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Natural gas and renewables: Australia's new comparative advantage in energy

Santos today called for a greater combined role for natural gas and renewable energy in meeting Australia's future need for reliable, affordable energy while reducing carbon emissions from power generation.

In a submission to the Australian Government's Energy White Paper process, Santos argued Australia's abundant natural gas resources combined with proven and clean gas-fired power generation technology placed Australia in an enviable position to maintain long-term energy security.

"Australia's substantial economic and social prosperity has been underwritten by a strong comparative advantage in energy over many decades, courtesy of our extensive coal resources," the submission said. "But the challenges of delivering energy security while managing climate change and its impact requires a *new* comparative advantage if this prosperity is to be maintained into the future.

"The low carbon and water intensity and proven reliability of gas-fired power generation has the potential to underwrite a broader portfolio of low to zero emission energy platforms."

Santos believes that this transition will only be achieved with a clear carbon price in place and a level playing field between competing energy alternatives.

The submission argues that natural gas can:

- offer an immediate way to transform baseload power generation away from high-carbon coal to low-carbon gas, "buying-time" for development of zero emission technologies;
- act as a partner and accelerate the integration of intermittent renewable power generation into Australia's energy grid;
- supply growing Asia-Pacific LNG demand, particularly from the key economies such as China and India, which will help those countries to displace higher-emission fuels; and
- underwrite significant economic activity, generating thousands of new jobs, tens of billions of dollars of new investment in regional Australia and more again in additional export revenue and government taxes and royalties.

The key virtues that underwrite the compelling potential of Australian natural gas in this regard are:

- the low carbon, water and land-use intensity of gas-fired power generation;
- an abundant Australian resource base, equivalent to several hundred years of current use, close to domestic (and foreign) demand points and linked by an extensive and growing pipeline network;
- its status as an existing, reliable power generation technology, including flexibility to provide baseload, intermediate and peaking loads (ie. the full load spectrum); and
- its affordability as a power source.

Coal currently fuels over 80% of Australia's power generation, a sector which in turn accounts for over a third of Australia's carbon emissions. Gas-fired power generation results in 60% less carbon emissions compared to coal, and does so using as little as 1% of the amount of fresh water.

Santos' submission notes that "unless a clear price of carbon is established upon a sufficiently level playing field, enabling assessments of the demand for gas, the pace of economic transition and overall investment certainty, then the full potential for natural gas will be at best delayed, at worst lost."

Santos Chief Executive Officer David Knox said: "Santos supports passage of the Government's Carbon Pollution Reduction Scheme legislation, with one proviso: that the ability for natural gas to compete on a level playing field, whether in the domestic or export market, is preserved – that is gas gets equal, not special, treatment."

Santos welcomes the Energy White Paper in the hope it will bring clarity to Australia's energy debate, and ensure Australia's domestic natural gas potential is given proper policy consideration.

The Santos submission can be accessed on our website at: www.santos.com

Ends

Santos stock symbols: STO (Australian Securities Exchange), STOSY (NASDAQ ADR), Ref #82-34 (Securities Exchange Commission)