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Narrabri is a costly way to increase gas supply

- *Diverting gas from Queensland is a better option to address domestic supply concerns in eastern Australia than developing the Narrabri Gas Project in New South Wales (NSW).*
- *Additional Queensland supplies could cut NSW gas prices by 17% if the federal government ties Queensland LNG exports to domestic supplies and prevents exporters from siphoning domestic gas for export.*
- *Narrabri gas is estimated to cost more than Queensland gas and is therefore unlikely to lower NSW gas prices. It will also take longer to reach the market.*
- *Narrabri faces legal, regulatory and financial barriers, including sustained opposition from landowners along the proposed route for a crucial pipeline, which could lead to further delays.*

Santos has flagged its proposed AU$3.6 billion Narrabri Gas Project in New South Wales (NSW) as a solution to looming gas shortages and challenging market conditions in eastern Australia, but it continues to face obstacles and delays.

The project is currently delayed due to a lack of sufficient landowner agreements for a proposed gas pipeline to connect Narrabri to eastern Australia's gas network. Community opposition more broadly has also fuelled uncertainty about the project's timing. The federal government's Gas Market Review has further clouded the outlook for Narrabri.

The Review is an attempt to address looming shortfalls forecast in eastern Australia's gas market. It recommends that liquefied natural gas (LNG) exporters be required to meet domestic supply obligations before exports are approved as part of a domestic gas reservation policy. Canberra is seeking further consultation on the final recommendations of the Review, with the new rules to take effect from 2027.

In response to the land access issues, NSW Premier Chris Minns last year took the unprecedented step of threatening to force compulsory acquisitions of land along the proposed pipeline route. His counterpart in South Australia, Premier Peter Malinauskas has also called for Narrabri to be approved to avert a potential gas shortfall by the end of this decade.

Narrabri's prospects will hinge on a range of project-specific issues, as well as the government's Gas Market Review.

Overview of the Narrabri Gas Project

Australian gas producer Santos has sought to develop Narrabri gas since 2011, having started gas exploration in the area in 2008. The project is located in the Gunnedah Basin near the Liverpool plains, which is considered host to some of the richest farming soils in Australia. It is estimated to have gas resources of between 599 and 1,316 petajoules (PJ), enough to meet gas demand in southern markets for about three years.

However, Santos has not reached final investment decision (FID) on the project and has not provided specific guidance on timing for FID. Although Santos intends to produce up to 150 terajoules (TJ) per day (52.75PJ per annum) and run the project for up to 25 years, it has not yet upgraded the resource to (economically recoverable) reserves. Santos has committed 100% of Narrabri's gas to the domestic market.

The 883km Hunter Gas Pipeline (HGP) has been proposed to connect the Narrabri project to the eastern Australia gas market, replacing the proposed Western Slopes pipeline project, which has been abandoned. The 200TJ/day HGP would run from the Wallumbilla gas hub in Queensland (from which gas can also flow to Santos's Gladstone LNG [GLNG] project) to Newcastle in NSW (with gas able to flow on to Sydney). The pipeline would provide a second route for Queensland gas to reach southern markets. Santos also intends to develop a 55km lateral pipeline from Narrabri to HGP, with the two pipelines estimated to cost AU$1.38 billion.

Gas shortages loom for Eastern Australia

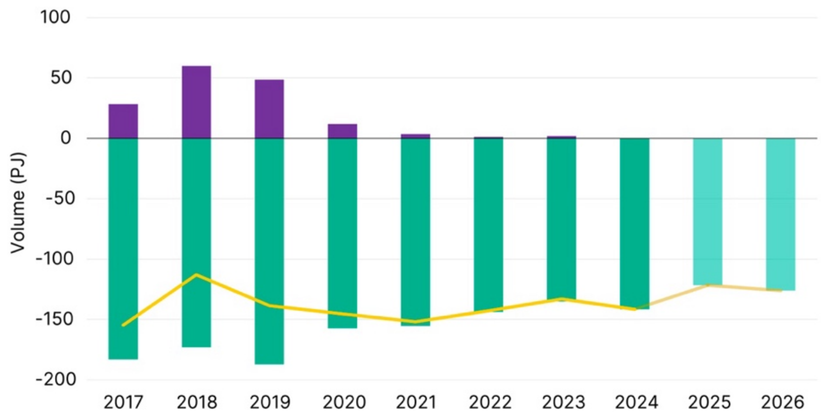
The southern states could see peak day gas shortages as soon as 2028, with structural gas shortages in eastern Australia emerging from 2029 due to dwindling gas production from legacy gas fields offshore Victoria (where gas production is forecast to decline dramatically by 2033).

Victoria has been the main gas supplier to southern states for much of this century, with NSW particularly dependent given it has only ever produced relatively small quantities of gas. Victoria is a net exporter of gas into NSW and South Australia. In contrast, while Queensland is an important source of seasonal gas supply for the southern states, it also imports large volumes of gas, with its net supply to the south much smaller than Victoria's.

Another factor that has caused market tightness in eastern Australia is GLNG's reliance on domestic gas to meet its export contracts, which has seen it be a net drawer of domestic gas over its operating life. The net purchases by GLNG reflect the decision by Santos and its partners to build the two-train GLNG facility despite having insufficient reserves to fill both trains. The decision by the GLNG partners has had a profound impact on the domestic market.

The Australian Competition and Consumer Commission (ACCC) has estimated that GLNG's third-party purchases since 2017 would exceed 1,200PJ (see Figure 1) – equivalent to more than two years of eastern Australia gas demand. In the 2024-25 fiscal year, these purchases equated to about 25% of eastern Australia's gas demand, while in 2023-24 they were greater than the total amount of gas NSW consumed. GLNG's third-party purchases in 2026 are expected to amount to 35% of its total gas feedstock.

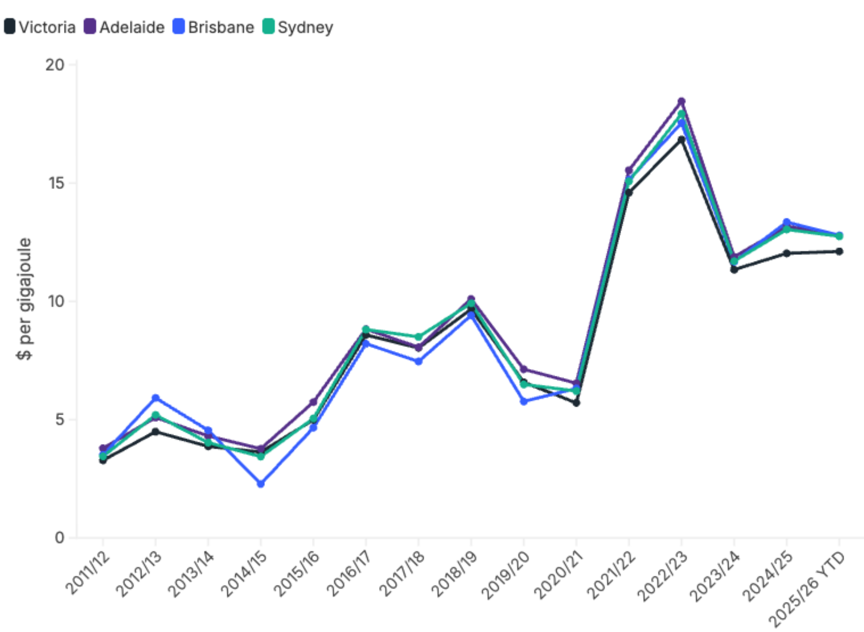
Figure 1: GLNG's domestic sales (positive values) and purchases (negative values)



Source: ACCC. Note: 2017-2024 is based on actuals data provided to the ACCC, while 2025 and 2026 are based on the latest forecasts available for those years.

This, along with the broader impact of LNG exports and a lack of competition among gas producers, has contributed to tight gas market conditions and increasing gas prices. This in turn has led to demand destruction and industrial facility closures. Higher gas prices and the growth of renewables have also led to falling demand in the residential and power generation sector.

Figure 2: Eastern Australia gas prices



Source. Australian Energy Regulator.

Eastern Australia gas prices have tripled since Queensland started LNG exports in January 2015. Meanwhile, total eastern Australia gas demand has fallen 30% between 2014-15 to 2023-24, based on IEEFA calculations using the federal government's Australian Energy Statistics.

Higher gas prices have contributed to material increases in electricity prices in eastern Australia due to the strong linkage between gas and electricity prices. The consequences, such as higher energy bills and food production costs, have placed inflationary pressures on Australian households and the economy.

Queensland gas is the best option to address supply concerns

If developed, the Narrabri project will increase domestic supply – provided it does not displace other gas that is otherwise exported. However, increasing the supply of Queensland gas would be a better option because it would be less costly to develop and transport to end users. It could also be supplied more quickly as many of the gas reserves are already developed and the infrastructure is in place to deliver gas to customers.

Queensland already holds around 90% of eastern Australia's gas reserves and accounts for the majority of gas production. Most of the reserves are in the Surat Basin and are controlled by Queensland's three LNG exporters, giving them a high degree of control over gas production from eastern Australia's reserves. Therefore, the decisions of the three LNG exporters have a profound impact on domestic gas supply security.

These reserves are also relatively low cost. The federal government's Future Gas Strategy report estimated the average cost of undeveloped gas from the Surat Basin at AU$6.70 per gigajoule (GJ). Adding transport costs, gas delivered to Melbourne is estimated to cost AU$9.16-10.42/GJ. Delivery to Sydney would be a comparable price. In contrast, the same report estimates Narrabri gas output at AU$9.90/GJ, and AU$11.37-12.62/GJ for Melbourne delivery.

Production costs for developed Surat fields may be even lower. For instance, Australia Pacific LNG (APLNG) had an estimated cost of production of AU$4.20/GJ in 2024-25.

A recent study by consultancy Energy Edge estimated that increasing Queensland supply by 30PJ per year could cut gas prices by 18% in NSW, 21% in Queensland, and 22% in Victoria (Table 1). Crucially, this modelling shows that additional Queensland gas could be delivered to the southern markets at a lower cost than gas from Narrabri, meaning it will be more likely to reduce prices. This extra supply would account for about 6% of eastern Australia's gas demand.

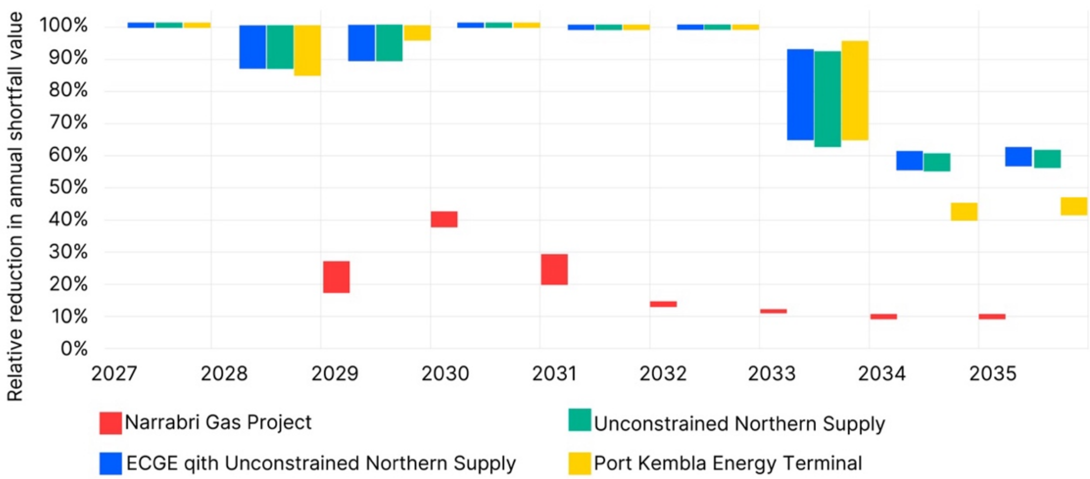
Table 1: Estimated gas prices under possible Gas Market Review scenarios, AU$/GJ

	NSW	Queensland	Victoria
Base Projection Price	12.78	10.99	13.03
Scenario 1 Prices Projection	10.5	8.63	10.17
Differential	-2.28	-2.35	-2.85

Source: The Energy.

A recent report from the Australian Energy Market Operator (AEMO) also found that more gas from Queensland is a better option than Narrabri. The study assessed four supply scenarios to increase gas supply: the development of Narrabri; an LNG import terminal (Port Kembla Energy Terminal (PKET)); unconstrained northern supply (Queensland); and expansion of the existing gas pipeline network in eastern Australia. AEMO specifically found that "the Narrabri Gas Project scenario does increase available supply within the model, but at a reduced scale and benefit compared to the other three scenarios."

Figure 3: AEMO study of potential impact on gas shortfalls from four supply options



Source. AEMO. Note: The Narrabri Gas Project is not modelled as a supply source until 2029.

There are concerns, however, about whether there is sufficient pipeline capacity to transport additional gas volumes from Queensland to the southern states. A 2025 study by IEEFA concluded that gas shortages in eastern Australia would be delayed to at least 2032 if planned upgrades to eastern Australia's gas pipeline network are implemented and planned storage developments proceed.

Gas Market Review an opportunity to lower prices

The federal government's Gas Market Review provides an opportunity to consider settings that would improve gas supply and pricing, and address possible gas shortages. The Review's final report recommended a reservation scheme that would require exporters to reserve between 15% and 25% of gas production for the domestic market, alongside a range of other recommendations to inform the government's design of the new regulatory framework. The government will undertake further consultation on the scheme this year.

Western Australia has proven a gas reservation policy for its LNG industry can limit domestic gas price rises. However, the Western Australia policy is far from perfect, as it lacks consistency and has issues with compliance and enforcement.

The Gas Market Review final report set out guiding principles to inform the design of the new regulatory framework, including that:

- The reservation scheme should have the capacity to be national in scope.
- It should increase domestic supply to drive downward pressure on prices.

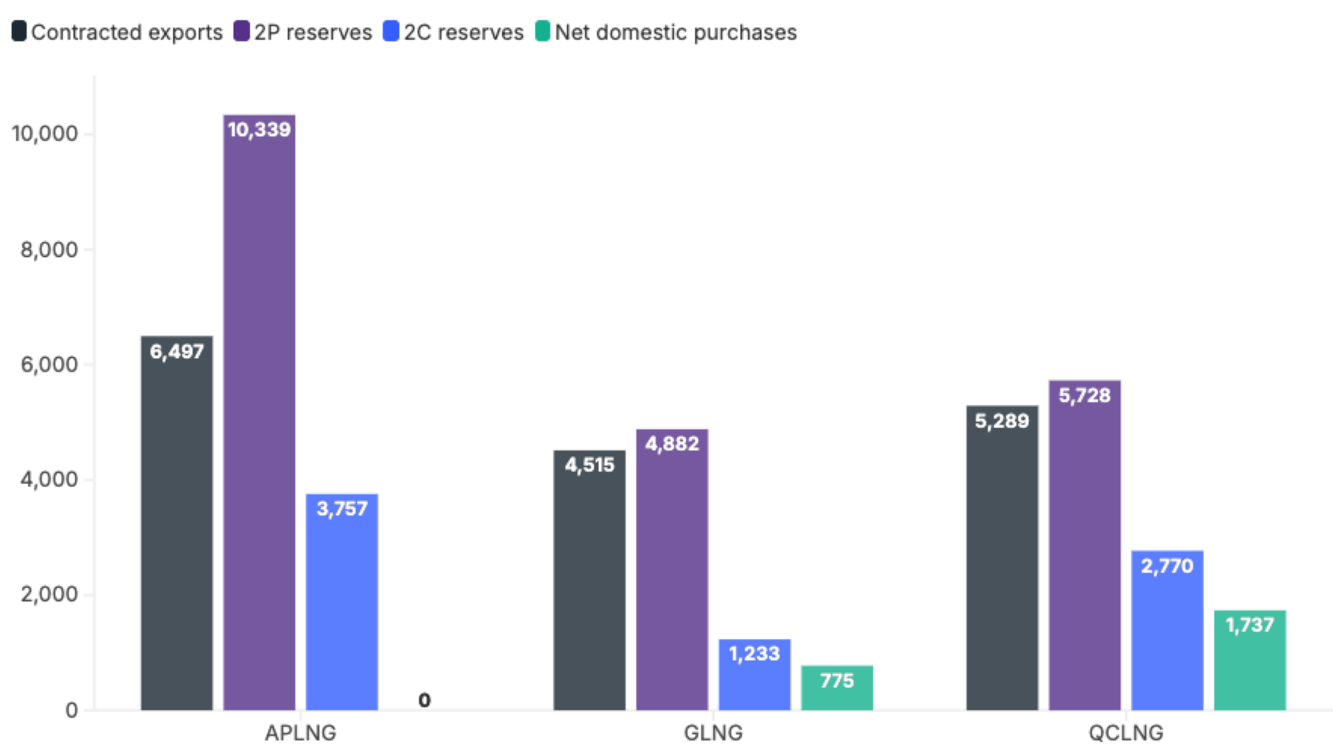
- LNG producers should have "flexibility to meet domestic and export obligations through a variety of standard commercial/market-based arrangements, including contracting with exporters or domestic producers so long as supply obligations are met".

The specific design of the scheme will have implications for Narrabri, particularly if it leads to additional supply from Queensland that pushes down gas prices, as is likely to be the case. Lower gas prices would further test the economics of Narrabri, which is likely to rely on higher gas prices to make it profitable.

Alternatively, the design of the scheme could allow Santos to use Narrabri gas to help GLNG meet its domestic supply obligations (the Gas Market Review final report recommended LNG exporters have flexibility in how they meet their obligations). This might involve GLNG buying Narrabri gas to sell to the domestic market to fulfill its domestic supply obligations. While this might benefit Santos and GLNG, it is also likely to result in higher domestic prices due to the high production costs of the Narrabri gas field and the costs of new infrastructure that would be required. It would also fail to address one of the structural problems in the eastern Australia gas market, which is GLNG's net purchases of gas from the domestic market.

Nonetheless, if GLNG were required to purchase gas from the other LNG exporters to meet its domestic supply obligations, this would quickly lead to additional domestic gas supply. APLNG and Queensland Curtis LNG (QCLNG) have sufficient reserves to sell gas to GLNG. QCLNG also has access to sufficient reserves held by Arrow Energy, which is 50% owned by QCLNG operator Shell (Figure 4).

Figure 4: Queensland LNG exporters' remaining contracted exports to 2036 against reserves, resources and domestic purchases (PJ)



Source. ACCC.

In IEEFA's view, the government should design the scheme in a way that creates greater scope to lower gas prices quickly. On price, there is compelling evidence that Narrabri would be a more expensive option than more Queensland gas. There are also concerns about the timing of Narrabri given its ongoing legal, planning and community challenges.

Development barriers raise uncertainty for Narrabri

In addition to being costly, Narrabri faces several barriers that mean it may not be developed in time to address supply concerns – if at all.

The first barrier is regulatory. While Santos already has government approval for the HGP, it is still awaiting planning approval for the Narrabri lateral pipeline from both the federal government and state governments. Santos also needs to secure landowner approval for much of the proposed route of the HGP, with only 34% of landowners having signed land access agreements.

Narrabri is also in legal limbo, with a federal court ruling on an appeal to the Native Title Tribunal's approval for the gas project delayed until March 2026. Industry body NSW Farmers has also sought legal counsel as part of its opposition to the project over concerns about the impact of gas extraction at Narrabri on groundwater. Ongoing concerns about Narrabri, including potential impacts on local water resources and prime agricultural land, and the clearance of parts of the Pilliga forest, could lead to legal action that further delays the project.

In addition to legal issues, land access and community opposition (including from unions), there are several financial factors that may weigh against the project. Santos faces a potential increase in capital expenditure for other projects in the coming years, and has pledged a greater return to shareholders that could come at the expense of spending on new gas projects.

In effect, the economics of Narrabri will have to compete with other projects in Santos's portfolio. The most significant spending challenge the company will face in the coming years is the prospect of declining production at its PNG LNG project in Papua New Guinea (PNG), its most profitable project, unless it sanctions new gas supply. The company's options are the development of the Papua LNG venture or the Pn'yang gas project to backfill PNG LNG. The development of either could cost Santos more than AU$4 billion. Other potential projects include: an expansion of the Pikka oil project in Alaska; the Dorado oil project offshore Western Australia; and an exploration programme in the Beetaloo Sub-basin in the Northern Territory.

However, Santos has flagged that it will tighten project spending and focus on boosting shareholder returns. It has imposed a capital allocation framework that will target returns to shareholders of at least 60% of all-in free cash flow from 2026.

There is uncertainty over the exact levels of carbon dioxide (CO_2) in the Narrabri field, which could impact the cost of gas production and therefore the financial case for the project (given that the CO_2 will need to be offset). Santos has assumed an average CO_2 content of 10%, but other sources have suggested the CO_2 concentration may rise to 20% depending on the depth of the wells drilled. An independent analysis on the CO_2 concentration in the Narrabri field indicated CO_2 levels of up to 75%. This high level of CO_2 makes Narrabri different to the coal seam gas projects in Queensland, where the average content is 1.1%.

Furthermore, the outlook for gas and oil prices is under pressure due to fears of supply gluts emerging in the global LNG and oil markets. Kpler forecasts Asian LNG spot prices will decline from US$12 per million British thermal units (MMBtU) in 2025 to US$10/MMBtu in 2026. The US Energy Information Administration (EIA) projects Brent crude oil prices to decline 16% from US$69/barrel in 2025 to an average of US$58/barrel in 2026. Falling gas and oil prices could impact on Santos's free cash flow and therefore reduce its ability to fund new projects.

The economics of Narrabri could also be challenged by the federal government's proposed domestic reservation scheme should it lead primarily to more Queensland gas coming online before Narrabri. This could lower gas prices below the level that would support bringing Narrabri online.

Conclusion

In IEEFA's view, the government should focus on designing a domestic gas reservation scheme that encourages the cheapest new gas supply, which would involve diverting more gas from Queensland. This would lower gas prices in NSW, Victoria and South Australia and help to address cost-of-living concerns. Narrabri, in contrast, is unlikely to reduce prices as the cost of delivery is estimated to be above prevailing prices.

The timing of Narrabri is uncertain due to at least one legal case, a lack of majority landowner agreements along the proposed HGP, and community opposition from local farmers and indigenous groups, as well as union opposition. Narrabri also has relatively elevated levels of CO_2 for a coal seam gas project and this could add technical challenges and therefore increased costs.

About IEEFA

The Institute for Energy Economics and Financial Analysis (IEEFA) examines issues related to energy markets, trends and policies. The Institute's mission is to accelerate the transition to a diverse, sustainable and profitable energy economy. www.ieefa.org

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