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Department of Industry, Science, Energy and Resources
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Submitted via DISER consultation hub: <https://consult.industry.gov.au/onshore-minerals/gas-options/>

27 November 2020

Dear Sir or Madam,

AGL Energy (AGL), welcomes the opportunity to comment on the Department of Industry, Science, Energy and Resources (DISER), gas reservation scheme issues paper consultation. 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 does not believe that a gas reservation scheme adequately addresses the gas supply issues in Australia. The gas supply issues facing the East Coast are a combination of existing reservoir production decline leading to supply shortfalls, regional supply and demand imbalances and pipeline infrastructure constraints.

Our answers to the questions posed in the consultation paper are presented below.

Q.1: How would a prospective national gas reservation scheme address a potential domestic gas shortfall and impact gas markets in the medium or the longer term?

A prospective gas reservation scheme is only addressing one aspect of this triad of issues. As the AEMO Gas Statement of Opportunities 2020 rightly pointed out " unless additional southern supply sources are developed, LNG import terminals are progressed, or pipeline limitations are addressed, gas supply restrictions and curtailment of gas-powered generation (GPG) for the National Electricity Market (NEM) may be necessary on peak winter days in southern states from 2024¹. It is the combination of these actions and projects that will address the potential domestic gas shortfall and not gas reservation scheme in isolation.

The ability of market participants to transport gas south from Queensland will be critical in the future² unless there is adequate supply in southern states from new gas fields or LNG imports. The Australian Domestic Gas Security Mechanism (ADGSM), has provided additional gas to be redirected from LNG spot sales to domestic sales but it is important to note that the volume of gas that LNG producers sell into the domestic gas market and trading hubs is very uncertain and relies on a number of factors including the structure of their long term supply contracts and their domestic production levels within a year³. While there are currently plans to increase the capacity of the Moomba to Sydney Pipeline and the Western Outer Ring Main project in Victoria these improvements do not diminish the significance of the capacity constraints of the SWQP on supplies of gas to southern states. Instead, a focus on exploration and production from known gas production areas located in NSW, Victoria and South Australia could supply additional gas quantities close to demand centres.

Q.2: How would a prospective national reservation scheme affect investments in oil and gas projects?

¹ Australian Energy Market Operator (2020) *2020 Gas Statement of Opportunities*, March 2020, p.3.

² Ibid p.43

³ Australian Competition and Consumer Commission (2020), *Inquiry into the East Coast Gas Market 2017-2025 July 2020 Interim Report*, p.42



The 2016 ACCC Inquiry into the East Coast Gas Market recommended against a domestic gas reservation scheme⁴, the Inquiry did not identify “any market failure in the east coast gas market that would justify the introduction of a gas reservation policy”. Instead it said that, “[t]he gas supply issues ... would not be fixed by a reservation policy; in fact they could be worsened if a reservation policy was enacted which artificially depressed prices in the short term and discouraged investment in new gas supply, thus reducing the likelihood of required supply diversity⁵.” Although these findings were made in 2016 the supply situation has only become more uncertain with rising costs for the exploration and development of gas fields and particularly recently the effects of yet another oil price drop. Gas reservation is considered to be a form of protectionism and will distort the market by supporting industries or sectors that may otherwise not be sustainable in the long term.

Investment in oil and gas projects over the last ten years has been lower than the previous decade as a result of oil price drops during the global financial crisis and now the effects of Covid-19. The introduction of a domestic gas reservation scheme would further reduce incentive to invest in the oil and gas industry as it effectively places a cap on the margins achievable through the exploration, development, and sale of natural gas. The exploration cost of gas has been increasing in Australia and as the ACCC notes in their most recent Gas Inquiry report that the uncertainty around the adequacy of supply is heightened with the increasing reliance on less certain sources of supply⁶ being undeveloped reserves.

Q.3: What would be the impact of a prospective national reservation scheme on Australia’s LNG trade?

There are economic challenges in the current low oil price environment for exploration and production gas producers and LNG producers. As AGL is not an LNG producer, it is not adequately positioned to determine the impact of a prospective national reservation scheme on Australia’s LNG trade.

Q.4: What would be the quantifiable benefits of a prospective national reservation scheme for domestic gas users and for power generation?

A discussion of the possible benefits of a prospective national reservation scheme without some vision on solutions for the other facets of the supply issues (regional supply and demand imbalances and pipeline infrastructure constraints), would be incomplete, misleading and provide a piecemeal solution to the current supply issues facing the Australian East Coast gas market.

Q.5: How would a prospective national gas reservation scheme interact with state and territory policies and regulations?

If a potential gas reservation scheme was introduced, it would require a review of not only the state and territory regulations regarding the exploration and development of oil and gas but also state and federal environmental and planning laws and royalty and tax laws. There must be a comprehensive review of all applicable laws to ensure that all aspects of gas exploration, development, sale, and remediation are amended to reflect any changes imposed by a domestic gas reservation requirement. This includes ensuring that planning and approvals processes are not unduly burdened by a new reservation scheme.

If you would like to discuss any aspects of our response further please contact Marika Suszko, Wholesale Market Regulatory Manager at msuszko@agl.com.au.

Yours sincerely,

Chris Streets
Senior Manager, Wholesale Market Regulation

⁴ Australian Competition and Consumer Commission (2016), *Inquiry into the East Coast Gas Market*, April 2016, p.7.

⁵ Ibid.

⁶ Australian Competition and Consumer Commission (2020), *Inquiry into the East Coast Gas Market 2017-2025 July 2020 Interim Report*, p.21