

DomGas Alliance submission to the Australian Government review of the ADGSM

The DomGas Alliance welcomes the review of the ADGSM by the Federal Department of Industry, Science and Resources (DISR) and the public consultation on the performance of this process. The Alliance wishes to respond to this consultation process, particularly addressing the support the Commonwealth may provide to the states and territories in ensuring their gas needs are met during the energy transition (Question 12 of the consultation process).

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 translate 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. The Domestic Gas Policy provides long term supply security to the State by ensuring this ongoing obligation applies to LNG projects 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 1).

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 2021 Gas Statement of Opportunities (GSoO) does not anticipate any increase in the rate of delivery of this obligation in its forecast.

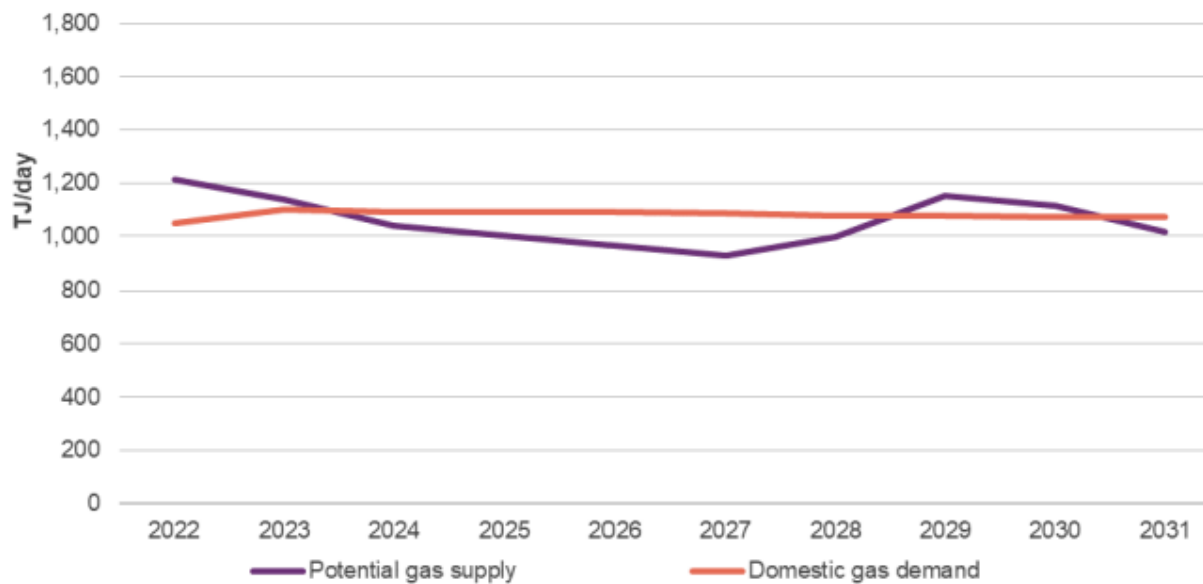
Equally, the *North West Gas Development (Woodside) Agreement Amendment Act 2015* has been delivering well below its expected rate and is forecast to continue to underdeliver in the GSoO.

The Alliance believes that the process of the ADGSM could address gaps in the current WA domestic gas policy and therefore improve short term gas supply security in the State, where required.

Forecast Western Australian Gas Supply Shortfall

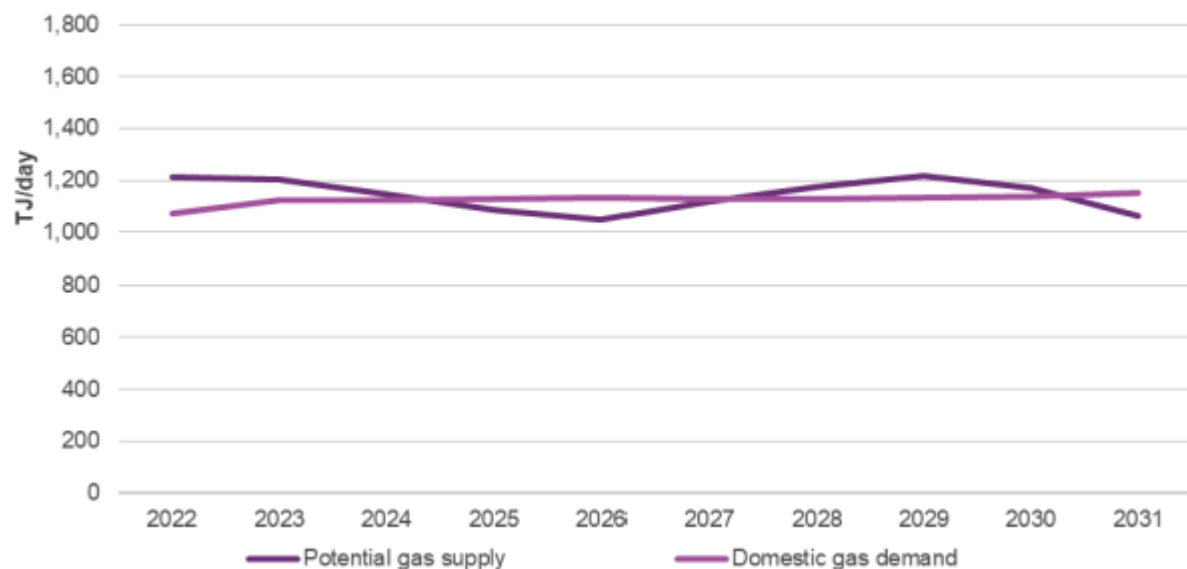
Much like the Eastern States of Australia, AEMO is forecasting a shortfall in the State’s gas supply in its December 2021 GSoO. AEMO’s forecast signals a degradation of the gas supply security situation of the State with a predicted shortfall coming forward 4 years from AEMO’s prior forecast of a shortfall in 2028 (in its December 2020 report).

Figure 15 Potential WA domestic gas supply compared to forecast gas demand, Low scenario, 2022 to 2031



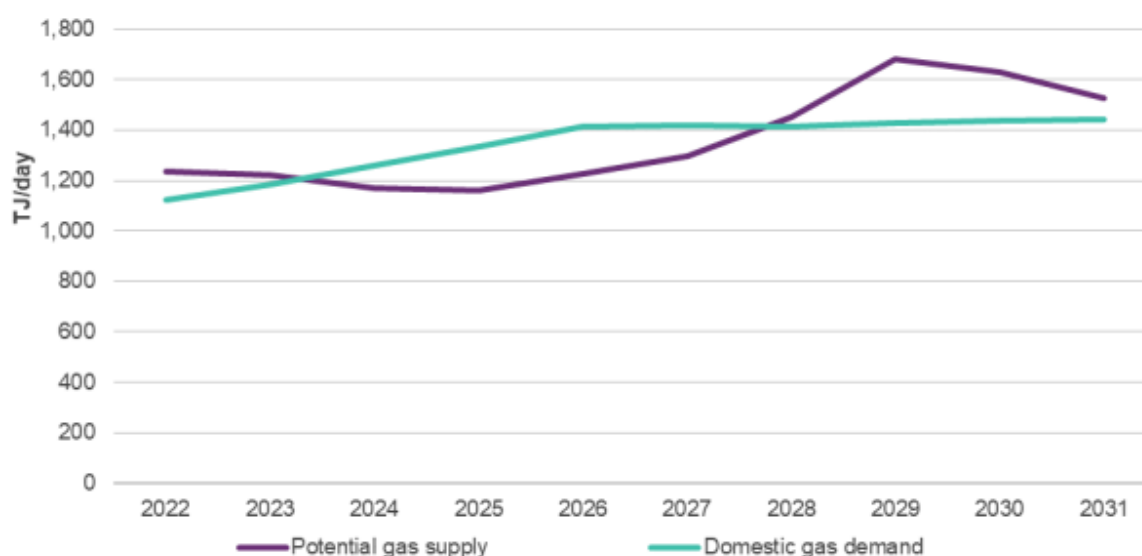
Source: AEMO December 2021 Gas Statement of Opportunities

Figure 14 Potential domestic gas supply compared to forecast gas demand, Base scenario, 2022 to 2031



Source: AEMO December 2021 Gas Statement of Opportunities

Figure 16 Potential WA domestic gas supply compared to forecast gas demand, High scenario, 2022 to 2031



Source: AEMO December 2021 Gas Statement of Opportunities

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; and
- 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 System¹.

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.

Under AEMO’s Low Case scenario, a supply deficit emerges as early as 2024, for an amount of 53 TJ/d or 19 PJ/annum, and peaks in 2027 at 159 TJ/d or 58 PJ/annum. The Base case scenario forecasts a deficit of at 42 TJ/d or 15 PJ/annum² emerges in 2025 and peaks at 85 TJ/d or 31 PJ/annum in 2026.

The Alliance notes that the current 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.

How the ADGSM may complement the WA Domestic Gas Policy

The Alliance would welcome the addition of the ADGSM process to the current policy tools in use in WA in order to bring forward, as required, volumes of domestic gas commitments.

¹ Published in Dec-21, the supply gap identified by AEMO in its report does not include the most recent announcements from the State Government to decommission the Collie coal-fired power station in Oct-27 and the current coal mine supply issues which two of the three major coal fired power stations in the State are facing.

² This compares to a volume of ADGSM of 56PJ currently considered in 2023 to address supply shortfall across the East Coast gas market.

The ADGSM process is governed by the *Customs (Prohibited Exports) (Operation of the Australian Domestic Gas Security Mechanism) Guidelines 2020*, themselves made under Section 13GF of the *Customs (Prohibited Exports) Regulations 1958*.

Chapter 6 describes “(1) The objective of the ADGSM is to ensure that there is a sufficient supply of natural gas to meet the forecast needs of Australian gas consumers by requiring, if necessary, LNG Projects which are drawing gas from the domestic market to limit exports or find offsetting sources of new gas”.

(2) The ADGSM **applies Australia wide**. In practice, the ADGSM:

(a) establishes a process for the Federal Minister for Resources to determine whether there will not be a sufficient supply of natural gas for Australian consumers in the forthcoming calendar year (***a domestic shortfall year***)”.

The document further describes:

- in its Chapter 9, the process for the Resources Minister to consider whether a year will be determined as a domestic shortfall year,
- the process for the Resources Minister to determine the Total Market Security Obligation and the Export Market Security Obligation (Chapter 10), and
- the process for the Resources Minister to grant an LNG Export Permission for a domestic shortfall year.

The Alliance believes this process leverages the expertise of Australia’s relevant market bodies and agencies (including the AEMO and the ACCC), their consultative scope, their investigative powers, analytical capability and forecasting expertise across energy markets, to provide an independent outlook, as AEMO already does, and conclude on the risks of a shortfall in state gas supply.

The process guarantees a well-timed and enforceable supply security response. The quantity determined under any particular ADGSM also ensures transparency and certainty to domestic market participants, which is critically important in a market characterised by high market concentration.

The Alliance notes that, across the East Coast states, the ADGSM is performed in combination with a Heads of Agreement (HoA) with Australia’s East Coast LNG exporters. In Western Australia, the Alliance proposes this approach to translate into using the ADGSM with existing State Agreements and the Domestic Gas Policy. There should be no legal or constitutional impediment to making this arrangement work.

The current drafting of the ADGSM is tailored to the gas development framework of the East Coast, where LNG projects are significantly more decoupled from sources of gas supply than in Western Australia. As a result, the ADGSM focuses on rebalancing the net-deficit position of LNG projects which feed from third-party gas by requiring that these projects either reduce their export quantities or make additional gas available to the domestic market.

In Western Australia, the North West Shelf LNG project is the only liquefaction plant currently planning to source gas supply from third party sources. This authorisation is already governed by the state government Exemption Regime.

The Alliance seeks that, in its review of the ADGSM, DISR generalises the application of this gas supply security mechanism to include a broader process of making gas supply available to a domestic market in conditions of short to medium term anticipated gas shortfall which may apply in combination with existing state agreements and/or policies.

The Alliance would also welcome the opportunity to discuss with DIRS and the Minister the applicability of the ADGSM mechanism to WA.

About the DomGas Alliance

The DomGas Alliance is a member-driven industry body representing natural gas users, infrastructure investors and producers in Western Australia.

The Alliance seeks to ensure a reliable, affordable and diverse supply of natural gas for industry and households in Western Australia. It was formed in 2006 in response to a serious shortage of gas supply for new developments in WA.

Members include Alcoa of Australia, Coogee Chemicals, CSBP, Wesfarmers Chemicals, Energy and Fertilisers and Yara.

APPENDIX 1

Agreement (LNG project, operator, date)	Reserves 2P, 2021 ¹	LNG Export Capacity	Indicative Domgas Commitment	Domgas Supplied to end-2020
<u>Barrow Island Act 2003</u> (Gorgon, Chevron, 2003)	39.3 TCF	15.6 mtpa	300 TJ/day (2,000 PJ)	221 PJ ²
Pluto Domgas Arrangements (Pluto, Woodside, 2006)	2.9 TCF	4.9 mtpa	115 TJ/day ³ (390 PJ ⁴)	9 PJ
<u>Pluto Acceleration Domestic Gas Commitment Agreement</u> (Pluto, Woodside, 2021)		0.5 – 1.0 mtpa (3 mt total)	18 TJ/day (25 PJ)	N/A
<u>Additional Domestic Gas Commitment Agreement</u> (Woodside, 2021)	From NWS gas reserves	N/A	25 TJ/day (45.6 PJ ⁵)	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
<u>Waitsia Joint Venture Domestic Gas Commitment Agreement</u> (Waitsia, Mitsui E&P, Australia ⁷ , 2020)	0.8 TCF	1.5 mtpa (7.5 mt total)	20 TJ/day (62 PJ)	2.4 PJ
<u>North West Gas Development (Woodside) Agreement Amendment Act 2015</u> (NWS, Woodside, 2015)	7.6 TCF	16.9 mtpa	90 TJ/day ⁶ (660 PJ) ⁶	76 PJ ⁶