



**AGL Energy Limited**

ABN: 74 115 061 375  
Level 24, 200 George St  
Sydney NSW 2000  
Locked Bag 1837  
St Leonards NSW 2065  
t: 02 9921 2999  
f: 02 9921 2552  
agl.com.au

---

**Department of Industry, Science, Energy and Resources**

**GPO Box 2013**

**Canberra, ACT, 2601**

**2 August 2021**

Dear Sir or Madam,

**Gas Fired Recovery: Infrastructure and Investment**

AGL Energy (**AGL**) welcomes the opportunity to respond to the Department of Industry, Science, Energy and Resources (**DISER**) gas-fired recovery consultation note on infrastructure and investment. AGL is one of Australia's largest integrated energy companies and the largest ASX listed owner, operator, and developer of gas, hydro, thermal and renewable generation. AGL is also a significant retailer of energy and telecommunications, providing solutions to around 4.2 million across Australia.

AGL is supportive of measures to ensure Australia's gas market can continue to meet customer demand. Gas remains an important transitional fuel and industrial feedstock, and measures to improve supply, competition and liquidity are critical to the efficient operation of the gas market.

The consultation paper raises two areas for feedback and AGL's views are set out below.

***National Gas Infrastructure Plan (NGIP)***

The Full NGIP will build on the Interim NGIP published earlier this year and will examine the gas infrastructure investments needed to ensure adequate supply over the medium and long term (out to the year 2040).

As noted in the consultation paper, gas production and reserves are declining in the well explored basins such as the Cooper and Gippsland Basins. The timing of supply shortfalls as well as the location of new supply sources of gas continue to be uncertain and evolving. In the 2021 Gas Statement of Opportunities (GSOO), AEMO stated that a projected peak day demand shortfall could occur as early as 2023 in an extreme demand scenario, however to the extent the Port Kembla import terminal was built, a market shortfall would be deferred until at least 2026.<sup>1</sup> Since then several other market developments have been committed, which will help to address these concerns and have materially impacted the market's expectations around the timing of a supply shortfall.

---

<sup>1</sup> AEMO, Gas statement of Opportunities, March 2021, p3



---

For example:

1. APA has announced it will increase east coast pipeline capacity by 25 per cent by expanding the South West Queensland Pipeline and the Moomba to Sydney Pipeline<sup>2</sup>
2. Origin has announced the purchase of 90 PJ of gas from APLNG in Queensland.<sup>3</sup>

Uncertainties also exist on the demand side. The GSOO noted that demand forecasts for consumer and C&I customers could be affected by fuel substitution opportunities, electrification or future gas prices. Several state governments are already considering these trends and policies, such as Victoria's Gas Substitution Roadmap.<sup>4</sup>

Given these uncertainties, the NGIP will need to be robust over the long term and adapt to changing market conditions. It must be cautious not to support the overbuild of infrastructure, the results of which could include disincentives for industry investment, increased costs for consumers, unnecessary costs on taxpayers and stranded assets over the long term. If the NGIP identifies a sequence of projects over the medium and long term, this should remain flexible to future assessments, and gas projects should only be identified as 'priority' projects once they are needed in the near-term and when the independently verified costs, benefits and supply needs are clear.

With regard to future supply options on the east coast, AGL notes that servicing the south-eastern markets with gas entirely from the north is likely to come at a high cost given the scale of pipeline investment required. Transportation tariffs can create a barrier to moving gas efficiently over long distances around the east coast market. Therefore, it is likely to be more cost effective to increase supply options within the south-eastern states through the development of in-state reserves and LNG import terminals that are closer to major demand centres. We envisage the best outcome may involve developing gas supply from a variety of sources. Diversification would help to protect against shortfalls from an outage at a single gas facility or pipeline and could include not only natural gas supply but also the development of renewable or bio-gas and hydrogen over the long term that can be blended in with natural gas. Although supply from these alternative sources is not expected to initially be material in alleviating the risk of shortfalls, they will be an important part of the future energy mix and decarbonisation of gas supply.

Of particular importance for the south-eastern markets is to have supply or storage options that are close to demand centres to help manage peak demand. The Interim NGIP highlights the expansion of storage capacity at Iona Underground Gas Storage facility as a critical project to mitigate the risks of peak-day shortfalls. It is likely that an expansion of capacity on the South-West Pipeline will be necessary to support this supply option, and even greater capacity will be required on the South-West Pipeline if an LNG import terminal is developed in Geelong or via Avalon to allow unconstrained deliveries on peak demand days.

---

<sup>2</sup> <https://www.apa.com.au/news/asx-releases/2021/apa-commences-25-expansion-of-east-coast-grid-enters-into-agreement-with-origin-energy/>

<sup>3</sup> [https://www.originenergy.com.au/about/investors-media/reports-and-results/origin\\_boosts\\_gas\\_supply\\_to\\_southern\\_markets.html](https://www.originenergy.com.au/about/investors-media/reports-and-results/origin_boosts_gas_supply_to_southern_markets.html)

<sup>4</sup> <https://engage.vic.gov.au/help-us-build-victorias-gas-substitution-roadmap>



---

### ***Future Gas Infrastructure Investment Framework***

The Infrastructure Investment Framework is intended to support critical gas infrastructure projects identified in the NGIP to reach final investment decision (FID). This would focus on early project activities to identify and address barriers to reaching FID and would include criteria and guidelines for governments in providing support for those projects.

As an overarching principle, the least cost supply and infrastructure pathways will be those determined by the market. As noted above, new projects are reaching FID in response to market need and without government intervention.

There is a risk that government support for certain projects may deter private investment away from alternative projects, which could restrict future growth opportunities over the long term.

Where critical infrastructure projects are identified, AGL suggests that DISER consider the barriers preventing the market from responding to that investment need. The guidelines for determining the requirement for asset development should encourage a market response instead of relying on government interventions. Non-financial methods of supporting projects to reach FID are generally preferred, to minimise any wider market distortions.

If the government does consider providing financial support for certain infrastructure, AGL suggests further consultation and consideration of the impacts of that decision on the market and investment incentives. Any interventions that affect the volumes and flows of gas will influence the economic decisions of others in the market. For example, government underwriting of a new pipeline could provide a competitive edge to that pipeline or its users, particularly if the government support influences the access fees that are offered.

With regard to examples of barriers to reaching FID, particularly for the critical development of LNG import capabilities, AGL has observed that some projects may face issues with timing. Some users may be willing to commit now, but their gradual ramp-up in demand means project developers cannot cover costs until later this decade when demand has fully ramped up and existing contracts for domestic supply reach their end of life. The fees in the initial years of the project could become prohibitively high for users to commit. Should this become a significant problem for these projects in reaching FID when they are needed, and following consideration of the wider market impacts, the government could consider options to assist project development, such as debt support for the early years of a project until full ramp up is achieved. Any financial support could be returned after the projects reach plateau capacity.

If you have any queries about this submission, please contact Jenessa Rabone at [JRabone@agl.com.au](mailto:JRabone@agl.com.au) or 0498 022 634.

Yours sincerely,

Elizabeth Molyneux  
GM of Policy and Market Regulation