



Energy White Paper Taskforce
Department of Industry
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Dear Sir/Madam,

The DomGas Alliance welcomes the opportunity to provide a submission in response to the issues paper issued as part of the Energy White Paper 2014 process.

While our submission addresses a number of the points raised in the issues paper, the DomGas Alliance is concerned that the paper remains silent on a number of elements which are essential to the development of a cohesive energy strategy which supports gas exports but also ensures the growth requirements of domestic industry are given first priority.

In summary, the Alliance believes the Energy White Paper process should incorporate the following measures/proposals;

- a study and action on the issues facing the Western Australian domestic market, to reflect the Federal government's concern and recent activity in the Eastern Australian domestic market
- an acknowledgement that the community expects that a resource rich nation such as Australia should be effectively using its resources to build jobs and industry in our own country
- a clear statement of national intent that foreign investment in gas projects is welcomed but that supply to the domestic market to protect jobs, create value-adding and support further economic development of domestic industry remains the top priority
- a statement that like other gas producing and exporting nations, Australia does not believe that domestic gas prices in a gas rich nation should be linked to the prices paid by resource-poor nations
- an analysis of the economic, social and regional development implications of floating LNG technology, including a reconsideration of domestic gas reservations to cover Commonwealth waters in support of similar reservations at a State level
- support to help accelerate the development of the unconventional gas industry in Australia, through responsible regulation and incentives
- a review of the policy relating to the issuing of retention leases to prevent warehousing of resources to fulfill out-years of long-term LNG contracts when those resources could be more effectively directed to the domestic market
- consistent with that, a more rigorous commitment to a "use it or lose it" policy approach including examination of whether domestic supply, not just LNG export, is commercially viable.

- an end to joint marketing practices which effectively suppress competition amongst producers in the domestic gas market and lead to higher prices for domestic gas users, and
- a review of policy relating to access to third party infrastructure to ensure that resources that could add to supply in the domestic market are not being locked out.

The Alliance has previously warned that the absence of a comprehensive domestic and export gas energy policy that protects the national interest and the best interest of the general public is a major flaw in Australia policy that would lead to serious unintended consequences.

Developments on the East coast of Australia where a potential significant supply shortage is expected by 2016 and, according to the Minister for Industry, “thousands of jobs” are at risk, would appear to confirm the fears we have previously expressed.

The Alliance is particularly concerned that the current Energy White Paper process will simply repeat and further entrench the mistakes of the past.

The DomGas Alliance looks forward to continuing to work with the Federal government and other stakeholders to improve the Energy White Paper and ensure Australia adopts a policy framework which supports producers and users, LNG exports and domestic supply, investment in upstream capital and protection of local jobs and industry.

If further information is required I can be contacted on matt@domgas.com.au or 0419 813 171.

Yours sincerely,

MATT BROWN
Executive Director

7 February 2014



**SUBMISSION TO THE
ENERGY WHITE PAPER 2014 – ISSUES PAPER**

7 February 2014

The DomGas Alliance

The DomGas Alliance was formed in 2006 to respond to concerns about domestic natural gas supplies and pricing. The Alliance aims to promote security, affordability and diversity of gas supply for industry and households in Western Australia.

The members of the DomGas Alliance purchase around 80% of the gas produced for domestic use in WA and generate significant employment and economic opportunities for the State. Our members include Alcoa of Australia Limited, Alinta Energy, DBP (WA) Transmission, Synergy, Fortescue Metals Group, Gold Fields Australia Pty Ltd, and Horizon Power.

While a number of our members have commercial interests and operations on both the East and West coasts, the focus of the Alliance has been on securing a reliable, long-term supply of competitively priced gas to support economic growth and job security in Western Australia.

The Western Australian Outlook

While the Eastern Australian domestic gas market is now facing the consequences of higher prices following the advent of an LNG export industry in Queensland, Western Australian domestic gas users have faced multiple challenges of higher prices, reduced contract length of terms and tighter supply.

In 2011 an inquiry into domestic gas prices in Western Australia by the (State) Economics and Industry Standing Committee reported that “some domestic prices are being set at levels reflecting or exceeding that of high priced Asian LNG markets” and that “the recent high gas prices are seriously undermining the state’s competitiveness and imposing high and excessive costs on businesses and households. There is also a related concern that export markets are getting a preference over the domestic market in terms of access to the state’s gas reserves.”¹

In January 2014, the Independent Market Operator released the Second Gas State of Opportunities (GSOO) that highlighted the uncertainty over supply for the domestic market and, of greater concern, confirmed that higher prices have already begun suppressing demand.

¹ Inquiry into Domestic Gas Prices in Western Australia, Economics and Industry Standing Committee, March 2011

The North West Shelf's (NWS) Karratha Gas Plant provides almost half the total domestic gas market but the GSOO warned that due to a range of factors "the continued availability of domestic gas supply from the KGP for the 2014 to 2023 period is uncertain."

The GSOO has also confirmed the sensitivity of domestic industry to the surge in domestic gas prices pointing to data showing "recent price increases have started to affect domestic gas demand." The report notes, "This means increases in average medium to long-term new contract gas prices will be reflected more rapidly by suppression of gas demand over the forecast period."²

As the DomGas Alliance has previously reported, this drop in demand is being compounded by a range of investment and development opportunities which the State has missed out on due to the unavailability of competitively priced gas.

The DomGas Alliance believes the outlook facing the Western Australian market is potentially worse than that outlined by the latest GSOO, with the outlook for the domestic gas market in Western Australia remaining tight, a situation likely to continue for the foreseeable future.

The WA Government's domestic gas reservation policy has, to a large extent, worked to ensure that domestic industry has access to a reliable source of competitively priced gas. While the current situation is not ideal, there is no question that the scenario for domestic industry would be far worse in the absence of a domestic reservation policy.

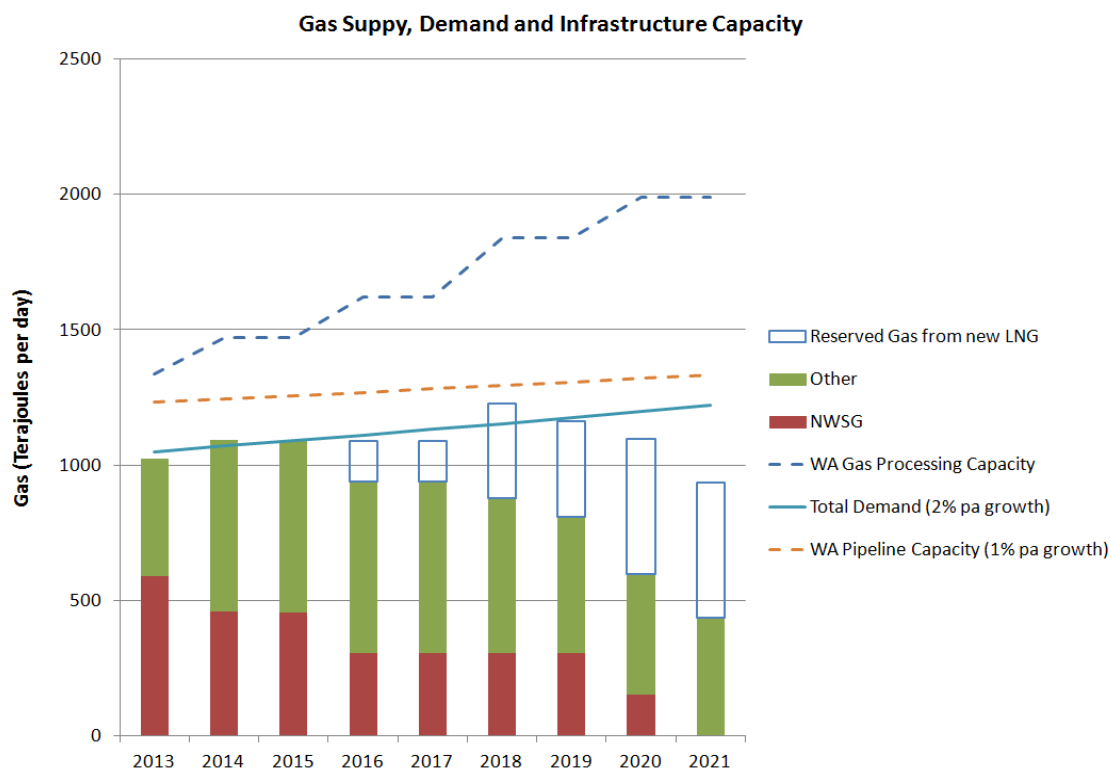
Currently the Gorgon and Wheatstone projects are understood to be the only near to medium term developments which have un-contracted offshore gas.

Even with these projects delivering some gas into the domestic market, it is likely supply will not meet demand (in fact they do not fully off-set an expected decline in North West Shelf output). The consequence of this will be a slow-down in State growth, the real likelihood that local industry will continue to pay some of the highest prices for gas in Australia, amongst the highest prices of any gas exporting country in the world, and the possibility of supply shortfalls.

Critics of the domestic gas reservation try to paint this as an illustration of the policy not working. However without the domestic reservation requirements applied to the Gorgon and Wheatstone projects, there is little question that what is currently a very tight market for domestic gas would in fact become an alarming shortfall in supply.

The following chart graphically illustrates this with the reserved gas from Gorgon and Wheatstone helping to bridge the gap between supply and domestic demand as the output of the North West Shelf inevitably begins to taper off.

² Second Gas Statement of Opportunities, Independent Market Operator (WA), January 2014



The chart shows that even with domestic reservations, there is a potential shortfall between supply and demand as early as 2016. This starts to widen significantly in 2020. It should be noted that if the proposed domestic gas start-up for Gorgon (2016) is delayed, then the shortfall in supply for that year could significantly widen. If Wheatstone faces similar delays, then the potential over-supply in 2018 would become a shortage of supply.

Floating LNG has the potential to make the State's domestic gas situation significantly more challenging.

This chart shows that even with Wheatstone and Gorgon, there is a widening supply gap from 2020 and beyond. It had always been assumed that this gap would be met, at least in large part, by domestic gas that would have been delivered under reservation from the Browse and Scarborough projects. The joint venture partners for Browse have announced the project will now be pursued as FLNG. While a final concept selection for the delivery of Scarborough has not yet been made, the joint venture partners have signaled "floating LNG is considered the best option for developing Scarborough at this stage."³ These decisions suggest that strong consideration needs to be given to strengthening the domestic gas reservation policy through the adoption of a similar approach from the Commonwealth.

Having given that background, the DomGas Alliance seeks to address those matters raised in the issues paper that are relevant to our members before providing further comments on what we see as the missing elements in the Energy White Paper process.

The Security of Energy Supplies

The Government seeks comment on:

- ways to increase new gas sources to meet demand and measures to enhance transparency in market conditions;

³ "BHP says Scarborough tracking well." The Australian, 26/9/13

1. Unconventional gas

Much of the focus of the response to the situation emerging on the East coast has been to focus on ways of bringing on-stream new sources of supply from coal seam gas developments.

The DomGas Alliance strongly supports moves to develop Australia's unconventional gas resources in a manner that protects the environment and meets community expectations. On this latter point, the Alliance is supportive of moves to provide balanced information to the community about the safety of the processes used and believes that both industry and government should be actively engaged in this effort.

Western Australia has potentially large shale gas reserves, particularly in the Canning Basin. The Alliance notes that there is already considerable interest in exploration in this region, despite claims by some that the State's domestic gas reservation policy would act as a disincentive to such activity.

The Alliance does not believe these resources will be developed in time to meet the expected supply tightening and potential shortfall in 2020/21.

A key question for the Energy White Paper to consider is what can be done to accelerate the development of the unconventional gas industry to help avoid the shortfalls predicted.

The development of an unconventional gas industry is of itself no guarantee of domestic supply.

There is no reason to believe that the developers of unconventional gas resources will not be attracted to the LNG market, for much the same reason as Queensland's CSG resources are being directed to that market.

Similarly in Western Australia, if there were no domestic reservation requirement, the resources located in the Canning Basin in the far north of the State would appear to be more likely to be directed to LNG export.

The great unknown at this stage is how much it will cost to develop and bring to market these resources and what impact that will have on domestic prices and demand.

2. Retention Leases

Successive governments have attempted to tighten the offshore retention lease process to place greater pressure on producers to bring discovered gas to market.

The DomGas Alliance believes a key element of the Energy White Paper needs to be an explicit "use or lose it" message.

The scenario that a field can be discovered in the early 1970s, earmarked for development in 2003 and still be on the drawing board in 2014 while the domestic market faces tight supply can no longer be tolerated.

The DomGas Alliance believes a more rigorous test should be implemented with greater emphasis on whether domestic supply is commercially viable.

The Alliance is particularly concerned that additional fields are being labeled as unviable to develop when they are, in essence, being earmarked as future supply for the out-years of long-term LNG export contracts. As has been noted, "The logic of reserving gas from sale today, so it can be sold in twenty years' time, beggars belief."⁴ Australia has more to benefit from these resources being brought to market sooner rather than later.

and issues relating to the regulation of energy infrastructure.

The DomGas Alliance believes there would be considerable value in reviewing third party access to infrastructure to determine if such access could help bring on new supplies of gas, particularly from offshore fields. This may allow alternative funding models that could help reduce the cost of gas supply. More of the infrastructure could be provided at lower rates of return than that required by the oil and gas industry.

Regulatory Reform and Role of Government

The Government seeks comment on:

· possible measures to promote greater price transparency in gas markets;

The DomGas Alliance has been supportive of moves to improve price transparency in the Western Australian gas market, including the development of a Gas Bulletin Board and an annual Gas Statement of Opportunities, albeit that we still have some reservations about the quality and value of some of the outputs of these processes.

The Alliance believes a major step in promoting transparency and greater competition in the market place would be the withdrawal of the exemption for producers to jointly market their gas. The rationale behind the issuing these exemptions is long out of date and the Alliance will be pushing for the ACCC to revoke them when they come up in 2015. We note that the Victorian Gas Market Taskforce (2013) report also highlighted this issue from an East coast perspective.

Growth and Investment

The Government seeks comment on:

· commercial or market initiatives that could enhance growth and investment in the energy and resources sectors;

· areas where approvals processes could be further streamlined while maintaining proper environmental and social safeguards;

· further ways that regulatory burdens could be reduced while maintaining appropriate levels of disclosure and transparency in energy markets;

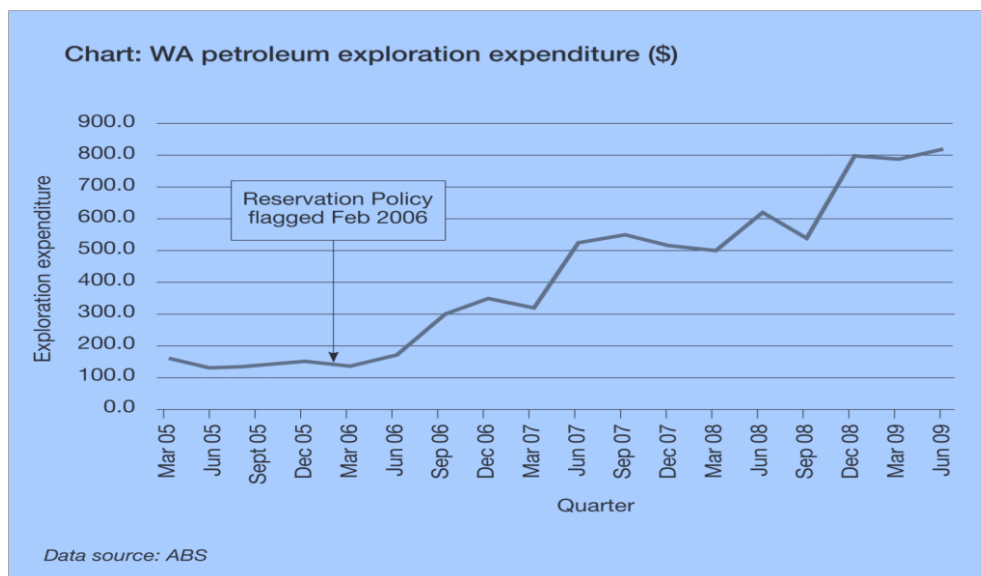
⁴ Recent Price Developments in Australian Gas Markets, M Lauer, October 2013

In principle, the DomGas Alliance is supportive of moves to reduce the red tape involved in the approvals process. Streamlining of State and Federal approvals process, particularly in relation to environmental clearances, would be of great benefit to industry.

The DomGas Alliance is concerned, however, that this question invites producers and their industry association to again call for the rejection of domestic gas reservation as a policy option.

In our submission to the Eastern Australian Gas Market Study issues paper (February 2014), the Alliance has documented the evidence that domestic reservations have not led to a flight of exploration or capital from Western Australia

The reality is that investment in exploration in Western Australia increased significantly in the years immediately following the introduction of the domestic gas reservation policy and remains strong today.



This was confirmed by the Western Australian Economic Regulation Authority in its submission to the 2011 Inquiry into WA Domestic Gas Prices by the (State) Economics and Industry Standing Committee which stated

“Exploration in the petroleum sector has also stood up well following the global financial downturn. A number of major international corporations have taken up exploration acreage and commenced significant exploration programs in Western Australia. In addition, established operators in the State have increased their exploration activities resulting in a number of sizeable gas discoveries in offshore northwest Australia. ... The information available on exploration and development of natural gas in Western Australia indicates strong economic activity in this sector in spite of a general downturn in activity more generally.”⁵

⁵ Submission to the Inquiry into Domestic Gas Prices, Economic Regulation Authority, July 2010

The Wheatstone (\$29billion) and Pluto (\$15billion) projects have both been developed with domestic gas reservation requirements under the WA policy.

The DomGas Alliance continues to strongly support the domestic reservation policy articulated by the WA government and believes it serves a key purpose in sending an up front message to producers that while they are welcome to develop our natural resources for commercial benefit, there is a community expectation that local industry and jobs will be supported by domestic supply.

There is no issue of “sovereign risk” in the Commonwealth considering such a policy for offshore projects. Domestic reservations have been a part of the landscape in Western Australia since the inception of the North West Shelf project and are understood by producers and accepted as part of doing business in WA.

In the words of Mr Roy Krzywosinski, Managing Director of Chevron Australia (operators of the Wheatstone project);

“First of all, let me say this: it is important when companies make decisions to understand the parameters of the investment. Whether it is domestic gas or whatever other requirements might be out there, you need to understand the demands of the investment. You need to understand how that money will be used and so on and so forth. We understood that situation for Wheatstone. We went into that investment with eyes wide open that there would be a domestic gas reservation policy. As a result, we are doing it; we are providing domestic gas. Between Gorgon and Wheatstone there is 500 terajoules a day, as you mentioned. That represents probably over 40 per cent, probably close to 50 per cent, of the current market. That is good news—there is more domestic gas, more competition. It is good news for everybody.”⁶

Trade and International Relations

The Government seeks comment on:

- how to grow the export of value-added energy products and services;*
- ways to remove unnecessary barriers to continued foreign investment in Australia’s energy sector;*
- ways to strengthen support for access to export markets; and*
- ways to support business to maximise export opportunities for Australia’s energy commodities, products, technologies and services, including the value of Australia’s participation in the variety of international forums.*

This section encapsulates the inherent and over-riding weakness of not only the issues paper but of the approach of successive governments to this policy area.

⁶ *Inquiry into the Economic Impacts of Floating LNG Operations*, WA Standing Committee on Economics and Industry, 24 October 2013

The focus should not be solely on developing and exporting energy or energy products and services.

Australia's energy strategy should have a significant focus on the use of our energy resources to drive domestic industry, create local jobs, generate economic opportunities for indigenous communities and support regional development.

The United States is currently enjoying an economic renaissance on the back of its shale gas boom and competitively priced domestic gas. With an estimated \$100 billion in planned investment in new factories reliant on natural gas, the American domestic economy is reaping the benefits of its resource endowment.

Gas producers in the US are now turning their attention toward LNG exports. It is interesting to note that the Obama administration has sought to strike a policy balance based on an understanding that while LNG exports will generate export and tax revenue, the impact on domestic supply and prices could put at risk the massive investments planned in the local economy.

This balance appears to be completely missing from the Australian energy debate.

The community will rightly ask where the benefits are from our abundant gas resources.

Australia needs to decide if it will use its gas to create industry, jobs and products here in Australia, or simply export that gas to allow other nations to create industry, jobs and products for their people.

The unintended consequences of unrestricted LNG exports at the expense of domestic energy security have been analysed by the National Institute of Economic and Industry Research which found that for "each petajoule of natural gas that is shifted **away** from industrial use **towards** export, whether because of tight supply or uneconomic pricing, means giving up \$255 million in lost industrial output for a \$12 million gain in export output. That is, for every dollar gained \$21 is lost. This increases to \$24 when economy-wide impacts are taken into account."⁷

The DomGas Alliance has consistently argued that this is not an "either, or" debate between an LNG export industry and domestic gas. The North West Shelf experience shows that given the right policy settings, Australia can, and should, have both.

The Energy White Paper should make good on the Prime Minister's observation that Australia should be an "affordable energy superpower" and that we should "make the most of the comparative advantages we've got and cheap energy - affordable energy - ought to be one of our comparable advantages."⁸

Workforce Productivity

⁷ Large scale export of East Coast Australia natural gas: Unintended Consequences, The National Institute of Economic and Industry Research, October 2012

⁸ The Hon T Abbott, Prime Minister, Joint Press Conference, Parliament House, Canberra, 18 December, 2014

The DomGas Alliance supports in principle efforts to overcome skills shortages in the energy sector including an increased commitment to training and skills development and continued flexibility in relation to Temporary Work (Skilled) 457 Visas.

Driving Energy Productivity

No comment.

Alternative and Emerging Energy Sources and Technology

The Government seeks comment on:

· ways to encourage a lower emissions energy supply that avoids market distortion or causes increased energy prices;

The DomGas Alliance would highlight the recent release of the Second Gas Statement of Opportunities (WA) which pointed to data showing “recent price increases have started to affect domestic gas demand” and noted “this means increases in average medium to long-term new contract gas prices will be reflected more rapidly by suppression of gas demand over the forecast period.”

Of concern was the GSOO observation that “The suppression in gas demand is particularly sharp for areas in the South West Interconnected System where there are more readily available substitutes (for example, coal and renewables) for gas consumption for electricity generation.”⁹

In developing the Energy White Paper, the government needs to be mindful that higher domestic gas prices on both the East and West coast will inevitably mean that some companies will fuel switch to more carbon intensive fuels.

The DomGas Alliance believes that if Australia is serious about reducing its greenhouse emission levels then the Energy White Paper will place a significant focus on supporting the use of natural gas in domestic industry.

General comments

The DomGas Alliance believes the Energy White Paper presents the opportunity for the Australian government to do what every other government of a gas-producing nation does; prioritise the use of its resource for the development of its domestic economy in the national interest.

Australia’s domestic energy policy has consistently lacked a statement of intent by the national government on behalf of the community that those companies that wish to access our natural resources for commercial gain in the export market also have a responsibility to meaningfully engage in the domestic market.

Australia remains the only country where international oil companies can access and export gas without facing controls aimed at prioritising domestic supply.

⁹ Second Gas Statement of Opportunities, Independent Market Operator (WA), January 2014

Even in the US, where the market is undergoing significant change due to the shale gas boom, the approval of agreements to export LNG to non-FTA countries have included so-called revocation clauses based on an assessment of whether the public interest is being met. As the Centre for Strategic and International Studies noted, this is a “tacit recognition that some level of export is against the public interest” and that the US administration was trying to chart a course which allowed exports “without harming the US economy.”¹⁰

Major upstream producers in Australia also operate in nations where domestic supply is prioritised but expect, and are given, a different set of rules when they seek to operate in Australia.

Domestic supply of natural gas should be the central element of any producer’s license to operate. If our national government continues to send the signal to producers that it will not act to ensure this responsibility to the community is met, then the situation in both the Western and Eastern domestic markets can only deteriorate.

In addition to these points, the DomGas Alliance believes there would be value in the Commonwealth undertaking an exercise similar to the Eastern Australia Domestic Gas Market Study for the Western Australian market. This could cover issues such as the “use it or lose it” approach to retention leases, the social and economic implications of floating LNG technology, access to third party infrastructure and the impacts of joint marketing arrangements.

#ends

¹⁰ Centre for Strategic and International Studies, S Ladislav, July 2013