

Unlocking the next wave of Australia's natural gas resources

Thank you Ticky... and my fellow panelists, ACCC Chair Rod Sims, Nathan Fay from ExxonMobil and Andrew Hodge from Macquarie Securities.

As Rod has highlighted, the best way to get more competition into the east coast market is to invest in developing new gas supplies and infrastructure, particularly in southern states.

To do that, we need state governments to lift blanket bans and assess individual projects on their merit.

One such proposal, of particular interest to Santos, is the Narrabri Gas Project.

If it is approved, Santos has given an undertaking that 100 per cent of Narrabri gas will go to the domestic gas market.

That's enough gas to supply up to half of NSW' needs.

With the NSW and federal government elections now behind us, there is clear air to define a process and timeline for development decisions.

The message delivered by the silent majority of Australians less than two weeks ago was that they want jobs, small business opportunities and thriving regional communities.

They know that, while the world is changing, industries like resources and energy, and tourism and agriculture, are still the foundation stones of Australia's strong economy.

It's fitting we're here in Queensland, as it was Queenslanders who delivered the loudest message a fortnight ago at the federal election.

Queenslanders are rightly proud of the resources sector and the economic opportunities it creates for people, especially in regional communities.

I know this, not just because of the election result here, but because it's evident whenever I visit our teams of dedicated

workers in Roma and Gladstone, all proudly wearing their Santos blues on site and around town.

In fact, I'm looking forward to visiting Roma this afternoon.

Our workforce supports thriving communities through the flow-on of their jobs and incomes to small business suppliers and local councils.

Their children go to local schools and play in local sporting teams.

Their extended families become visitors to the regions from our cities, helping break down the divide that has developed between city and country – and rebuild a more cohesive society.

One that understands that the wealth of every part of our national economy depends on a healthy resources and energy sector.

We've earned the trust and respect of Queenslanders, who welcome our industry.

This is what we could do in regional communities in New South Wales and the Northern Territory too.

Rod Sims has rightly rung the alarm bells on the supply of eastern Australian gas to local manufacturers at prices consistent with their continued operation.

I want to report to you on developments in this area.

But before I do, I want to address a prior concern also expressed by Rod and others.

It has been said that not all six LNG trains on Curtis Island should have proceeded and that Santos should not have built the second of its two trains.

That second train has sometimes been blamed for the tight east coast domestic gas market today.

It has also been said that Queensland gas should be developed for the domestic market instead of being exported.

Perhaps there is some truth in that proposition, but what I do know is that the Queensland coal seam gas fields would not have been developed in the absence of scale offered by the export market.

It would simply have been uneconomic to do the exploration, sink the wells and establish the infrastructure for the relatively small east coast domestic market.

Without the large scale development of the Queensland coal seam gas fields, the east coast domestic gas market today may even have been in a worse situation.

That's different, though, from saying Santos and the other LNG exporters have no obligation to the domestic market.

At Santos we fully accept that we do.

That's why we are so keen on the Narrabri project.

It is also why Santos is in talks with major gas users, trying to find a price and contract conditions consistent with their continued operation.

We have already entered significant contracts with major east coast manufacturers and we're committed to long-term, cooperative customer relationships.

Of course, over time, there might be some users whose economic viability erodes for other reasons – as happens all around the world all the time.

But where operations are basically sound in their economics, and the operators are committed to improving the efficiency of their gas usage and their own competitiveness, Santos is open to discussion and negotiation.

Santos itself is committed to continually driving the cost of supply down because that is the best role we can play in the market – and it is good for business too.

Because our disciplined low cost operating model now makes us sustainable throughout the oil price cycle and able to generate the free cash flow required to continue to invest in new supply to meet market demand.

In Queensland, we've reduced the cost of drilling coal seam gas wells by a massive 84 per cent since 2015.

We'll bring that experience to Narrabri, and together with the high quality of the coal seams there, that will make Narrabri gas very competitively priced.

Since acquiring Eastern Star in 2011, Santos has spent \$500 million on the Narrabri Gas Project.

We have also signed memoranda of understanding with three major companies – Weston Energy, Brickworks and Perdaman – for natural gas from Narrabri.

I'd like to acknowledge the tremendous support we have had from our customers, Weston Energy's Garbis Simonian, Qenos

chief Stephen Bell and Vikas Rambal of Perdaman, who have all recently made the case for the Narrabri Gas Project.

Perdaman has committed to setting up a new ammonia plant there, creating a new industrial hub in the state's northwest with hundreds of construction and ongoing jobs.

But first we need government approvals.

Santos supports a robust independent planning process to provide the community with confidence that the environmental implications have been fully assessed.

At the same, we, and our customers, need investment and supply certainty, and we are all hopeful that a decision will be made later this year.

However, while the Narrabri process is being worked through, we are not sitting on our hands.

Here in Queensland we drilled a record number of GLNG wells last year and we will set another record this year, drilling around 400 wells.

We're working in our first joint venture with Shell to explore for new gas exclusively for the domestic market.

And yesterday we were awarded another nearby block which will build our acreage position near Surat, close to the Wallumbilla hub.

We are also growing production in the Cooper Basin – 8 per cent last year.

This year we'll drill around 100 wells to keep production growing and to explore new geological plays.

Very importantly, we are also reducing cost of supply from the Cooper, with production costs per barrel down 12 per cent last year and completed well costs down 54 per cent since 2015.

So the Cooper Basin, in both southwest Queensland and northeast South Australia, has a lot of life left in it.

We have resources of almost 300 million barrels of oil equivalent, more than double our booked proven and probable reserves.

Assuming even a conservative conversion rate, the Cooper has more than 20 years of field life ahead, so it will continue to be very important for the east coast market for a long time.

As I have stated repeatedly, Australia has no shortage of natural gas resources.

Unlocking the wealth of those resources for future generations of Australians – is our challenge.

We've been working in the Cooper, safely and without harm to water or the environment, for more than 60 years.

It is very important that we can continue to do so.

Last year Santos supplied about 14 per cent of total east coast domestic gas demand and will do so again in 2019.

I'm also very excited about the McArthur Basin in the Northern Territory, Australia's largest and most promising shale gas opportunity.

And the Northern Territory desperately needs the economic opportunity that would come with its development.

I'm pleased to say that the Northern Territory Government, in accordance with the recommendations of its Scientific Inquiry into Hydraulic Fracturing, has implemented a new regulatory regime for exploration to ensure there will be no harm to the environment or water resources.

The approvals process is currently on track to enable the drilling of two exploration wells in the McArthur Basin this year.

I appreciate that none of this will bring back the low \$3-4 dollar gas prices that manufacturers built businesses on in previous decades.

But it's scarcity which drives up prices, and it's scale which brings them down.

Like the scale of Queensland's coal seam gas development – underpinned by LNG – and the potential scale of Northern Territory resources in the future.

If we continue to develop new gas supply sources and fill the LNG trains in Queensland, that will bring lower prices to the east coast domestic gas market.

I know that sounds a bit illogical at first but that's what you've seen in Western Australia for many, many years and it disconnects the domestic and international markets.

So what you're putting into the domestic market is incremental gas that wouldn't otherwise be produced for a very long time.

However, instead of governments and industry working together to build scale and open up new gas supply sources, too often debate is dominated by talk of import terminals and government intervention.

These options will not bring down prices.

A proposed import terminal at Port Kembla in NSW received planning approval by the NSW Government last month.

That will add supply to the market and more supply is a good thing – but I can guarantee that gas imported from overseas will never be cheaper than Narrabri gas.

Government intervention is also a recipe for higher prices.

What happens to smaller players who don't have scale and face higher costs of supply than the LNG producers?

The opportunity for them to innovate, grow and compete would be stifled when what the market needs is more suppliers and more competition, not less.

The truth is that reduction in prices will come with scale and come with new supply.

And what we need from governments – all of them, from the newly elected Morrison Coalition government, to those in the

states and territories – is a policy and regulatory environment that incentivises investment in exploration, development and infrastructure to develop these gas resources.

I congratulate the Morrison Government on winning the recent federal election and I welcome the re-appointment of Minister Canavan as the Resources Minister.

In the tradition of a long line of federal resources ministers, he has been a great supporter of our industry.

As has Queensland Resources Minister Lynham, and his predecessors.

I am sure both of them will be advocating policies to enable industries such as ours, with multi-billion dollar projects spanning decades, to make long-term, economy-driving investment decisions with confidence – so we can unlock the wealth of Australia’s natural gas resources for future generations.

Thank you.