



WA State Energy Initiative

Response to the Directions Paper

May 2011

The DomGas Alliance

The DomGas Alliance is Western Australia's peak energy user group and represents natural gas users, infrastructure investors and prospective domestic gas producers. The Alliance promotes security and affordability of gas supply.

Members include: Alcoa of Australia, Alinta, DBP, ERM Power / NewGen Power, Fortescue Metals Group, Gold Fields Australia, Horizon Power, Murphy Oil, Newmont Australia, Synergy and Verve Energy.

Alliance members represent around 80 percent of Western Australia's domestic gas consumption and transmission capacity, and supply gas and electricity to 800,000 households and 200,000 small businesses.



KEY POINTS

- The DomGas Alliance endorses the Directions Paper and supports key initiatives proposed by the Paper.
- Domestic gas reservation remains, by far, the single most effective policy available to the Government to promote supply and reduce prices.
- The State has yet to enforce the policy. Just 1.85 trillion cubic feet of gas has been firmly set aside from LNG project reserves – well short of the minimum 15 Tcf needed by the State.
- A 15 per cent commitment should be applied **on all existing and potential LNG reserves** – including the North West Shelf Project remaining reserves, the Gorgon expanded reserves, Browse, Wheatstone and Scarborough.
- The commitment should be made **unconditional** and enforced as part of producers' licence to operate in Western Australia.
- The Alliance **supports** the Parliamentary Committee's recommendation that the State:
 - urgently secures an undertaking from the North West Shelf Joint Venture to maintain domestic gas supply at the current levels until 2025;
 - vigorously pursues elimination of joint marketing arrangements by 2015;
 - establish a Gas Market Monitor to oversee the domestic gas market and to ensure rigorous enforcement of the State's reservation policy; and
 - conduct annual gas market reviews to enable long term planning.
- The Alliance supports additional funding by the State to improve access to onshore drill rigs.
- The State can play a greater role by acting as a broker to manage demand, underwriting the cost of bringing the rig to the State, or alternatively by employing the rig during "down times" for pre-competitive data.

1. BACKGROUND

The DomGas Alliance commends the Government on the release of the *Energy 2031: Directions Paper*. The Alliance endorses the Paper which articulates a clear way forward on domestic gas security. The Alliance supports key initiatives proposed by the Paper, including:

- tightening the State's domestic gas reservation policy, while providing sufficient flexibility for LNG producers to meet domestic supply commitments through gas swaps;
- discouraging the warehousing of gas resources under retention leases when those resources could be developed to supply the domestic market;
- tax and royalty incentives for domestic gas exploration and development;
- an open-access offshore exploration regime;
- promoting market development and transparency through a Gas Bulletin Board and Gas Statement of Opportunities; and
- facilitating common-use infrastructure to cut gas development costs.

The Alliance also supports key findings and recommendations of the Parliamentary Committee Inquiry into Domestic Gas Prices. The Committee's recommendations, if accepted by the Government, would help put downward pressure on prices. The Alliance's response to the recommendations, and the priority they should be accorded by the State, is provided in **Attachment 1**.

This submission will focus on:

- the domestic gas reservation policy;
- the State's power under the North West Shelf State Agreement to secure future domestic gas supply;
- the need for a Gas Market Monitor and more government resourcing of energy security, particularly domestic gas;
- the elimination of joint selling arrangements in 2015 and the conduct of annual gas market reviews; and
- State support to mobilise onshore drill rigs for unconventional gas.

2. DOMESTIC GAS RESERVATION

Domestic gas reservation remains, by far, the single most effective policy available to the State to promote supply and help reduce gas prices. Its importance was affirmed by the Parliamentary Committee which concluded:

The Domestic Gas Reservation Policy is an essential policy instrument for ensuring that an appropriate level of gas is supplied into the local market to achieve reasonable price outcomes.

This instrument should be part of a suite of policy responses, the primary aim of which should be to improve the overall level of liquidity, competition and transparency in the Western Australian domestic gas market.¹

In the absence of a gas reservation policy, it is unlikely that LNG producers would develop adequate domestic gas processing facilities.²

There is no evidence to suggest that the state's current approach to domestic gas reservation obligations has deterred LNG producers from pursuing development opportunities in Western Australia.³

2.1 The State has yet to enforce the 2006 domestic reservation policy

Despite its critical importance to WA's energy security, the State has yet to enforce the domestic gas reservation policy established in 2006.

The 2006 policy commits the State to reserving a minimum of 15 trillion cubic feet (Tcf) – equivalent to 15 per cent of the State's existing and potential LNG project reserves.⁴

Realistic growth projections indicate that up to 32 Tcf of gas should be reserved to meet the State's long term requirements.⁵

The State is likely to fall well short of this target. To date, just 1.85 Tcf of gas, has been firmly set aside from LNG project reserves. This amounts to just one-eighth of the minimum reserves required by the State, exposing the State to further gas shortages, energy disruptions and higher gas and electricity prices.

¹ Economic and Industry Standing Committee, Inquiry into Domestic Gas Prices Report ("Domestic Gas Prices Inquiry Report"), March 2011, Finding 19.

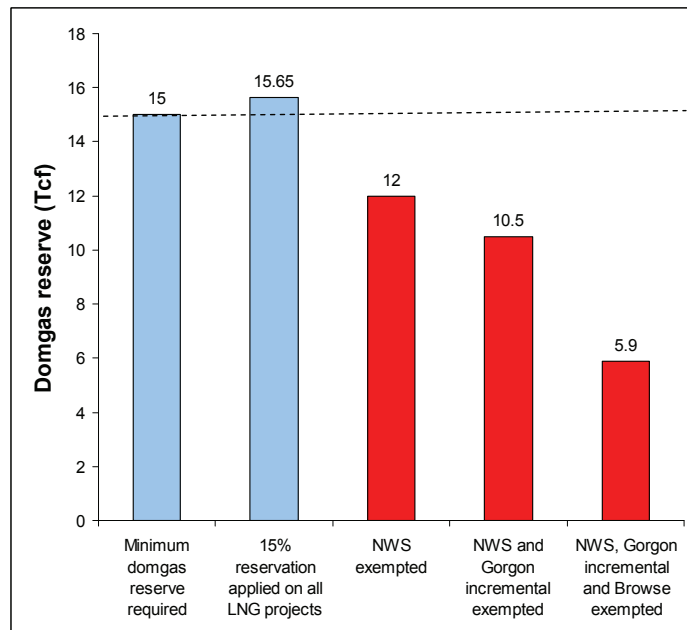
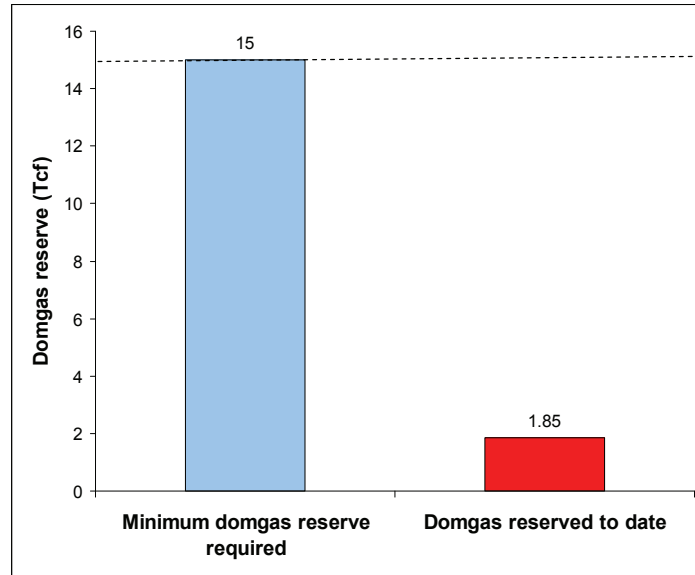
² Domestic Gas Prices Inquiry Report, Finding 20.

³ Domestic Gas Prices Inquiry Report, Finding 21.

⁴ Department of Premier and Cabinet, *WA Government Policy on Securing Domestic Gas Supplies*, October 2006.

⁵ Department of Premier and Cabinet, *WA Government Policy on Securing Domestic Gas Supplies*, October 2006.

Chart: Enforcement of 15% reservation policy - impact on domgas reserves



The Alliance urges the State to apply and enforce the reservation policy on *all existing and potential LNG reserves*. This would include a 15 per cent domestic supply commitment on:

- the North West Shelf Project’s remaining reserves;
- the Gorgon Project incremental reserves, including West Tryal Rocks;
- the Browse Project; and
- all other potential LNG project reserves such as Wheatstone and Scarborough.

Enforcement of the 15 per cent reservation would support long-term investment, growth, value-adding industry in Western Australia, and help put downward pressure on the highest domestic gas prices in the country.

2.2 Domestic reservation should be made unconditional and not subject to a commerciality “escape clause”

The lack of policy enforcement highlights the dangers associated with the commerciality “escape clause”. Such a clause allows LNG producers to avoid domestic supply obligations. It undermines the State’s ability and commitment to enforcing reservation commitments on a project-by-project basis.

As a result, the State has no certainty over the timing and volume of crucial domestic supply. Despite the serious gas shortage:

- just 1.85 Tcf of domestic gas reserves has been set aside for the State;
- no reserves have been set aside since the policy was introduced in 2006; and
- no certainty has been provided over the timing and volume of domestic supply from Gorgon, Wheatstone or Pluto.

The Alliance urges the State to apply and enforce an *unconditional* 15 per cent domestic supply obligation on all LNG projects. This should be part of producers’ “licence to operate” in Western Australia and would:

- deliver certainty to the State on future gas availability that would enable long-term investment in minerals processing, manufacturing and power generation;

- provide certainty to gas project developers that would allow them to factor-in domestic supply commitments when engaging in gas exploration and development;
- eliminate the opportunity for project proponents to seek preferential treatment or special exemptions; and
- align with reservation policies being adopted elsewhere in the world to ensure security of supply.

The Alliance considers that commerciality issues could, in any event, be managed by giving producers sufficient flexibility in how they would meet reservation obligations.

As the Directions Paper notes, this could include gas swaps where producers trade obligations between different fields or by supporting third party domestic gas developments.

2.3 Enforcing “commerciality”

An unconditional reservation policy, with sufficient flexibility to producers to meet commitments through gas swaps, would achieve an appropriate balance between facilitating LNG investment and domestic gas supply.

Should the State however retain a commerciality clause as part of the reservation policy, this should be clarified and significantly tightened. In particular:

- LNG proponents should be required to construct and have available domestic processing plant capacity sufficient to meet reservation commitments by LNG start-up – this would provide a commercial incentive for producers to market domestic gas and maximise supply;
- determinations on commerciality should be made by the independent Economic Regulation Authority with the power to enforce supply obligations on producers;
- the process for determining whether domestic gas supply is commercially economic should be rigorous, transparent, subject to established timelines and open to third party participation.

Factors that the Economic Regulation Authority could take into consideration when assessing commerciality should include:

- a price that covers the cost of production and provides an industry recognised reasonable rate of return;⁶
- appropriate allocation of costs to ensure no cost shifting by producers from the LNG project component to domestic gas;
- testing of the available domestic gas market, including through prospective gas customers, the Gas Market Monitor and the Gas Statement of Opportunities; and
- an assessment of other contractual terms offered by producers in addition price – the Parliamentary Committee concluded that total producer value from new domgas contracts includes both income earned from prices and a tightening in terms and conditions.⁷

The Parliamentary Committee **rejected** the notion that “opportunity cost price outcomes, such as LNG netback equivalent or greater” represented an appropriate domestic gas price. The Committee considered that such a price was “excessive”.⁸

2.4 Fields should be set aside for exclusive domgas development

In addition to project reservations, the State should set aside fields for exclusive domgas development. Specific leases or tenements should be set aside and granted only on the condition of exclusive domgas development.

For example acreage tenements located in shallow water are suitable for domgas supply and should be designated as such. This would provide certainty and expectation to prospective explorers and developers.

The absence of such a policy has resulted in smaller domgas prospective fields being swallowed up by increasingly ambitious LNG projects. This was the case with West Tryal Rocks, which was rolled into the Greater Gorgon LNG Project with no increase in the Project’s domestic supply commitments.

The domgas prospective Julimar-Brunello fields will also be developed as part of Chevron’s Wheatstone LNG Project. The State has yet to apply a 15 per cent domestic gas reservation commitment on the Wheatstone Project.

⁶ Domestic Gas Prices Inquiry Report, Finding 24.

⁷ Domestic Gas Prices Inquiry Report, Finding 11.

⁸ Domestic Gas Prices Inquiry Report, para.375.

3. NORTH WEST SHELF STATE AGREEMENT

The North West Shelf Joint Venture Project (NWSJV) is by far the largest and most important source of supply to the WA market – accounting for 65 per cent of WA’s domestic gas. The level of ongoing supply from the Project will therefore be the single biggest factor impacting the State’s gas shortage and gas prices.

Given this, it is concerning that the Directions Paper makes little reference to the State’s rights under the North West Shelf State Agreement to secure additional domestic supply. The State has to date failed to rigorously enforce its rights under the State Agreement.

3.1 The State’s powers under the North West Shelf State Agreement

The North West Shelf State Agreement provides a powerful mechanism for the State to secure additional domestic supply from 2010 through 2025.

Clause 46(1A) of the State Agreement empowers the State to ensure WA’s future energy needs are met before the NWSJV can renew or roll-over existing LNG export contracts, or enter into new LNG contracts:

“The Joint Venturers shall keep the Minister informed of their intended arrangements for the utilisation of natural gas processed through the onshore facilities during the years 2010 through 2025 and *before entering into any arrangements for the sale, use, supply or export of such natural gas during those years the Joint Venturers and the Minister shall consult and reach agreement on the requirements in the State and the manner in which they will be met during those years* having regard to requirements for natural gas which the Joint Venturers could make available on arms length commercial negotiations.”⁹

Even if the NWSJV satisfied its original domestic supply volume commitment, this does not extinguish the State’s ongoing power to ensure priority of domestic supply over future LNG sales from 2010-2025.

In its recent decision authorising joint selling by the NWSJV, the ACCC referred to clause 46(1A) of the State Agreement. The ACCC considered that “the Western Australian Government has the ability to exert significant influence over domestic supply volumes”.¹⁰

⁹ North West Shelf State Agreement, clause 46(1A).

¹⁰ ACCC, Joint marketing of domestic gas from the North West Shelf Project, Determination, 8 September 2010, para.5.319.

3.2 The State has failed to vigorously enforce its rights

In its evidence to the Parliamentary Committee, Woodside Energy advised that “sometime over the next few years Woodside and the joint venture with respect to LNG exports will come to a point in which a conversation will be triggered with the government with respect to supply of additional volumes in export markets relative to what might be supplied in the domestic market”.¹¹

The Department of State Development advised that no discussions have been held under the State Agreement but that these would take place “some time before” 2014-2016.¹² This raises serious concerns about the Government’s understanding of the provisions of the State Agreement and its efforts to address WA’s worsening gas shortage.

It is understood that the original 20 year LNG contracts concluded by the NWSJV began to expire in 2009 with long term negotiations being negotiated. Once gas is locked up in new LNG contracts, it is lost to the domestic market for the life of the contract.

It is vital that the State acts now under the State Agreement to ensure WA’s future energy needs are met before the NWSJV enters into new contracts to export the State’s gas reserves. It would be far too late to act in 2014-2016 – long after LNG contracts have been concluded.

3.3 A report commissioned by the NWSJV warns of ‘profound impact’ and ‘disruption’ to the WA gas market

A 2010 Wood Mackenzie report warns of the vital importance of maintaining supply. The report, which was commissioned by the NWSJV producers, concluded:

“Wood Mackenzie estimates the NWSP has provided approximately 570 TJ/d to the domestic market for both 2008 and estimated 2009. *The consequences of NWSP not continuing those domestic gas sales in whole or part, would have a profound impact on the WA domestic gas situation.*

If the NWSP didn’t continue supplying at least 300-400 TJ/d of future domestic gas sales volumes, it is Wood Mackenzie view that the WA domestic gas market will be *materially undersupplied and of risk to disruption in the medium term.*”¹³

¹¹ Economics and Industry Standing Committee, Inquiry into Domestic Gas Prices, transcript of evidence, 25 October 2010, p.5.

¹² Economics and Industry Standing Committee, Inquiry into Domestic Gas Prices, transcript of evidence, 13 September 2010, p.10

¹³ Wood Mackenzie, *Western Australia Gas Market Study*, Final Report, 26 March 2010, p.48.

Importantly, Wood Mackenzie warns that supply from prospective new projects will not be sufficient to meet WA's domestic gas needs:

*"The additions of prospective supply from Apache's Devil Creek gas, Pluto domestic gas and Gorgon domestic gas, as well as Macedon's gas may likely not be enough to serve the WA domestic gas demands. No other material gas volume projects (i.e. providing +50 TJ/d for medium or long term contracts) are seen in the 5-8 year future."*¹⁴

Failure to secure ongoing supply from the NWSJV would have a profound impact on the WA domestic gas situation, leaving the State materially undersupplied and of risk to disruption.

Supply from prospective new projects like Pluto, Gorgon or Macedon is unlikely to meet the State's demand. No other material gas volume projects are envisaged in the next 5-8 years.

It is highly unlikely that any alternative supply would be identified that would be able to match the current economic profile of the NWSJV including its market position and asset base.

3.4 The Parliamentary Committee recommends urgent action

The Parliamentary Committee urged the State to secure an undertaking from the NWSJV to maintain full production capacity through until 2025:

*"[I]ncumbent producers have enjoyed significant increases in revenue from domgas sales after the market failed to respond appropriately to a looming shortage in production capacity from 2007 ... It is critical that buyers are now assured that these same producers will maintain full capacity as new sources of supply (such as Macedon, Devil Creek and Gorgon) enter the market."*¹⁵

The Alliance strongly supports the Committee's **recommendation** that:

*The Department of State Development commence discussions with the North West Shelf Joint Venture to obtain a commitment from the joint venturers that production capacity at the Karratha Domestic Gas Plant will continue at current levels, as per the terms of the existing State Agreement, until at least 2025."*¹⁶

¹⁴ Wood Mackenzie, *Western Australia Gas Market Study*, Final Report, 26 March 2010, p.48.

¹⁵ Economic and Industry Standing Committee, *Inquiry into Domestic Gas Prices*, Report, March 2011, para.344.

¹⁶ Domestic Gas Prices Inquiry Report, Recommendation 5.

The Alliance further urges that the State:

- Exercise its power under clause 46(1A) of the North West Shelf State Agreement as a matter of urgency; and
- Ensure that Western Australia's future energy needs are met before agreeing to new LNG contracts by the NWSJV for the export of gas between 2010-2025.

4. ELIMINATE JOINT SELLING ARRANGEMENTS BY 2015

The Parliamentary Committee concluded that upstream producer concentration and a lack of competition was driving the State's high domestic gas prices.

In recent years, the production side of the Western Australian domestic gas market has become highly concentrated. Such concentration raises legitimate concerns about the level of competition and effectiveness of this market.¹⁷

An increase in domestic gas prices from historical levels is inevitable given the recent surge in production costs. Even so, insufficient competition amongst upstream producers is currently generating excessive prices.¹⁸

Prices that persistently reach or exceed LNG netback values reflect an absence of adequate competition and are inconsistent with a well functioning domestic gas market. Under such circumstances, some form of policy intervention in the market is appropriate.¹⁹

The Alliance strongly supports the Committee's **recommendation** that the State should work to eliminate joint selling arrangements when ACCC authorisations for the North West Shelf and Gorgon Projects expire in 2015:

The government should vigorously pursue the elimination of the joint marketing authority currently granted to the North West Shelf and Gorgon joint venturers when the applications come up for renewal in 2015.²⁰

Many of the features of a "more mature market" that the ACCC identified in its authorisation decisions have already been implemented in Western Australia, or are in the process of being implemented by the Government.

¹⁷ Domestic Gas Prices Inquiry Report, Finding 2.

¹⁸ Domestic Gas Prices Inquiry Report, Finding 16.

¹⁹ Domestic Gas Prices Inquiry Report, Finding 18.

²⁰ Domestic Gas Prices Inquiry Report, Recommendation 13.

The Alliance supports the Government conducting annual gas market reviews / audits. This could track the State's progress in developing a more mature domestic gas market through to 2015. (**Attachment 2**)

5. GAS MARKET MONITOR AND ANNUAL REVIEWS

The Alliance commends the efforts of State agencies and officials, including in the context of the Strategic Energy Initiative process. Significant progress has been made on the domestic gas challenge.

The critical importance of domestic gas security would however benefit from a dedicated agency with single-point accountability and a whole-of-government approach, and greater government resourcing of energy issues.

Inadequate resourcing of the energy portfolio was highlighted by the fact that prior to the Strategic Energy Initiative, domestic gas market outlooks were not prepared by government on a regular basis. Such assessments would have supported long-term planning for the WA energy market. This may have ensured that appropriate policy settings were in place to avoid the current domestic gas shortage.

The lack of vigorous enforcement by the State of its rights under the North West Shelf State Agreement, despite the State's serious domestic gas shortage, highlights the benefits of a whole-of-government approach to domestic gas security. It is vital that in focusing on facilitating the next LNG project, the State does not lose sight of the overriding importance of domestic gas supply in the same way that the Commonwealth appears to have done.

The Alliance therefore supports the Parliamentary Committee's **recommendation** that a Gas Market Monitor be established to oversee the domestic gas market:

The government establishes an independent Gas Market Monitor to oversee the operation of the local wholesale gas market. Modelled on the Queensland Gas Commissioner and reporting to the Minister for Energy, the Gas Market Monitor's primary duties would be to:

- publish an annual gas market review that includes price-sensitive supply / demand forecasts and identifies deficiencies in the operation of the market;
- facilitate discussion between government and market participants on how to address identified market inefficiencies; and

- provide the basis for ministerial and department discussions with LNG producers before future domestic reservation obligations are finalised.²¹

The conduct of annual gas market reviews would ensure that enforcement of the State's domestic gas reservation policy is accorded appropriate priority in line with the State's domestic gas security needs.

6. ONSHORE DRILL RIGS FOR UNCONVENTIONAL GAS

The Alliance commends the work of the Department of Mines and Petroleum in promoting onshore unconventional gas developments, including through the reduction in royalty rates for tight gas projects and efforts to facilitate onshore-drill rigs.

There is a significant need to improve access to onshore drill rigs. The Alliance supports additional funding by the State and that it play a greater role by:

- acting as a broker between different explorers to minimise scheduling conflicts and maximise the time when drill rigs are employed;
- underwriting the cost of bringing the rig to the State, or alternatively employing the rig when it is not being used for pre-competitive data.

Where a State employed drilling program identifies commercially viable gas resources, the State could enter into arrangements with prospective producers for cost-recovery.

²¹ Domestic Gas Prices Inquiry Report, Recommendation 4.

ATTACHMENT 1: PARLIAMENTARY INQUIRY - ALLIANCE RESPONSE

SUPPORTED - IMMEDIATE PRIORITY

Recommendation 5

The Department of State Development commence discussions with the North West Shelf Joint Venture to obtain a commitment from the joint venturers that production capacity at the Karratha Domestic Gas Plant will continue at current levels, as per the terms of the existing State Agreement, until at least 2025.

Scope should remain open within the agreement to allow third party gas processing at the Karratha Gas Plant should North West Shelf reserves prevent full production capacity from being maintained after 2020.

Recommendation 6

Under the terms of the State Agreement, the Minister for State Development confirm with the Gorgon joint venturers and advise Parliament on:

- the current date by which the Barrow Island domestic gas processing plant is expected to be built to its full 300 terajoules per day capacity; and;
- the potential of this facility to process third party gas as an interim measure.

Recommendation 8

Department of State Development refine, and publish a list of, any general parameters that are deemed to satisfy “commercial viability” as it pertains to domestic gas reservation obligations.

Recommendation 9

The review mechanism articulated in Clause 17 (Schedule 1) of the *Barrow Island Act 2003* should be regularly enforced until the Gorgon Joint Venturer’s full domestic gas production capacity is contracted.

Recommendation 10

To ensure that commerciality provisions applicable to domestic gas reservations are used appropriately, a register of all independent assessments of commercial viability claims should be maintained by the Department of State Development. Whilst commercially sensitive material should remain confidential, a detailed explanation of the reasoning behind each assessment should be published.

Recommendation 11

All future domestic gas reservation agreements should include a review mechanism, similar to that contained in Clause 17 of the *Barrow Island Act 2003*, which obliges producers to actively and diligently test the market and be subject to independent assessment. If prices are deemed by such an independent assessor to be commercially viable, producers should be further obliged to enter into contractual arrangements at the most attractive terms available to the producer.

Recommendation 12

The Department of Mines and Petroleum should request that the Commonwealth Department of Resources, Energy and Tourism (DRET) respond urgently regarding:

- A detailed update on the status of the 2009 “Review of Policy relating to the Grant and Renewal of Retention Leases”.
- DRET’s current position on retention lease management processes.
- The merit of subjecting all retention leases with no development plans in place within the next five years to a re-evaluation of commercial viability by the Joint Authority.
- Ensuring that the supply of gas to the domestic market is included as a priority in the process of renewing or issuing a retention lease.

Recommendation 13

The government should vigorously pursue the elimination of the joint marketing authority currently granted to the North West Shelf and Gorgon joint venturers when the applications come up for renewal in 2015.

SUPPORTED - MEDIUM TERM

Recommendation 1

That the Department of Mines and Petroleum review the methodology, assumptions and historical database of natural gas supply and demand (including average price information) for Western Australia to confirm the veracity of this information.

Recommendation 2

The Office of Energy expedites the introduction of more reliable gas demand and supply forecasts for Western Australia that take price sensitivity and trends into account.

Recommendation 4

The government establishes an independent Gas Market Monitor to oversee the operation of the local wholesale gas market. Modelled on the Queensland Gas Commissioner and reporting to the Minister for Energy, the Gas Market Monitor's primary duties would be to:

- publish an annual gas market review that includes price-sensitive supply/demand forecasts and identifies deficiencies in the operation of the market;
- facilitate discussion between government and market participants on how to address identified market inefficiencies; and
- provide the basis for ministerial and departmental discussions with LNG producers before future domestic reservation obligations are finalised.

Recommendation 7

Even with reduced formal powers, the state government should do all it can to obtain a commitment to the domestic gas market, including from developments using Floating Liquefied Natural Gas (FLNG) technology.

The government should encourage the promotion of third party gas processing to meet such commitments.

Recommendation 14

The Minister for Energy proceed with the introduction of a Short Term Trading Market in Western Australia as a matter of priority.

Recommendation 15

The Minister for Energy expedite the introduction of a Gas Market Bulletin Board and Gas Statement of Opportunities in Western Australia.

Recommendation 18

To encourage the development of unconventional gas, and to ensure it is undertaken in a responsible and environmentally sustainable manner, the Department of Mines and Petroleum should:

- work with all stakeholders to promptly resolve issues in the regulatory, environmental and native title approvals process; and
- ensure that Environment Management Plan compliance audits and reviews are undertaken regularly in order to identify and act upon any practices that demonstrate improper or unsafe water management processes.

SUPPORTED – LONGER TERM**Recommendation 16**

That the Minister for Energy arrange for a review to be undertaken of identified shortcomings in Western Australia's regulated gas transmission sector with a view to urgently progressing reforms that will overcome the need for gas market participants to trade in gas without first or separately having to enter into long-term transmission contracts.

Recommendation 17

That the Office of Energy extends the planned Tariff and Concession Framework Review to cover the retail gas market.

NOT SUPPORTED**Recommendation 3**

The flexibility within the state's domestic gas reservation policy should be maintained unless an independent cost-benefit analysis demonstrates that a strict reservation of 15 per cent of the gas from each LNG project for the domestic market represents a more valuable and efficient use of the resource.

Comment: An unconditional 15 per cent reservation commitment should be strictly applied on all LNG reserves.

APPENDIX 2: DOMESTIC GAS MARKET VISION FOR 2015

2010 Market	Status	2015 Vision
Short Term Trading / Bulletin Board	Underway	Greater liquidity and transparency More market participants More short term gas trading
Gas Statement of Opportunities	Underway	
Gas brokers active in market	Completed	
New aggregators active in market	Completed	
Mondarra storage expansion	Underway	Enhanced storage capacity
DBP Stage 5B expansion	Completed	More storage options
Broadening gas specification	Completed	Multiple sellers Direct competition between sellers
New LNG projects selling domgas	Underway	
Unconventional gas developments	Underway	
Elimination of joint selling of domgas	2015	