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Passing gas

Economic myths around the Northern Territory's North East Gas Interconnector pipeline

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TAI

Briefing note

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Summary

The North East Gas Interconnector (NEGI) is a proposed gas pipeline between the Northern Territory and the eastern states. The project is strongly endorsed by gas companies, the Territory government and governments in other states, but analysis is lacking as to the actual benefits to Territorians and the rest of Australia.

While there is a shortage of analysis, there is no shortage of hyperbole. This paper busts four myths around the NEGI.

1. **The project is important for solving the east coast gas 'crisis'.**

There is no east coast gas crisis. The eastern states are producing more gas than ever before and this is set to increase in the coming years. This is clearly shown in industry publications and is acknowledged by the Australian Energy Market Operator. Gas demand on the east coast is declining in response to high prices brought on by the recent commencement of exports to the world market.

2. **The NEGI will reduce household gas prices**

Australian domestic gas markets are now linked to world prices. Any production facilitated by the NEGI would have a minimal impact on world supply and therefore on Australian domestic gas prices.

3. **The NEGI is important for NT government revenue**

The NEGI is likely to make very little difference to the NT government's revenue. At present, royalties from all mining, petroleum and gas extraction makes up only 2.9 per cent of the NT government's revenue, $164 million out of a total $5,716 million in 2014-15. Put another way, 97 per cent of services in the NT are paid for by sources other than the mining and gas industries. The potential increase in gas extraction with the NEGI will not make a significant change to this.

4. **The NEGI will bring jobs and infrastructure to remote areas**

The gas industry is highly capital intensive and does not make many jobs once infrastructure is constructed. While several thousand people work on constructing the Ichthys project for example, at the time of the last 2011 census just 159 Territorians worked in the oil and gas industry. Nation-wide employment in oil and gas is 28,700, a fraction of one per cent of Australia's 12 million employed people.

There is no incentive for gas companies to build any roads that they do not need and beyond the construction period they will not need to use those very often. Government investment in infrastructure around the NEGI must be subject to rigorous assessment and cost benefit analysis. The government should be putting its scarce resources into infrastructure projects that benefit Territorians, not gas companies.

Introduction

The North East Gas Interconnector (NEGI) is a proposed gas pipeline between the Northern Territory and the eastern states. A memorandum of understanding has been signed between the Territory and New South Wales governments to support the project.[1]

The NEGI is not certain to go ahead. With gas prices declining over the last year, the financial case for the project is uncertain. Controversy has surrounded the tender process, following revelations that one shortlisted bidder was a company with only $100 in equity and an address in suburban Sydney.[2]

Beyond these issues, huge claims have been made about the potential of the NEGI to provide benefits to Territorians and the eastern states. In this paper we look at four key areas relating to:

- East coast gas ‘crisis’
- Domestic gas prices
- NT government revenue
- Jobs and infrastructure

[1] http://dcm.nt.gov.au/__data/assets/pdf_file/0009/64872/Signed_MoU_November_7_2014.pdf
[2] http://www.theaustralian.com.au/business/mining-energy/firm-to-reap-1m-if-nt-pipeline-tender-fails/story-e6frg9df-1227353928414

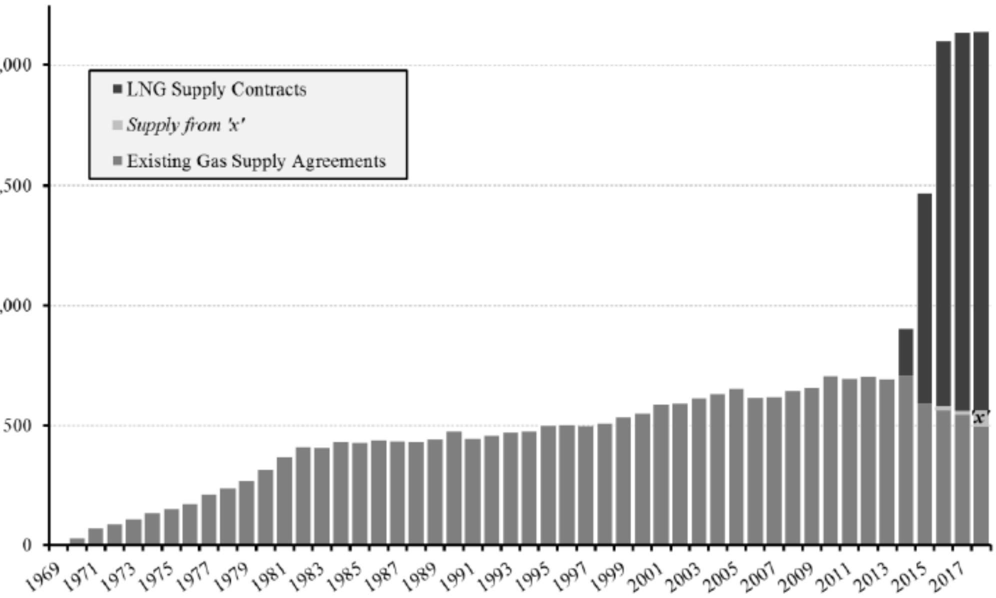
1. The project is important for solving the east coast gas 'crisis'.

[The NEGI is] a matter of urgency for the eastern states which are fast approaching an energy security crisis.

NT Chief Minister Adam Giles[3]

There is no east coast gas crisis. The eastern states are producing more gas than ever before and this is set to increase in the coming years. This is clearly shown in Figure 1 below, taken from an industry publication:

Figure 1: East coast gas supply 1969-2018



Source: AGL 'Solving for 'x' – the NSW Gas Supply Cliff', p8

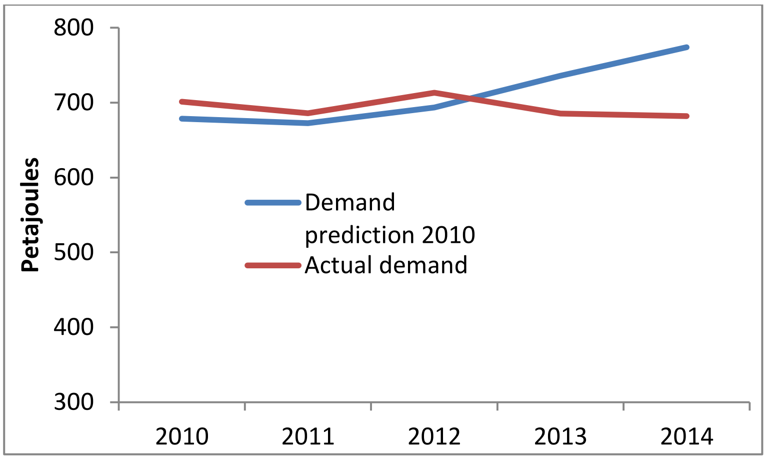
Figure 1 comes from a paper published by gas company, AGL. It shows gas supply on the east coast. In grey is supply to the domestic market, which grew slowly over decades and peaked between 2009 and 2014. From 2014-15 we see the huge increases in supply from the east coast, as export facilities come online.

The east coast has not traditionally exported gas, but new facilities in Gladstone, Queensland, have now linked the east coast to the world market. World demand is much bigger and prices are much higher. This is the reason why east coast demand and supply have increased – the gas is sold overseas.

The Australian Energy Market Operator (AEMO) was predicting that domestic demand for gas on the east coast would grow from 2010, creating fears of a shortage when export facilities also came online. However, as exports drew nearer gas prices rose and the east coast market responded by using less gas, as shown in Figure 2 below:

[3] http://newsroom.nt.gov.au/mediaRelease/10047

Figure 2: Predicted and actual east coast gas demand



Source: AEMO Gas statement of opportunities

AEMO is now forecasting that domestic east coast gas demand will decline below current levels out to at least 2030. Other researchers suggest NSW gas demand could halve in the coming years.[4]

2. The NEGI will reduce household gas prices

> ***By establishing a national grid we can help secure our energy needs and put downward pressure on household bills.***
>
> NSW Premier Mike Baird[5]

Because the east coast gas market is now connected to the world market through the Gladstone export terminals, the east coast gas price is connected to the world price. This is why east coast gas prices have tripled – the traditional prices of $3 to $4 dollars per gigajoule have gone up to match world prices at $9 dollars per gigajoule.[6]

With the opening of the Gladstone export facilities gas producers can choose to supply gas to either domestic or international customers. Domestic gas prices will therefore never go below the international price because if they did gas producers would sell gas at the higher international price rather than to domestic customers.

The only way east coast prices can go down is if world prices go down. Recent reductions in the world prices for oil and gas have given some price relief to east coast gas users, but supply from Northern Territory gas reserves that would use the NEGI would not be likely to significantly reduce this price.

[4] Melbourne Energy Institute, 2015, *The dash from gas. Could demand in New South Wales fall to half?* http://www.tai.org.au/content/dash-gas-could-demand-new-south-wales-fall-half

[5] http://dcm.nt.gov.au/__data/assets/pdf_file/0003/64299/nsw-nt-gas-pipline-mou-medial-release.pdf

[6] For further discussion see Grudnoff, 2013, *Cooking up a price rise*, http://www.tai.org.au/content/cooking-price-rise

3. The NEGI is important for NT government revenue

> ***The prize here for the Northern Territory is economic independence from Canberra.***
>
> Richard Cottee, CEO of Central Petroleum[7]

The NEGI is likely to make very little difference to the NT government's revenue. At present, royalties from all mining, petroleum and gas extraction makes up only 2.9 per cent of the NT government's revenue, $164 million out of a total $5,716 million in 2014-15.[8] Put another way, 97 per cent of services in the NT are paid for by sources other than the mining and gas industries. The potential increase in gas extraction with the NEGI will not make a significant change to this.

The reality of gas royalties is shown in the Queensland budget. In the last financial year Queensland earned just $51 million in gas royalties out of over $50 billion in revenue. When Queensland gas production gets to capacity in 2018-19, royalties are expected to get to $518 million, depending on gas prices and production rates. Putting this in the context of the rest of the budget, this represents 0.1 per cent of Queensland Government revenue this year, increasing to 0.9 per cent by 2018-19, when the current gas export plants should be at full production. Even at full production, Queensland's government will get less than one per cent of its revenues from the coal seam gas industry. 99 per cent of Queensland's public sector will be funded by other industries.[9]

Furthermore, the gas industry and the NEGI will receive considerable subsidy from the NT taxpayer. Despite the government's claims that it will be funded by the private sector, this year's "Budget Highlights" include:

> *$9.2 million to drive private sector development of a gas pipeline*[10]

This represents $9.2 million dollars subsidising the gas industry that could have been spent on social services such as schools and hospitals in the Territory. This is far from an isolated occurrence. Analysis of NT budget papers from 2008-09 to 2013-14 show that mining and fossil fuel companies benefited from $406 million dollars' worth of assistance measures. Assistance measures include the government's Resource Industry Development program and infrastructure provision.[11]

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[7] http://www.abc.net.au/news/2015-04-02/gas-pipeline-interconnector/6367606

[8] NT Government budget papers, 2015. See Budget paper 3, p106, http://www.budget.nt.gov.au/wp-content/uploads/2015/04/Budget-2015-16_Budget-Paper-3.pdf

[9] See Queensland Government budget papers, 2015, Budget paper 2, p191, http://budget.qld.gov.au/budget-papers/documents/bp2-2015-16.pdf.
See also Campbell, 2015, *Laughing Gas: Fossil Fuels And The Queensland Budget*, https://newmatilda.com/2015/07/15/laughing-gas-fossil-fuels-and-queensland-budget

[10] NT Government budget papers, 2015. See Budget paper 3, p30, http://www.budget.nt.gov.au/wp-content/uploads/2015/04/Budget-2015-16_Budget-Paper-3.pdf

[11] The Australia Institute, 2014, *Mining the age of entitlement: State government assistance to the minerals and fossil fuel sector*, http://tai.org.au/content/mining-age-entitlement

Nor is the NT alone in spending money on its gas industry for little return. The development of the Northwest Shelf and government spending on it has been a running sore in WA-Commonwealth relations for many years:

> *The cost of Western Australia's assistance to the North West Shelf project (e.g. payment of subsidies to the State's power utility to help cover the losses it initially incurred under crucial 'take or pay' gas contracts) is estimated to be around $8 billion.*[12]

Queensland's Treasury also cautions against excessive spending on mining and fossil fuel projects:

> *Governments face budget constraints and spending on mining related infrastructure means less infrastructure spending in other areas, including social infrastructure such as hospitals and schools. For many projects directly related to assisting mining industry development, such as land acquisitions for state development areas, the expected timeframes for cost recovery are extremely long (sometimes decades). The opportunity cost of this use of limited funds is a real cost to government and the community.*[13]

Territory taxpayers should be watching the budgets and their wallets if their government is determined to "drive private sector development" using public money.

4. The NEGI will bring jobs and infrastructure to remote areas

> ***The pipeline will generate investment in regional infrastructure which means real jobs in the bush and roads that open up our remote areas, not only for the pipeline, but for other economic activity as well.***
>
> ***This is a critical nation-building project with the potential to create jobs and industry growth in the Northern Territory, particularly in regional areas.***
>
> NT Chief Minister Adam Giles[14]

Jobs

The gas industry is highly capital intensive and does not make many jobs once infrastructure is constructed. While several thousand people work on constructing the Ichthys project for example, at the time of the last 2011 census just 159 Territorians worked in the oil and gas industry. Nation-wide employment in oil and gas is 28,700, a fraction of one per cent of Australia's 12 million employed people.

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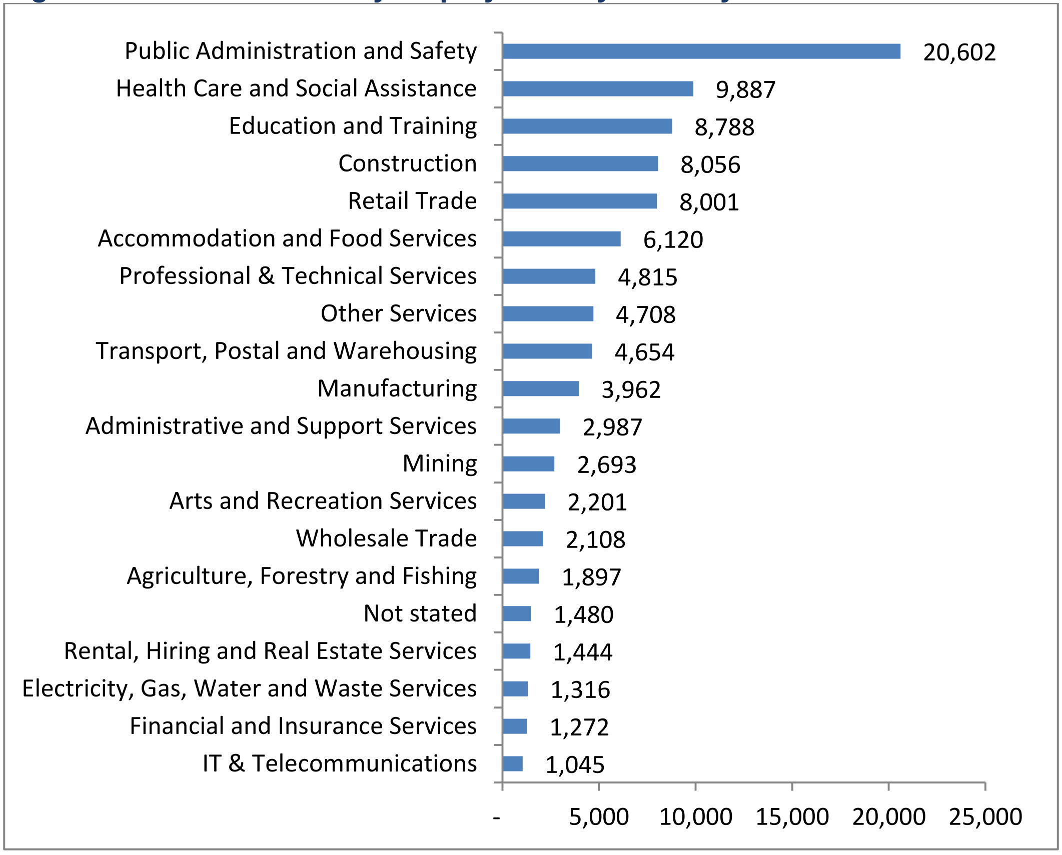
[12] WA Government, 2011, *GST Distribution Review: WA Submission*, p13, http://www.gstdistributionreview.gov.au/content/submissions/downloads/issues_paper/wa_gov.pdf

[13] Queensland Treasury, 2013, *Queensland Treasury Response to Commonwealth Grants Commission: Response to Terms of Reference for Commonwealth Grants Commission 2015 Methodology Review*, https://www.cgc.gov.au/index.php?option=com_attachments&task=download&id=1728

[14] http://newsroom.nt.gov.au/mediaRelease/10713?y=2013&m=3

All mining and gas makes up just three per cent of employment in the Northern Territory,as shown in Figure 3 below:

Figure 3: Northern Territory employment by industry

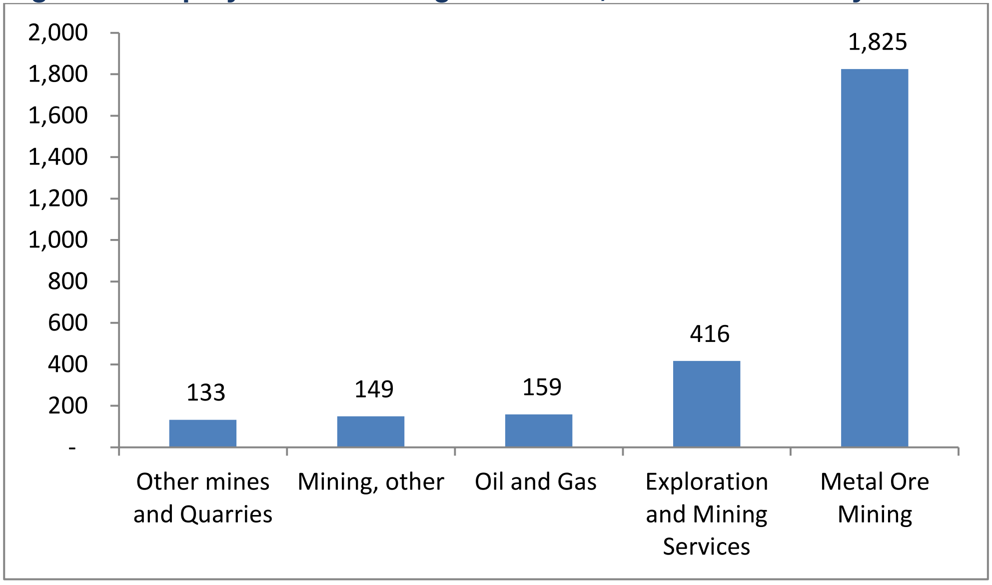


Source: ABS census, 2011, accessed through Tablebuilder Basic

Figure 3 shows that far bigger employers in the Territory are the public service, health care and education. While the Territory's public service is proportionately larger than other states, the predominance of service sectors within employment is common throughout Australia and most developed economies.

Within the mining industry, gas is one of the lowest employing, as shown in Figure 4 below:

Figure 4: Employment in mining industries, Northern Territory



Source: ABS census, 2011, accessed through Tablebuilder Basic

These figures show that if the Northern Territory government wants to create jobs, the gas industry is almost the worst place it should be directing its energy and revenue. Service industries, health and education are far more important employers than the extractive industries.

Infrastructure

If the construction of the NEGI is to bring investment in roads and other public infrastructure to remote areas, other than those needed for use by the gas industry, conditions will need to be negotiated very early and transparently by the Northern Territory government. There is no incentive for gas companies to build any roads that they do not need and beyond the construction period they will not need to use those very often.

Government investment in infrastructure around the NEGI must be subject to rigorous assessment and cost benefit analysis. The government should be putting its scarce resources into infrastructure projects that benefit Territorians, not gas companies. Government investment around the NEGI has high potential to cross-subsidise the pipeline while taking funding away from other potentially more beneficial and efficient uses.

Conclusion

The NEGI is not a “critical nation-building project”. It is a project that would benefit gas companies wanting to develop unconventional gas reserves in the Territory by giving them access to the east coast market and its export facilities. The project limited benefit to eastern states who have ample gas supply, albeit at prices far higher than has historically been the case due to exports through Gladstone. These prices will not be materially affected by the NEGI.

The potential gas royalties for the Territory should be seen in the context of the Territory budget. All mining royalties make up around three per cent of the Territory’s revenue. At best the NEGI would make a marginal difference to this. Worse, the NT taxpayer is already spending millions on promoting the project, despite its dubious financial viability.

The NEGI would create some temporary construction jobs, but very few long term jobs. Construction jobs are likely to be fly-in-fly-out and are unlikely to provide employment and training for remote communities. Any roads and infrastructure should be paid for by the developers, with government investment subject to rigorous assessment relative to its many other spending priorities.

Given the gas industry's modest contribution to employment and government revenue in any state, the NEGI will not bring major benefits to the Territory. Territorians should be wary of government and industry hyperbole and keep their hands on their wallets.