21 February 2023

Australian Government
Department of Industry, Science and Resources
GPO Box 2013
CANBERRA ACT 2601

Dear Sir/Madam,

**Re: Reforming Australia’s Domestic Gas Security Mechanism: guidelines – Submission**

The DomGas Alliance (**DGA**) welcomes the opportunity to comment on the proposed reforms to the Australian Domestic Gas Security Mechanism (**ADGSM**) by the Federal Department of Industry, Science and Resources (DISR). The Alliance wishes to respond to this consultation process, particularly addressing how the ADGSM, or a similar mechanism, might be applicable to Western Australia.

**DomGas Alliance’s role**

The DomGas Alliance is a member-driven industry body representing natural gas users, infrastructure investors and producers in Western Australia, with members including Adbri, Alcoa of Australia, Coogee, CSBP, Wesfarmers Chemicals, Energy and Fertilisers and Yara Pilbara.

Formed in 2006 in response to a serious shortage of gas supply for new developments in WA, DGA seeks to ensure a reliable, affordable and diverse supply of natural gas for industry in Western Australia.

DGA works closely with State and Federal Governments and other industry stakeholders to promote initiatives and debate on domestic gas supply issues.

**ADGSM principles**

The ADGSM’s underlying principles aim at:

1. Ensuring sufficient supply of gas to the domestic market to support manufacturing and energy security.
2. Putting downward pressure on domestic gas prices.
3. Maintaining Australia’s position as a leading contributor to global energy security.
4. Respecting the trust trading partners and international investors have shown in Australia’s resources and energy sectors.
5. Supporting the energy transition in line with climate action goals.
6. Enhancing transparency and processes that support competitive pricing outcomes for gas consumers.
7. Minimising implementation cost and complexity for government and industry.

The DomGas Alliance has long promoted and worked with the WA State Government to ensure similar principles apply within the framework of the Domestic Gas Policy in Western Australia.

The Domestic Market Obligation (DMO) principles are translated into State Agreements with the commitment holders requiring them to set aside 15 per cent of LNG sales for the domestic market, as well as to build, operate and maintain domestic gas production capacity which allows the delivery of these obligations, and to market gas in good faith.

More recently, the Alliance acknowledges the State Government’s effort to increase the transparency of the Domestic Market Obligations. This will not only achieve higher market efficiency but will improve the visibility of all stakeholders to the WA domestic gas market, including government bodies and the market operator, Australian Energy Market Operator (AEMO).

**Shortcomings of the Western Australian Domestic Gas Policy**

The Alliance is satisfied that the Domestic Gas Policy has delivered gas supply security to the State of Western Australia since 2012. WA’s Domestic Gas Policy provides long term supply security to the State by ensuring this ongoing obligation applies to LNG projects which process their gas in Western Australia. This is key to building trust with the LNG industry and providing long term visibility and security. There are currently seven operating agreements (Appendix A).

However, the terms of the current policy lack flexibility and enforceability to ensure it is used to address gas supply security concerns over shorter horizons.

For example, to date, DMO gas under the Pluto DomGas Arrangements has been delivered to the market at a fraction of the initial obligation and the AEMO’s 2022 Gas Statement of Opportunities (GSoO) does not anticipate any increase in the rate of delivery of this obligation in its forecast.

Equally, the *North West Gas Development (Woodside) Agreement Amendment Act 2015* has been delivering well below its expected rate and is forecast to continue to underdeliver in the GSoO.

Other DMO suppliers, such as Chevron, have met - or are scheduled to meet - their commitments in full.

Nevertheless, there is no mechanism in place to make adjustments on deliveries in order to address shortfalls in the market.

**Forecast Western Australian Gas Supply Shortfall**

AEMO has forecast a shortfall in the State’s gas supply in its December 2022 GSoO. AEMO’s forecast signals a degradation of the gas supply security situation of the State with a predicted shortfall coming forward 4 years from AEMO’s prior forecast of a shortfall in 2028 (in its December 2020 report). The initial shortfall goes to 2026, peaking at about 50TJ/d in 2024, and later in the decade there is a very large deficit from 2030 onwards with shortfalls of nearly 300TJ/d, representing over 16% of demand each year.

The shortfall is caused by the combination of:

* Delays in sanctioning of new LNG projects which would have otherwise provided new volumes of DMO gas into the market.
* Degradation in the outlook of existing gas producing assets, namely the Reindeer and Macedon fields.
* Delays in the commissioning of new gas projects in the Perth Basin.
* Increased mining activity fuelling growth in gas demand.
* Growth in gas demand from gas-fired power generation as a result of the planned closure of coal fired generation in the South West Interconnected System.

The domestic supply balance is forecast to improve from 2028-29 onwards as the State is expecting to receive further domestic gas supply from the Waitsia and Scarborough gas projects.

However, in the next decade, there will be an even greater shortfall in supply of up to 300TJ/d resulting from increased use of gas to displace coal fired generation, as well as supply issues as long-term domestic gas reserves are further depleted.

The Alliance notes that the current WA Domestic Gas Policy does not have a tool to address short term gas supply shortfalls such as these, and to date, there has been no policy response from the current State Government.

**General comments on the ADGSM**

The proposed guidelines of the ADGSM increase the prioritisation of gas supply to the domestic gas market over the international LNG market where these two may be arbitraged by LNG exporters. In other words, where LNG producers prioritise exports to the detriment of the domestic market supply, the guidelines can take effect.

This arbitrage behaviour is evident in both WA and the east coast gas markets. Indeed, at a recent presentation to the WA Gas Consultation Forum, AEMO noted that during the recent gas emergency in January 2023 caused by an unplanned outage of the Wheatstone facility (at a time when the Varanus Island facility was already constrained), while other LNG exporters had prioritised supply to the domestic market where possible, the Karratha Gas Plant only increased production for a short time “due to its LNG commitments”.

Under the proposed guidelines, the concept of regulating the domestic gas market through gas supply rather than by pricing regulation, is certainly preferred. Its efficiency relies on enforcement - the gas supply reserved for the domestic market under the ADGSM is not subsequently saleable as LNG.

**Specific comments**

It is unclear whether the Customs Act year ahead determination of a shortfall year in any domestic gas market remains applicable.

It is preferable that an annual prohibition mechanism should remain, and that there is only quarterly intervention in peak, unexpected or emergency circumstances.

Australian gas buyers and sellers will generally trade on an annual (or longer) basis because of their need for gas supply certainty, gas retailers’ need to adequately respond to gas customer needs (1 to 3 years ahead) and the time that is required for negotiation and contract execution. It is also likely to cause uncertainty for LNG exporters’ commercial operations.

***It is therefore preferable for certainty for all parties that the current yearly mechanism in the Customs Act remains and that the quarterly ADGSM is only applied if supplementary intervention is warranted.***

**Determining domestic market requirements rather than the LNG exporters’ net market positions**

Under previous guidelines, a domestic natural gas shortfall had to be attributable to LNG exporters’ net position for export limitations to be imposed. An LNG exporter’s net position was calculated as the balance of the LNG exporter’s exports and its own gas supply, being gas sourced from its own tenements or contracted to third parties but explicitly for LNG exports.

LNG exporter deficits occur on the east coast gas market where some LNG exporters purchase gas supply from the market to feed LNG projects. In Western Australia, LNG projects are prohibited from sourcing third party domestic gas supply using the domestic gas pipeline network without a government exemption (such as that granted to the Waitsia project).

The proposed guidelines now disregard LNG exporters’ net position and focus instead on the domestic gas shortfall itself and a determination of whether restrictions to LNG exports would have the effect of increasing gas supply to the domestic market where the identified shortfall is expected. As a result of this change, LNG exporters may be restricted from LNG exports by an amount that supports the domestic market rather than limiting the ability of LNG exporters to purchase natural gas on the domestic market for LNG feed.

Under the proposed guidelines, LNG exporters will not only be restricted from drawing gas from the east coast domestic market to supply international LNG, but they will also be requested to supply the domestic market ahead of LNG.

***This is a strong improvement in securing gas for the domestic market and causes the ADGSM to be directly relevant and applicable to Western Australia.***

**Protecting long-term foundational contracts**

The change proposed in point 2 above would introduce significant commercial and sovereign risk to LNG exporters if it could limit their capacity to deliver LNG volumes under long term agreements. The proposed guidelines mitigate this risk by limiting LNG export restrictions where these would prevent LNG exporters from honouring the minimum supply volume under an LNG contract which underpinned the LNG project’s final investment decision of the LNG project.

It is noted that the Minister may consider a renewed long-term contract to qualify.

***The Alliance suggests that renewed long term contracts should only qualify if they support incremental investment decisions for the LNG project such as plant expansions or field additions.***

On the determination of the shortfall, the Minister must consult with LNG projects on whether to determine a domestic shortfall quarter (Section 7 (3) and Section 8 (5)). A shortfall is a market balance situation that can only be well understood by a party which accesses information from both the buyer and seller sides of the market. As such, should the process include market participant consultation, this should be broadened to buyers, domestic producers, and LNG exporters.

The outcome of the consultation process should not be binding on the Minister’s decision.

To support the Minister’s evaluation of the past performance of all participants in the domestic gas market under Section 8 (11) (f), and the performance of the ADGSM itself, a systematic and timely review process would be required. We note that the current ACCC Gas Market Inquiry provides a basis for such a review of the market but its six-monthly frequency may not suit.

The definition of gas supply (Section 8 (6)) should be clarified. Gas supply is a term used for gas supply to LNG projects as well as domestic gas supply more broadly. The current definition is only fit for LNG gas supply (Section 8 (7)).

Section 7(7) states that an export permission may be traded, without further detail. The Alliance believes such trading should have restrictions; as a minimum, including a requirement that permissions may not be traded across the disconnected markets (east/west/north) and be consistent with the WA Domestic Gas Policy.

**Summary**

The DomGas Alliance welcomes the opportunity to comment on the review of the ADGSM and congratulates the Federal Government for recognising that gas will continue to play a critical role in both east and west coast economies, especially in the transition to net zero emissions.

If you have any further queries in relation to the matters discussed within the letter, please contact me on 0423 760 664.

Yours sincerely



**RICHARD HARRIS
Chairman and Spokesperson
DomGas Alliance**

**Economic Importance of Domestic Gas to Western Australia (2019-20)**

The gas industry is a significant driver of the growth and development of the WA economy. ACIL Allen estimates that in 2019-20, gas exports alone contributed $33.8 billion to WA’s export income. While these direct impacts are significant and visible, the gas industry plays an equally important role in facilitating the growth and development of other industries and the domestic economy more broadly.

The gas industry supplies to a number of important industries across the State, which together purchased some $4.1 billion in gas as a critical input into their operations. The largest consumer of domestic gas in 2019-20 was the manufacturing and material processing sector ($1.3 billion in purchases), of which the largest consumers within the sector were mineral processing ($0.3 billion) and chemical manufacturing ($0.7 billion). The other largest consumers of domestic gas in the State were the mining ($1.1 billion), utilities ($0.2 billion), transport and logistics ($0.1 billion) and construction ($0.1 billion) sectors.

Together, these industries generated $323.1 billion of economic activity, accounting for 58% of total economic activity in WA, and supported 358,365 full time equivalent jobs in 2019-20.

**APPENDIX A**

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| --- | --- | --- | --- | --- |
| Agreement(LNG project, operator, date) | Reserves2P, 20211 | LNG Export Capacity | Indicative Domgas Commitment | Domgas Supplied to end-2020 |
| [Barrow Island Act 2003](https://www.legislation.wa.gov.au/legislation/statutes.nsf/law_a6988.html)(Gorgon, Chevron, 2003) |  39.3 TCF  | 15.6 mtpa | 300 TJ/day(2,000 PJ) | 221 PJ2 |
| Pluto Domgas Arrangements(Pluto, Woodside, 2006) | 2.9 TCF | 4.9 mtpa | 115 TJ/day3(390 PJ4) | 9 PJ |
| [Pluto Acceleration Domestic Gas Commitment](https://www.wa.gov.au/government/publications/pluto-acceleration-domestic-gas-commitment-agreement) Agreement(Pluto, Woodside, 2021) |  | 0.5 – 1.0 mtpa(3 mt total) | 18 TJ/day(25 PJ) | N/A |
| [Additional Domestic Gas Commitment Agreement](https://www.wa.gov.au/government/publications/additional-domestic-gas-commitment-agreement)(Woodside, 2021) | From NWS gas reserves | N/A | 25 TJ/day(45.6 PJ5) | N/A |
| Ashburton North State Development Agreement (Wheatstone Project)(Wheatstone, Chevron, 2011) | 10.8 TCF | 8.9 mtpa | 200 TJ/day(1,530 PJ) | 81 PJ |
| [Waitsia Joint Venture Domestic Gas Commitment Agreement](https://www.wa.gov.au/government/publications/waitsia-joint-venture-domestic-gas-commitment-agreement)(Waitsia, Mitsui E&P, Australia7, 2020) | 0.8 TCF | 1.5 mtpa(7.5 mt total) | 20 TJ/day(62 PJ ) | 2.4 PJ |
| [North West Gas Development (Woodside) Agreement Amendment Act 2015](https://www.legislation.wa.gov.au/legislation/statutes.nsf/law_a147044.html)(NWS, Woodside, 2015) | 7.6 TCF | 16.9 mtpa | 90 TJ/day6(660 PJ )6 | 76 PJ6 |