Good afternoon Senators. My name is Joshua Runciman, and I am the lead analyst for Australian gas at the Institute for Energy Economics and Financial Analysis (IEEFA). I welcome the opportunity to appear before the committee today.

Before I begin, I would like to acknowledge the Ngunnawal people, the traditional owners and custodians of the land on which we meet today. I acknowledge their enduring connection to this land and pay my respects to their Elders, past, present and emerging.

IEEFA has undertaken analysis on a range of topics that inform my comments today, including: LNG markets, Australian gas markets, and the financial aspects of gas development in the Northern Territory, and specifically the Beetaloo basin.

Our analysis raises questions over the rationale for government investment into the Middle Arm Sustainable Development Precinct (MASDP) for a number of reasons.

The MASDP plan will require new gas supply, which is inherently speculative and expensive. While the plan does anticipate a shift to renewable hydrogen in future, at least for some proposed industrial uses, it is firmly centred on new gas in the interim, and the proposed new LNG export facility will require fossil gas for a much longer period. As a result, the success of the development is intrinsically linked to new gas supply, specifically from the Beetaloo basin.

However, this potential supply remains speculative. To date, there are no proven and probable (2P) reserves in the basin, despite several decades of exploration and close to a billion dollars in expenditure (as well as government grants). And the past decade has seen several major gas companies walk away from the Beetaloo, including Origin Energy.

There are currently only three junior explorers – Tamboran Resources, Empire Energy and Falcon Oil and Gas – actively focused on the Beetaloo. These companies are likely to require significant new funding to develop their interests in the Beetaloo, funding for which is not assured. Further, Tamboran Resources' recent disclosures note that recurring losses from its operations, as well as negative cashflows and its net losses, raise substantial doubt about its ability to continue as a going concern.

Even if the Beetaloo sees successful gas development, it's unlikely to be globally competitive. The Future Gas Strategy identified that the cost of extracting gas from the Beetaloo basin will be materially higher than contemporary gas prices in the United States, even before accounting for the costs of transporting gas from the Beetaloo to Middle Arm.

In practice, Beetaloo gas developers are likely to require high prices to recoup their gas development costs, but this will in turn undermine the competitiveness of the Middle Arm precinct. For this reason, there are serious doubts about the financial case for offtake industries to build new facilities at Middle Arm, rather than in jurisdictions with more competitive gas prices, such as the United States.

Declining domestic gas consumption, particularly on Australia's east coast, could also undermine the financial viability of the Beetaloo developments that are likely to be required if the MASDP is to proceed as currently outlined in the existing plan. The Future Gas Strategy noted that the cost of Beetaloo gas delivered to key demand centres is likely to be much higher than historical levels, with the estimated cost of delivery into Victoria higher than current Victorian gas prices. In IEEFA's view, reliance on Beetaloo gas for domestic supply on the east coast is likely to accelerate demand destruction, especially in industry, thereby reducing the need for Beetaloo gas.

The plan also relies on carbon capture and storage (CCS) to offset emissions arising from the development. IEEFA reviewed 13 flagship CCS projects globally and found that three projects failed or were suspended, five projects materially underperformed their targets, and only three projects were considered successful. We investigated two of the successful projects in depth, and found that they faced unexpected geological challenges, which highlight the ongoing risks of CCS.

Our analysis also calls into question the financial case for Tamboran Resources' proposed NTLNG facility. Using other Australian LNG projects as a guide, we estimate that the costs of building just the NTLNG trains at Middle Arm are likely to be 50%-100% higher than the total costs of new LNG supply from Qatar. Tamboran Resources will face additional costs to extract and transport gas to Middle Arm, with company disclosures suggesting that its drilling costs alone could exceed AUD$7.5 billion. Any use of CCS will further add to its costs. For this reason, we consider that NTLNG is likely to face serious challenges securing financing for the project.

Globally LNG markets are also about to see the largest ever increase in global supply at a time when demand is declining in mature markets and demand in price-sensitive emerging markets is uncertain. IEEFA analysis suggests that the LNG price required to spur new structural demand growth is likely to be below the price required for Tamboran Resources' new project to recover its capital costs.

The proposed plan also creates financial risks for government and other industries.

Our analysis shows that it will strain fiscal budgets, and that the Northern Territory will likely require additional funding from the Commonwealth (in addition to the Commonwealth's proposed financial subsidies to the development).

Finally, the plan, and its reliance on new gas developments, will create financial risks for other industries. Development of the Beetaloo basin will require the use of fracking, which carries a range of risks, particularly to water supplies that are vital for the Northern Territory's agriculture and tourism industries. The risks of groundwater contamination pose financial risks for these industries.

IEEFA does not believe there is a strong rationale for government investment in the Middle Arm precinct. However, if the proposed investment is to proceed, IEEFA considers it would be more appropriate to centre the plan on renewable hydrogen from the outset. This would avoid the reliance on speculative new gas supply, while helping to provide demand for an emerging renewable hydrogen industry.