ExxonMobil is proud to be a major conventional gas supplier into the Victorian market. The Gippsland Basin Joint Venture, which ExxonMobil operates on behalf of ourselves and BHP Billiton, currently supplies nearly 40% of east coast Australian domestic gas demand. It has produced almost two-thirds of oil and 30% of Australia’s gas production.

Since natural gas was first produced from the Gippsland Basin in the late 1960s, the positive attributes of natural gas have been well recognised in Victoria. The use of gas has spread from cooking and heating in the home, to becoming an important source of energy to fuel manufacturing, industry and power generation.

To facilitate the growing use of gas, we have seen new pipelines constructed to expand the reach of natural gas to new markets and to interconnect the major demand centres. As demand has grown, new supplies have also entered the market.

More recently we have seen the start of another transition that will be transformative to the market. These changes include the introduction of short-term trading markets in all capital cities, and we now see we have an interconnected east Australia gas market. Soon, we will be connected further to the Asia-Pacific region via the liquid natural gas LNG export projects that are being developed in Queensland. The introduction of exports is likely to be a catalyst that unlocks the vast potential of onshore unconventional gas that will enhance the supply of gas to the east Australian market well into the future.

The other dimension of the changes we are seeing in the market is the decline in oil and associated gas production from the existing conventional basins of Victoria and South Australia. Whereas once natural gas was effectively a byproduct of oil exploration and production, future gas development opportunities in these conventional basins will come without the economic benefit of the associated oil.

Victorian gas demand for the most part is slowly increasing and is mostly aligned with population and GDP growth. In eastern Australia, Victoria consumes the largest share of gas and accounts for around 30% of eastern Australia’s demand.

The supply from Victoria goes beyond meeting just local demand – it is also a key source of supply into the New South Wales and South Australian markets. Even so, Victoria is well supplied from existing developments until early next decade. Beyond that, additional resources are available that will require new development. Much of this supply is undiscovered at this point, so significant investments will be required to explore, develop and bring it to market. But these new supplies are likely to come at higher cost.

The cost of supply for developing eastern Australia’s gas resources has been increasing over time in real terms. For the Gippsland Basin, almost all of the oil and gas production to date has been from the Top Latrobe subgroups. These sands are world-class reservoirs, with high permeability and large interconnected volumes, and with the gas comes a significant quantity of liquids, which help support the economics. However, most of this gas has been produced, and going forward, we will need to go into new plays. These plays are smaller and deeper, less connected and have higher impurities. All of these factors point to higher development costs in the future.

But in addition to this changing supply mix, there is a variety of other factors contributing to the rising cost of developments, such as the high SAUD, high taxes, carbon tax and high labour costs. We need to look for ways to reduce these costs to ensure the cost of developing our remaining gas resources continues to be competitive versus our international counterparts.

It is also useful to look at Australia’s gas price competitiveness versus that of other countries. Historically, Australian prices have been low, but while they have been rising in response to the changing supply/demand fundamentals, they remain at least competitive with other Asia-Pacific countries. As a resource-rich exporting nation, our domestic gas prices will naturally be lower than the cost for gas in countries that rely on imports.

The USA currently has relatively low-priced gas, but if you look back in history this hasn’t always been the case. It was actually the higher prices that occurred in the US market around the middle of last decade that spurred technology breakthroughs to unlock the unconventional gas potential, which in turn has brought more supply to market and lowered prices there.
Over the last 40 years, the market has been well served by long-term bilateral contracts. These long-term contracts have enabled significant funding of production and pipeline capacity for new supplies and will continue to be a part of the market. But, as the market matures, it will also need increased transparency and liquidity to ensure both suppliers and users are able to determine the value of gas in the market in order to underpin investment decisions.

We have seen the introduction of short-term trading markets in all east coast capital cities. Other market mechanisms, such as storage and capacity trading, are needed to supplement the commodity spot markets. It is the combination of these market mechanisms that will further improve the transparency and efficiency of the market.

Australia is blessed with enough gas resources to meet both domestic demand and export opportunities. In the short and medium term, there are things that should be explored as a matter of priority to further improve the transparency and liquidity of the market, including transportation capacity trading, introduction of standardised contracts and the pursuit of viable storage opportunities.

In the longer term, new supplies are needed and we need to ensure that appropriate policies are pursued now to promote exploration and development over the long haul so that gas supplies will be available to underpin the continued growth of the Australian and the Victorian economies. With the right policies and a reliance on free market principles, the future for the gas market in eastern Australia and Victoria is bright.