



Darwin – Institute for Energy Economics and Finance

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Speakers: Bruce Robertson

Mr. Robertson: Thank you for having me here today.

Justice Pepper: Thank you. Perhaps just, for those of us who don't know, what is Energy Economics and Financial Analysis?

Mr. Robertson: It's an energy think tank that looks at global energy issues. It basically believes that we're in a state of tremendous change at the moment and we're just trying to ease that change that is currently occurring within the energy system, and Australia is a pretty classic example of that. We're on the east coast of Australia. We pay, for example, some of the highest prices for gas in the world, despite being the largest exporter.

Justice Pepper: Thank you.

Mr. Robertson: We actually pay more than our customers in Japan at a wholesale level for gas, at the wholesale level. But my presentation really just addresses point four of your report that states that, you know, that it looked to the US as the example. I would caution against looking to the US because that has certainly not been the experience in Australia. In Australia the gas industry has definitely destroyed wealth. We've seen large write-offs, multi-billion-dollar write-offs of plants at Gladstone. We've seen billion-dollar write-offs, \$1.7 billion on gas field in New South Wales that have yet to produce a gigajoule of gas at Narrabri. We have seen write-offs of \$600 million in the Gloucester Valley. We've seen write-offs left, right, and centre from this industry and it is currently losing money at the net profit line at Gladstone, the plants at Gladstone.

This is not a wealth-creating industry in Australia, and I would caution against transferring the model of the US, which is very different both in resource terms and in terms of current infrastructure and density, you saw the density of those wells in Texas, and that's one of the things that makes them so profitable, is that their ability to tap into a gas line is very short. We are talking about developing remote resources in Australia, not ones close to markets, and there is a vast difference. The current cost of gas in the US is US \$3.65 last month. Australian dollars, 3.65 a gigajoule. On the east coast of Australia you're looking at \$9 a gigajoule. There's a gulf of difference between the two.



But I want to look at the longer-term aspects of developing gas in Australia, and this is a long-term presentation. There is a global glut of LNG that extends out to about 2030 now. There's excess supply and faltering demand in a number of our major markets. This is contrary to what the industry constantly tells you of never-ending demand for their product. Their largest market, Japan, is shrinking.

Justice Pepper: I might get you to just move the microphone back a little bit. You've got a lovely, loud, booming voice. Thank you.

Mr. Robertson: Sure. Sorry. Their largest market, Japan, is shrinking. It has been shrinking now for three years in a row, and most forecasters of any repute believe it will continue to shrink. That accounts for 32% of the global LNG market, so we're not talking about a small player. Globally, the gas glut keeps getting bigger and longer. The contract pricing mechanism is breaking down that underpins the industry, and the mistakes made at Gladstone are being repeated in the Northern Territory. It just seems in Australia we're not learning from our mistakes, and this is a very depressing thing as an economist to look at, to see this money being torn up so consistently. Producing high-cost onshore gas is not economic in a low-cost gas world. Government support for the industry is a misallocation of limited government resources. The fact we're sitting here today in an inquiry into this is a misallocation of limited government resources.

Let's actually look around the world and try and dimension what's going on. We've seen the biggest boom in the LNG industry. It's one of the all-time resource booms following the Fukushima earthquake and the shortage of gas that was experienced, with Japan trying to close that gap of closing their nuclear industry. The market closed 2016 on a nameplate basis, 29% oversupplied, and we've got a rash of production coming on stream in the next three years. There's an absolute truckload of production and it doesn't stop. These are committed projects. These are not ones I'm saying are proposed projects. These are committed. They've spent the money. They're going ahead.

There is a consistent and well-documented history of both global and domestic forecasters overestimating energy demand. This extends to the official forecasts from the AEMO, the International Energy Agency, and others. But I've written consistently about the AEMO's overestimation of demand for gas and it has been a very consistent thing. They have done it year after year after year, they've had to downgrade their forecasts for gas demand. They simply do not take into account the effects of price, and it is a fundamental economic mistake in their modelling that has bedeviled the AEMO both in electricity and gas energy forecasting. They have consistently, and I believe sort of almost to the point of being culpable, culpably overestimated demand for energy in this country.

If we move ahead, this is just a very brief slide to show you what's happened. If you look at that 2014 to 2017 period, global prices, this is the Japanese contract price for gas. They've crashed. They're essentially linked



to the oil price, and we all know the oil price has gone from \$110 to \$50. Japanese contract prices likewise have halved. The same cannot be said of Australian industrial gas contract prices, which have gone through the roof.

If we move ahead, there's a quote here from the head of the GIIGNL, which is an association of international gas-importing nations. They're saying that the gas market will be oversupplied until the mid-2020s. Unfortunately for Jean-Marie Dauger, this quote has not aged well. He said this about three months ago, and since then we've seen a massive amount of production slated to come on from Qatar. Qatar is the world's lowest cost producer. To give you an idea, according to the AEMO in a report from October last year, they said that the fields that they're looking at developing in the Northern Territory, production costs were \$7.50 a gigajoule. In Qatar, they're 20 cents.

This is what we are competing against. This is the world's largest exporter currently. We will overtake it as the world's largest exporter. This is the competition. They are building, in the next four to five years, they are going to build plants the size of the ones at Gladstone. Essentially 23 million tonnes, which is just a couple of million tonnes under what Gladstone produces on an annual basis, if it ever indeed gets up to full production, because it doesn't look like it will at present.

I've already covered off on Japan, but the reason the forecasts were wrong, most forecasters had Japanese demand being flat. They've underestimated the effect of the take-up of renewables. They have a lack of understanding of energy intensity in economies. Basically, to produce a given unit of GDP now, we need less energy than was historically the case. They have a poor understanding of energy efficiency. Basically, if you look, one of the major things forcing energy demand down is just technology in appliances. You go and buy a fridge today, for example, in Australia if you buy a three-star fridge, probably the one you're ... And you bought a three-star fridge last time, the one you buy today is much more efficient because they had to recalibrate all the stars in Australia, because everyone was coming up against, everyone was producing five-star appliances, basically. In air conditioning, in lighting, we've had two generations of lighting now with the LED globes that use a fraction of the energy that the old incandescents did. That's consistently underestimated.

Growth in China. China's the other major market that people look to for growth. It is indeed growing quickly. It's a fundamental mistake to conflate LNG demand with gas demand because China is looking at getting a lot of its gas from Russia. There's a lot of geopolitics in here I could go on about, but they don't want to source all their gas from Australia. It's that simple. They don't want to be reliant on the West for their energy.

There are a number of other factors there, but I'll move onto contracts because this really is one of the things that is really important. This is a quote from the RBA from, I think, a paper they wrote. The key thing is, is that basically even the existing contracts are subject to renegotiation in the



event of major moves in the oil price, and we have had major moves in the oil price. These contracts at Gladstone that they say underpin our production and that means that we're never going to shut in at Gladstone, they are probably being renegotiated as we speak.

The contract system has three pillars that underpin it. It's the oil-based pricing I talked about earlier. They're long-term and they have these amazing things in them called destination clauses. What essentially that means is that you have to deliver the gas, the people buying the gas have to take delivery at a given port. For example if Tokyo Gas has a contract with Australian, one of the plants at Gladstone, that that contract would state it has to be delivered to Tokyo harbour. They're subject to renegotiation. A lot of the new contracts that are being written are not now linked to oil prices. They're shorter-term, so they're no longer long-term. They're shorter-term, and they're linked to the Henry Hub's price because the US will soon be the world's third-largest exporter of gas, is basically moving to Henry Hub pricing, which is a spot base market. It's an instant market in the US, not a contract market.

What we've already seen in the world, we have seen contracts defaults already occurred. India's Petron at LNG basically stopped taking delivery from RasGas in Qatar. They just said, "We're not going to take the deliveries under our long-term contract, and you can get knotted." They were subject to \$1.5 billion penalties, \$1.5 billion penalties under the contract, with which Petron had told them that they can get knotted and we're not paying the 1.5 billion. Anyway, push came to shove, they went back to the table, the contract was renegotiated at half the previous price -- they cut the price in half for the gas, per gigajoule -- and they waved the 1.5 billion in penalties.

These contracts, how firm are they? Well, if they're with an Indian company, probably not very. However, I would caution Tokyo Gas is now talking about renegotiating its contracts with the Australian people, amongst others. That's due to the fact that the Japan Trade Commission held that the destination clauses that I talked about earlier were anti-competitive and struck down these contracts. So there is going to be a round of renegotiation of existing contracts occur under, with Japanese customers who, I said, account for one in three gigajoules of imported LNG globally.

Let's have a look at the way the Australian industry was developed and the mistakes made that I hope that you don't repeat in the Northern Territory, but it looks like you're going down the road of repeating. The first mistakes is that the plants that they built blew out in cost. They built them all at the same time, and cost blowouts were legion across Australia, both onshore and offshore. The second mistake they made was that the costs from the fields that they developed were vastly underestimated, and this is one thing, when you hear the gas industry estimate a cost, look at their history of estimating costs. It is appalling. They said that the costs should be between \$2.20 and \$2.70 a gigajoule in their EISs. The actual results are between



\$3.50 and \$8.50. The top end of the range of the estimation of costs didn't even come close to the bottom end of the actuals.

This is what is meant that basically has fed through to the east coast Australian plants being the highest cost plants in the world. Now, I'm saying that very slowly because it's one of the most important points in this presentation, because we have had a global gas boom, and after a boom comes a bust. Who is a plant that usually closes first? In the resources industry, it's usually the high-cost plants. I think within two years you'll see half the trains in Gladstone shut in. I don't think that's an unrealistic expectation. There are a number of reasons why I go for half and why I don't think all of them will shut in, but, you know, I think a number of them will shut in.

The Northern Territory onshore gas ... Given in mind that I've said that these are high-cost plants, where does the Northern Territory sit? There are all the other fields, and if you look right over on the right, you've got NT gas at \$7.50 a gigajoule. In a high-cost gas province, Northern Territory gas is higher than the top end of the cost, and this is at the well head. Please don't forget that we're talking about transporting this gas across one of the most inefficient pipeline networks and most expensive pipeline networks on the globe. It's riven with monopolies, according to the ACCC. If you have a look at the prices that they charge, they're in no way comparable to global comparisons, and the companies involved are making what can only be described as super profits. That's largely as a result of no regulation of monopolies, which for some reason in Australia today we believe that monopolies should not be regulated, and I don't understand why.

If we have a look at the supposed riches that this brings to governments, I think the Queensland case is instructive. The large-scale gas exports began in 2014 with the plants opening up. Queensland Treasury predicted they'd be pulling in over 660 million of royalties in the next year. Well, a few years later they only actually pulled in 97 million of royalties, so the royalty dream kind of really hasn't materialised in Queensland yet.

In summary, the global gas market is in a state of long-term glut. This will only be resolved by high-cost production being shut in. Gladstone costs are high cost plants in the Northern Territory onshore gas is globally uncompetitive source of gas. With very high production, liquification, and transport costs, the east coast gas market, which is also slated for being supplied from the Northern Territory, is going to shrink definitively.

You cannot charge globally uncompetitive prices and expect industry to survive in Australia. We are going to see another round of de-industrialization in Australia due to high electricity and gas prices. There's another round coming, another round of non-investment in Australia, companies taking their business to other places to do business. The best example of this was Incitec Pivot, which two years ago now came up against having to build a new fertiliser plant to supply urea to Australia farmers, and it decided that it would rather manufacture in the US because it could get



hold of cheap gas and import the urea into Australia. This is an absurd situation in a country that is the largest exporter of gas in the world, and we should have the lowest gas prices but we don't.

The two markets the Northern Territory is looking at supplying are shrinking, I believe, and the demand simply won't be there. In addition to which, there are gas fields far closer to the point of market, i.e. Gladstone. For example, Shell, you know, you're constantly told that we have this shortage of gas in Australia. We have a shortage if you look out 200 years. Much before then, there really isn't much of a problem. This idea of a shortage on the east coast is absolute bunkum. In 2012 the head of BHP, Mike Yeager, he said at an APPEA conference that the Bass Strait fields alone, one field on the east coast of Australia and what is termed a declining field has enough gas to supply the entire east coast, and he spelled it out. He said the provinces of Queensland, New South Wales, and Victoria, and he used the term provinces as an American would-

Justice Pepper: Canadian, actually.

Mr. Robertson: Sorry?

Justice Pepper: Canadian, actually.

Mr. Robertson: Canadian, oh, sorry. But he stated that those province, BHP had enough gas to supply them for at least 30 years. Well, he said indefinitely. So the idea of a shortage of gas on the east coast, and furthermore Shell has permitted fields in Queensland that it has not developed to date substantially through its Arrow acquisition. There were originally going to build four trains, which is equivalent to two plants, at Gladstone, just for those fields. There is so much gas on the east coast, this idea of a gas shortage is rubbish.

There's the gas there to supply Gladstone that's nearer the market in the Shell Arrow fields, for example, and the market being Gladstone in that case, so both are in Queensland. It's much closer, and as I said, you're paying obscene prices. Actually, the Northern Territory is even paying more obscene prices than most. If you look at the gas line pipeline prices around Australia, they average about 13 cents a kilometre. The new Jemena pipeline comes in at 23 cents, so in a very, very expensive gas market, the Northern Territory gas pipeline is an extremely, you know, is at the very top of the range that exists in Australia, and as I said, Australia is a very expensive place to transport gas.

The Northern Territory is at risk of repeating the mistakes in the past. I would not use the example of the US as one to follow, because we're developing a high-cost industry in a low-cost gas world. By believing the industry, it's making a mistake by believing the industry that has a demonstrated ability to overestimate reserves and underestimate costs. That is certainly true in Queensland, where consistently they've overestimated their reserves and underestimated the costs of producing those reserves. I believe it's making the mistake by ignoring the inevitable



technological changes coming within the industry, lessening the demand over time for fossil fuels. That is already occurring. We're already seeing that the seeds of that being sown. What has to be realised is that renewable energy, generally speaking, is cumulative. What I'm saying by that is that if you put in even a small solar plant, it detracts from demand for the next 20 years until that plant is finished. If in wind power it's the same, every plant that's built is cumulative on the last ones and cumulatively destroys demand. This is something that the fossil fuel industry faces more generally, oil and gas.

The last mistake that the Northern Territory government is making is by being lured into believing in high royalty streams that have not materialised in Queensland. It has cost the Queensland government probably more than they have made, this industry, so I would caution, at the moment, they have been taken to court by the gas companies over the royalties, for example, and they're spending a vast amount of money defending that claim at the moment. I would caution against following Queensland's example and developing a high-cost, unconventional gas industry in the Northern Territory. I simply don't think it's worth it.

Justice Pepper: Thank you very much, Mr. Robertson. Any questions? Yes, Dr. Andersen.

Dr. Andersen: Yeah, thanks Mr. Robertson. You've painted which, at least on the face of it, is a compelling argument against the economics of a new gas industry. Why is it, then, that all the major gas companies are sort of lining up to invest, if that's something that's ...

Mr. Robertson: Well, I call it chasing a rabbit down the hole, you know, when you've made a really big mistake and you've set your sales on a course and essentially you can't deviate from that. That's the position they're in at the moment. That's why I think it's going to take probably two years before you see shut-ins at Gladstone. It will take another couple of years of pain before you'll start seeing those plants shut in, and the reason is, is that if they shut in a plant, they have to write off the investment. These companies simply can't afford to make that scale of write-off on their balance sheets. They're committed to this industry. They're committed to it in the hope, and look, you know, in all fairness there is a chance. A lot of this stuff's produced in volatile parts of the world, like Qatar for example. There is a chance that you could see some conflagration in the Middle East and a shortage develop and the price does bounce back. But if you look at current production and what's coming on stream, I think it's inarguable that you've got a major gas glut at the moment.

Gas, the defining, I think one thing you've got to get in your head is the defining thing about gas is that, LNG, it cannot be stored economically. It's too expensive to build, you know, storage tank farm for this stuff. What happens that either, if a country can't actually take a shipment of LNG, as has already happened late last year in Japan where they simply didn't have the demand for the LNG, because they got their demand forecast wrong -- as I said it's a global problem, it's not just a problem in Australia,



overestimation of energy demand -- and they ended up re-exporting that shipment of LNG. What does that do? Your customers are then becoming your competitors in global markets. That puts further pressure on the price of LNG. What I'm saying is that you've got this glut is just so big, and the only way to resolve it is to shut in production. Generally speaking, in resource markets, it's the high-cost producers that go first. Onshore gas in Australia, high cost.

Justice Pepper:

Dr. Beck.

Dr. Beck:

Mr. Robertson, thanks very much for your presentation. You had a slide there with the cost of gas in the various fields in Australia. Can you provide a source reference for that information?

Mr. Robertson:

Yeah, it's in there. It's taken from an AEMO paper, the Australian Energy Market Operator. They commissioned Core Energy to write a paper on this. Look, none of these are perfect, these figures, but it's the best I can do. It's the best I can do, is to get a government-based source. They rely on the industry to get it. I have footnoted in the paper and I'm happy, at any stage, for any of you to ring me and ask where did I find something, because I believe that this paper is very, very well-sourced. I'm not sitting up here telling you what I think. It's based on-

Justice Pepper:

No one is suggesting otherwise, and we will probably write you and ask for, if there are-

Mr. Robertson:

Yeah, but it is at the bottom of the slides that it is actually, you know.

Justice Pepper:

Thank you.

Mr. Robertson:

If there's a mistake I've made, I'm happy to find it for you.

Justice Pepper:

Thank you. Yes, please.

Dr. Beck:

Just to follow. You've been talking about the Australian eastern gas market. I've wondering what your views are on the Finkel report in terms of the predictions in there for the gas market for electricity production. Have you any views on those?

Mr. Robertson:

Yeah, I actually came to energy analysis through electricity, so I have a pretty good idea what's going on in the electricity market, although I don't currently sort of go there too much. Look, basically gas, particularly in provinces like South Australia, is a vital source of energy. If you look, they are now getting gas in South Australia for about \$10 a gigajoule, which obviously is more than at a wholesale level you pay for gas in Japan, and the gas has been liquified and transported up to Japan, so that's just amazing. What this is doing is this is actually forcing up the price of electricity in South Australia quite dramatically at present because if you look at the way South Australia is set up, it's about 37%, I think, of their energy comes from gas. It's the largest source of power in South Australia, the largest is gas. Their



gas prices have essentially gone from that \$3 to \$4 level to around 10 a gigajoule, so they've tripled in three years.

These aren't small moves in the east coast gas prices for manufacturers and for power producers. They're massive moves. It's to the point now where AGL has actually come out and said that base load power production with gas in Australia is not economic. It's simply not doable. You can't actually build a new base load. I would caution, just for those people that don't actually understand, there are two sorts of gas power stations. There's a base load gas, and there is peaking power stations that supply just peak demand. AGL was specifically talking about base load gas, which exists in South Australia. It's a major source of power, the base load that runs 24 hours a day.

What you've seen is you've seen three power stations in Australia actually shut in. That's Pelican Point in South Australia, Tamar Valley in Tasmania, and then the Stanwell Power Station in Queensland due to high gas prices. Now, Pelican Point has reopened at the behest of the government in South Australia because they were facing power shortages, but the new gas contract it's got, as I said, is around \$10 a gigajoule, which is just simply uneconomic. That's why power prices are going nuts. South Australia is the best example because it's so reliant on gas, but it's affecting the entire national electricity market because it is all linked, right, and the fact that Stanwell wasn't producing for a lot of last year increased wholesale electricity prices. In fact, Pelican Point wasn't operating for most of last year, you know, affected wholesale electricity prices.

Dr. Beck: Just to follow on, if I may, you've noted there in South Australia the increase in price of gas, and that's reflection of a shortage of gas. You noted, I think, was it North, sorry, in Queensland ... Sorry, no, you noted in your slide that the cost of industrial gas was \$20 a gigajoule.

Mr. Robertson: Yeah, it's up to \$20 a gigajoule.

Dr. Beck: Yes, so we've got some substantial price increases reflecting the shortage, but you also made the comment during your presentation that the shortage of gas on the east coast is bunkum, so I'm just wondering how we reconcile that particular statement versus the prices that we're seeing in South Australia and industrial gas.

Mr. Robertson: Yep, yep. It's very easy to reconcile when you look at the structure of the market because on the east coast of Australia there actually is no market. This is the defining characteristic of the east coast gas industry. It's controlled by four players, and those four players are Santos, Origin, Shell, and BHP Exxon. BHP Exxon are actually allowed to market their gas as one player, and that's why I call them one player because it's called the Gippsland Basin Joint Venture. They market their gas under one company. It's a little bit like the ACCC allowing Westpac and ANZ to get together to set their interest rates.



It's unbelievable, basically. There is no market, and the best example of that is the AEMO has consistently tried to set up spot markets, which are short-term markets to cover short-term needs of companies and power generators for some gas, and they've been a failure in Australia. They've tried to set up wholesale markets, they've called them to clear wholesale markets, they've called them this, they've called them hubs, they've moved them around. It failed, and it failed because these players only want to control the market, and they do that by really only allowing contracts. If you look recently, you can read the Ai groups report. This is a pretty reasonable source because unfortunately the opacity in the market is one of the defining features of a controlled market, is that there's no vision, no see-through on prices. This is a classic example of that. The source I have for the industrial gas prices is the Ai group. That's a very poor source, it's only really anecdotal evidence out of them, but it's the best you can do because they're not disclosed.

This is one of the terrible things, is that no one really knows what's going on, on the east coast gas market. I could go on at length about how many things are not defined as they are, for example, in the US. But reserves and resources is a classic example that, you know, if you look at two sets of accounts, a barrel of oil in Santos's accounts is not the same as a barrel of oil in Origin's accounts, and it's totally different from one in Oil Search's accounts, and it's totally different again from one in BHP's accounts. How is that, because they all use different currency in oil price assumptions going forward. It's ridiculous. It is a totally ridiculous, you have people signing off on accounts saying that they're true and fair view, and they've got no bloody idea.

It is an obscene situation we have in Australia with oil and gas accounting, but what I'm saying is that this allows opacity in the market. It's very hard to see through these things. It's very easy to criticise someone like me that criticises these things because they say, "Where did you get it from? Where did you get that source of information from?" Because the information is so poor. It's terrible quality, and I'm not going to sit here and tell you it's not. People that sit there and say, definitely, this is a supply-demand balance, what it is, is it's a cartel controlling the market. That's what it is. They're controlling the market. Then they're losing money on their exports, right? Every time they send a ship up to Japan at the net profit level, not the free cash flow level, the net profit level, after accounting for depreciation at their plant, they're losing money.

What they're doing is they're making it back by gouging the domestic consumer. It's pure price gouging. They are deliberately keeping the market short of gas, although they've got oodles of gas out there. They're deliberately withholding supply to force up the price so they can make money, because they've made this dreadful business mistake at Gladstone. It's a really awful mistake.

Justice Pepper: Thank you. Yes, Dr. Jones. Barry.



- Dr. Jones: You've given us a very good macroeconomic overview of the gas situation. Would you have any comment about the benefit this might have brought to the people involved in the gas-producing fields? Local communities, the local economies?
- Mr. Robertson: Look, I've only really seen anecdotal evidence of that, and that's basically that the benefits were pretty short-lived. If you have a look at the housing prices, for example, in Chinchilla or Roma, I urge you to go and have a look at the house prices in Chinchilla and Roma, and I think you'll-
- Justice Pepper: We have.
- Mr. Robertson: ... See that that reflects-
- Justice Pepper: We have, we have.
- Mr. Robertson: Yeah, it does reflect that the benefits were very short-lived. Once they're actually producing, do you need many people to run these things? No. You don't. There isn't a lot of work involved in, once they're actually drilled and set, that's pretty much it. What you've seen in Chinchilla and Roma is you've seen a boom. You saw a boom. There was definitely a boom. I'm not going to say there wasn't. But post the boom, there was one almighty bust, and that's reflected just in the house prices. I think that's the only comment I can really make.
- Justice Pepper: Yes, Mr. Hart.
- Mr. Hart: I have a question, you obviously would be aware that we have let a contract to ACIL Allen to do an economic consultancy.
- Mr. Robertson: Yes.
- Mr. Hart: Have you talked to them?
- Mr. Robertson: No.
- Mr. Hart: They haven't approached you.
- Mr. Robertson: No. They wouldn't approach me. They are basically, if you have a look at ACIL Allen's history, they're quite closely aligned. My view obviously is not very popular in the gas industry because I'm saying that they're not making money and that they're gouging the domestic consumer, and that clearly is not a message that really they want people to hear. But the numbers are clearly there. They are there in black and white, and I'm happy, if anyone wants to challenge me on the numbers that these guys are gouging the east coast gas consumer, I'm happy to go toe to toe with them in an argument.
- Because if you have a look at the import prices from the Ministry of Energy and Trade, METI in Japan, which is a very official source of gas import prices, and you have a look at the gas prices on the AEMO website for spot gas, you



will see that we are paying more than our customers in Japan and that's not accounting for the \$4 odd in costs to liquefy the stuff, if you include depreciation, which I do because I believe an industry should be sustainable, and the 70 cents to ship it up there a gigajoule. \$4.70 it cost to liquefy and ship a gigajoule of gas up to Japan, and yet we're paying more than they are for gas.

Justice Pepper:

Dr. Ritchie.

Dr. Ritchie:

Mr. Robertson, you've talked about South Australia and their dependency on gas. The Premier of South Australia has engaged the Commonwealth, I think fairly rigorously, and basically described a lot of what you're talking about as a failure in the national energy market. I think it'd be fair to say that the debate has shifted in the last 12 months as a result of that. Do you see that there's any possibility of a change in federal government policy that could reset some of these market failures through government regulation that would change things at all, and that could bring some kind of more rational basis back and therefore make all this kind of work a bit better? Or is that beyond belief?

Mr. Robertson:

No, look, it's never beyond possibility. I don't think it's going to happen, unfortunately. You know, it's the way governments work unfortunately. It'll take a fair few factory closures, when you start seeing those that round happen in the next six months, when you start seeing more unemployment due to high energy prices, maybe something will get done about it, but until that point really the current measures taken to date I don't believe will cut the mustard. We used to pay \$3 to \$4 a gigajoule for gas. We're now paying, as I said, somewhere between \$10 and \$20, depending on who you are and how much you have, very big use is \$10 and that's well above global prices.

Dr. Ritchie:

Thank you.

Justice Pepper:

Yes, Dr. Andersen.

Dr. Andersen:

Mr. Robertson, I'd like to ask a similar question to the one I asked before about, given the figures you've provided us, why is the industry wanting to invest so much money. Given what you provided us, what's your views on what Treasury economists would be saying in advising the government?

Mr. Robertson:

I don't think that they're really on top of this issue, to be honest. I don't think many people are actually calling it as it is because most of them get their advice from the industry. There are very few independent voices who are actually sitting down and nutting this out and looking at it. I can honestly say that there are very few, you know, less than on one hand you could count them. Very few people are actually sitting down and looking at this and saying, "Is this industry actually adding wealth to the nation or is it detracting wealth from the nation?" Unequivocally to date, it has detracted wealth from the nation.

Justice Pepper:

Yes, Dr. Beck.



- Dr. Beck: One further question, if I may. You noted rightly the sort of increase in prices for gas into electricity generation in South Australia. Industrial consumers are facing higher prices, and you noted that. That presumably is threatening the viability as a business, and I think you noted that also. Another scenario would be that if there was additional gas supply into the east coast market, then the problems that you've articulated in terms of electricity production and also industrial gas supply would start to ameliorate because of increased supply, and that would help lower the price. I'd like to get your response to that, please.
- Mr. Robertson: My response is pretty quick. Firstly, with the South Australian, that was only an example. It is actually affecting the entire national electricity market, right, the gas prices. The entire box and dice. The whole east coast. There's a fundamental thing in economics, right? Demand and supply works if the new supply you're bringing in is low-cost. If the new supply you're bringing in is high-cost, it does not bring down the price. Northern Territory gas is high-cost gas. It will make no difference to the price on the east coast. If anything, it will do what producing coal seam gas has done to the east coast market, which is push up prices.
- Dr. Beck: Given that we haven't produced any gas from hydraulic fracturing, so it's a bit of a magical pudding at this stage, but if the gas was able to get to market at a competitive price, would that change your view?
- Mr. Robertson: I can't see that happening simply because of the transport costs. It costs about \$3 a gigajoule to get it from Tennant Creek. Now, we've got it to Tennant Creek first of all, right? That's another issue in itself because Beetaloo is not exactly next door. But it costs about \$3... \$3 to \$4 a gigajoule depending on the market you're talking about. So if you're talking sort of \$7 gas, \$7.50 gas, you're talking \$10, \$11 gas delivered to the east coast, plus getting it to Tennant Creek.
- This is very expensive gas. It's tippy-top expensive. Even if, even if they bring down the cost by a couple of bucks by cutting corners here, there, and everywhere -- which they do, once they're operating, that's what they do -- it's still very expensive gas. You can't bring down the cost. In very simple terms, you can't bring down the cost of a commodity by producing at a high price. It just doesn't work. Economically that doesn't work. The only way you can bring down the cost of anything, of a product, is by producing at a low cost. That's the fundamental mistake people are making, because onshore gas is high-cost gas in Australia. It has proven to be so.
- Justice Pepper: Robertson, one last question from the chair. You said that the inquiry was a misallocation of government resources. Would you care to expand on that?
- Mr. Robertson: Well, I just don't think that we should be following, you know, I think that we shouldn't, I didn't mean to be ... Sorry, it probably came out wrong. I think we shouldn't be following this rabbit down the hole. That's why it's a misallocation of resources. You shouldn't actually be here because the decision should have been made before this inquiry was done, that this



wasn't a wealth-creating industry for the territory and we don't want to pursue it. That's simple, you know, it should have been made already. The trouble is in Australia at the moment we have this massive disconnect between what the industry and industry advisors, and a lot of the people like, with all due respect, ACIL Allen, who are quite embedded with industry, are advising people, is very much from the industry's point of view. It's not from the consumer's point of view. The viewpoint I'm giving you today is essentially from a gas consumer's point of view, and from the national interest point of view. The national interest point of view. I'm not giving you the viewpoint from the gas industry.

This is why kind of what I'm telling you may come as a little bit of a surprise, and some of the things I'm saying you may be going, "Wow, is that really where I roll? How did it come to that?" That's why, look, I welcome people to call me up. That's what I'm here for. I do this principally because I just see stuff going on that is just, you know, I think's absurd at the moment. It's costing this country billions of dollars, and we're wasting precious resources following a rabbit down a whole that clearly hasn't worked. It's demonstrably torn up money.

Justice Pepper: Thank you very much for your presentation. I think we've got a copy of the slides, that's right.

Mr. Robertson: Yes, yes.

Justice Pepper: Thank you.

Mr. Robertson: And as I said, I'm always available, you know, anyone can call me at any time. I'm always available.

Justice Pepper: Your presentation, with great respect, is probably a good reason or a good example of the very reason why we have this inquiry.

Mr. Robertson: Thank you.