

20 April 2021

Ms Anna Collyer
Chair
Australian Energy Market Commission
GPO Box 2603
SYDNEY NSW 2001

RE: GAS SUPPLY GUARANTEE REVIEW

The Australian Petroleum Production & Exploration Association (APPEA) is the peak national body representing upstream oil and gas explorers and producers active in Australia. APPEA's member companies account for more than 90 per cent of Australia's petroleum production. Further information about APPEA can be found on our website, at www.appea.com.au.

APPEA welcomes the opportunity to make a submission to the *2021 Review of the Gas Supply Guarantee* (the Review) being undertaken by the Australian Energy Market Commission (AEMC). The comments should be read in conjunction with comments from our member companies.

THE AUSTRALIAN UPSTREAM OIL AND GAS INDUSTRY

It is important to place our views on the issues raised by the Review within the context of the current state and potential future contribution of the upstream oil and gas industry to the Australian economy and to the welfare of all Australians.

Australia's oil and gas industry plays a key role in ensuring reliable, secure and competitively priced energy for all Australians. Our abundant natural gas resources in particular, place Australia in an enviable position to maintain long-term, cleaner energy security domestically and internationally. Natural gas makes it possible for Australia to meet the world's growing energy needs over the coming decades while reducing emissions.

Australia's oil and gas industry is also a key and ongoing contributor to the Australian economy. The industry:

- Invested an estimated \$473 billion in the Australian economy, including around \$305 billion invested in Australian LNG projects, since 2010¹.
 - This investment will deliver returns for Australia for decades to come, through increased gas supply for Australian customers, export revenue, jobs, royalties and taxes.
- Supports 80,000 jobs directly and indirectly in Australia and hundreds of thousands more in the manufacturing sector rely upon natural gas.
- Supports a vast supply chain of businesses in manufacturing, services and construction.

¹ See Wood Mackenzie (2020), *Australian Oil and Gas Industry Outlook Report*, page 4 (available at appea.com.au/wp-content/uploads/2020/06/Australia-Oil-and-Gas-Industry-Outlook-Report.pdf).

- This is in addition to the hundreds of thousands of jobs in electricity generation, manufacturing, transport and other industries which rely on our outputs.

Businesses ranging from national firms to local cafés all share in the economic benefits generated by the oil and gas industry².

ROLE OF NATURAL GAS IN THE ECONOMY

Reliable, secure and competitively priced energy is crucial to our everyday lives in Australia. Within this framework, oil and gas plays a key role in meeting many of our energy needs.

Natural gas makes it possible for Australia to meet the world's growing energy needs over the coming decades while incorporating a strategy to curb emissions and address the risks posed by climate change.

Natural gas plays a critical role in the Australian economy. Natural gas accounts for almost a quarter of our primary energy consumption. Natural gas is used in electricity generation (35 per cent), mining (24 per cent), manufacturing (24 per cent), residential use (11 per cent), in commercial services, transport and the construction sectors.

Natural gas-powered electricity generation provides security, reliability and affordability to the electricity grid, with half the emissions compared to coal. Natural gas is both a source of energy and an essential raw material for the manufacturing of everyday products like glass, ceramics, bricks, cement, plastic packaging for food and beverages, fertilisers, anti-freeze, metals like aluminium, copper, zinc, tin and in processes such as food preparation, fermentation and brewing. In most cases, there is no substitute for this use of gas.

OIL AND GAS INDUSTRY'S COMMITMENT TO THE DOMESTIC MARKET

The industry has always delivered gas where and when required to the domestic market. There have been over 90 agreements to supply gas to industrial and domestic customers signed since 2012. The Australian Competition and Consumer Commission (ACCC) in its biannual interim Gas Inquiry reports has consistently noted that LNG exporters have made significant amounts of gas available to the domestic market.

Most recently, as the ACCC reported³ in its *Gas inquiry January 2021 interim report*, domestic gas prices have continued to decline throughout 2020. Gas supply agreements for commercial and industrial users over the first half of last year averaged \$6-8/GJ, according to the report, the lowest level since 2016.

² As an example, work for APPEA by Lawrence Consulting, released in 2019, found the natural gas industry contributed around \$55 billion to Queensland's economy over a seven-year period. Almost \$5 billion was spent on wages state-wide during the period with the industry employing around 4,600 full-time employees, according to the *Economic Impact of Queensland's Petroleum and Gas Sector 2011-18* report. The industry spent around \$50 billion on goods and services from local community contributions and payments to local government as well as royalties, stamp duty and tax, the report found. See www.appea.com.au/all_news/natural-gas-powering-queenslands-economy for more information.

³ ACCC (2021), *Gas inquiry January 2021 interim report*. See also www.appea.com.au/all_news/latest-acc-interim-gas-inquiry-report-confirms-lower-domestic-gas-pricing.

Average realised LNG prices for Australian LNG producers continue to be well above average realised domestic gas prices and this is publicly evidenced through ongoing ASX disclosures.

An updated Heads of Agreement (HoA) with the three east coast LNG suppliers announced on 21 January 2021 again demonstrated the industry's commitment to local markets. It provides further assurance that the industry will always deliver gas to the domestic market where required and at internationally competitive prices.

THE GAS SUPPLY GUARANTEE

The commitment of the Australian oil and gas industry to the domestic consumers, both commercial and residential, is at the forefront of our operating procedures. The industry takes its responsibility to the Australian community very seriously.

Action by the industry, through the Heads of Agreement (a voluntary industry-led agreement signed by the three east coast LNG projects and the Australian Government in 2017, updated in 2018 and 2020), together with significant investment in new supply by the industry, has provided confidence in the market that a sufficient supply of gas will be available to domestic customers for any purposes required, at competitive prices.

As the Review's consultation paper notes on page 3, since its inception the Gas Supply Guarantee (GSG) has not been triggered. The Australian Energy Market Operator (AEMO) and the ACCC has found that there is no shortfall of gas in the domestic market, including for gas-fired power generation, over consecutive reports over many years now. This demonstrates that the industry has met its commitment to the Australian community and ensured that there is no shortfall of natural gas in the market.

It is noteworthy, the GSG is an industry led initiative that was established to provide assurance to the Government and to the Australian community and consumers, that the industry would supply gas when and where required. Since then, the gas industry has announced billions of dollars in new investment in recent years, to bring more gas into the market, supporting both domestic gas consumption and the LNG export projects that are underpinning much of Australia's economic growth. In fact, the ACCC has acknowledged in its reports that the LNG exporters on the east coast have made substantial amounts of gas available to the domestic market and ensured no shortfall.

AEMO in its *Gas Statement of Opportunities 2021* (GSOO) report said:

There is now projected to be sufficient supply to address the near-term shortfall forecasts of recent GSOOs (deferring shortfall forecasts to at least 2026).⁴

ACCC in its ninth consecutive Gas Inquiry 2017-2025 Interim Report (January 2021) said:

The east coast gas supply outlook for 2021 has largely remained unchanged and there is forecast to be sufficient supply to meet export and domestic demand.⁵

⁴ AEMO (2021), [Gas Statement of Opportunities 2021](#), March, p. 3.

⁵ ACCC (2021), [Gas inquiry January 2021 interim report](#), February, p. 8.

The section below is APPEA's response to selected questions in the response template provided by the AEMC for the submission.

Q 1. Is there a problem with access to gas supply for gas-powered generators in the NEM over the timeframes required to make generators available to support system reliability? Are there any other problems that the Gas Supply Guarantee could solve?

APPEA response:

No problems with access to gas supply have been identified since the commencement of the GSG and none are foreseen. This means that while the GSG has acted as a backstop, it is not clear that it is required to ensure gas was available for any demand from the National Electricity Market (NEM).

Q3. A number of regulatory reforms have occurred since 2017 as well as government initiatives. Do these changes impact the issues the Gas Supply Guarantee was introduced to resolve?

APPEA response:

APPEA does not see any need for the GSG to continue. It has not been triggered and as noted in the question many other regulatory reforms, in addition to commercial arrangements, have ensured that there are mechanisms in place to ensure gas supply for gas power generation. More importantly, the industry has made substantial amounts of gas available to the domestic market and no shortfall is identified or forecast.

Over the last few years, there has been an enormous amount of scrutiny on the gas market in Australia. This has resulted in significant additional regulatory oversight and data being made publicly available. For example, the ACCC *Gas inquiry 2017-2025*⁶, the Australian Energy Regulator (AER) publication of weekly prices⁷, wholesale markets quarterly reports⁸, the Australian Energy Market Commission (AEMC) *Biennial review of Gas Markets Liquidity*⁹, among other AEMO publications¹⁰ and Gas Bulletin Board¹¹ data on an ongoing basis.

The Department of Industry, Science, Energy and Resources has also just concluded its consultation in January 2021 on *Measures to Improve Transparency in the Gas Market*¹² and is progressing a consultation on *Options to Improve Gas Pipeline Regulation*¹³. The changes, which have yet to be implemented, will bring more transparency to the market.

Additionally, the introduction of the *Retailer Reliability Obligation* (RRO) from 1 July 2019, has improved the reliability of the NEM and ensured supply is maintained. The Australian Energy Market Operator (AEMO) will identify any potential reliability gaps in each NEM region in the coming five years using its Electricity Statement of Opportunities report. If AEMO identifies a material gap three years and three months out, it will apply to the AER to trigger the RRO by making a reliability instrument.

⁶ See www.accc.gov.au/regulated-infrastructure/energy/gas-inquiry-2017-2025.

⁷ See www.aer.gov.au/wholesale-markets/performance-reporting (and www.aer.gov.au/wholesale-markets/performance-reporting/gas-report-7-13-march-2021 for a recent example).

⁸ See www.aer.gov.au/wholesale-markets/performance-reporting (and www.aer.gov.au/wholesale-markets/performance-reporting/wholesale-markets-quarterly-q4-2020 for a recent example).

⁹ See www.aemc.gov.au/market-reviews-advice/2020-biennial-review-liquidity-wholesale-and-gas-pipeline-trading-markets.

¹⁰ See www.aemo.com.au/energy-systems/gas.

¹¹ See www.aemo.com.au/energy-systems/gas/gas-bulletin-board-gbb.

¹² See energyministers.gov.au/publications/measures-improve-transparency-gas-market-consultation.

¹³ See energyministers.gov.au/publications/council-releases-gas-pipeline-regulation-impact-statement-consultation.

APPEA strongly recommends that sufficient time be given for all these changes to be implemented properly and allowed to show results before any further changes are considered. There is significant supply related information already available and therefore there is no need for the GSG to continue post its expiration date.

Q5. Do you see a scenario in which the Gas Supply Guarantee could be triggered?

APPEA Response:

The GSG is a measure that is to be triggered in the case of an identified gas supply shortfall for gas-fired power generation. As noted above, the GSG has not been triggered and is no shortfall is forecast. While it is always possible to envisage a hypothetical scenario that might require it to be triggered, such a scenario is very unlikely and a range of other regulatory reforms introduced since 2017, together mean that other mechanisms, including commercial arrangements, are available to address any gas supply needs.

APPEA recommends no changes to the Gas Supply Guarantee. There is adequate supply in the domestic market and no supply issues for gas-fired power generation have been identified. We recommend that the Gas Supply Guarantee be allowed to expire on 31 March 2023. There is no need for additional instruments to ensure supply to the domestic market. Additionally, APPEA is not aware of any rationale or reason that would require any changes to the Gas Supply Guarantee.

Please feel free to contact Mr Damian Dwyer, Deputy Chief Executive at ddwyer@appea.com.au if you have any queries.

Yours sincerely



Andrew McConville
Chief Executive