutional investors adhere to Environmental and Social Governance (ESG) principles not because they have a social conscience but because ESG principles highlight risks to any investment
- In not assessing the real and present risks of climate change the AEMC is not using best practice in investment. Indeed its process is stuck in decades past

The failure to assess Jemena’s tax position

- Jemena is currently under investigation by the Australian Taxation Office. This fact is noted in their most recent accounts.

“The Australian Taxation Office is currently conducting a transfer pricing audit in relation to the Company's convertible instruments. No liability has been recognised”

- The payment of tax is a fundamental tenet of good corporate governance. If a company is hit with taxation fines and back taxes it may look to recover those costs from the consumer.
- In Jemena’s case this could occur via the derogation to the National Gas Laws that is in the process of being granted to them by the AEMC as per the draft determination.
- The AEMC is failing to implement Environmental and Social Governance (ESG) principles and is therefore exposing the Australian Gas consumer to future risk regarding the price, reliability and security of supply of Natural Gas.

Conclusion

- The proposed piping costs from the Northern Territory are very high, in a low-cost gas world
- The AEMC has failed to adequately assess the piping costs or benchmark them globally or domestically
- The AEMC's assessment process fails to protect the long term interests of the natural gas consumer as it does not use current investment assessment techniques
- Producing high-cost gas does *not* bring down the cost of gas for domestic consumers in Australia