

WA DOMESTIC GAS POLICY

Improving the effectiveness of the policy



Executive summary: submission by the DomGas Alliance to the Parliamentary Inquiry of the Economics and Industry Standing Committee

Who we are

DomGas Alliance (DGA or the Alliance) is a member-driven industry body representing large gas users in Western Australia, with members including Wesfarmers Chemicals, Energy and Fertilisers, Alcoa of Australia, Adbri, Coogee, and Yara Pilbara.

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

WA's domestic gas reservation policy

WA's Domestic Gas Reservation Policy, introduced in 2006, is supported by the Alliance and is the envy of the nation. It requires 15% of gas reserves for Liquefied Natural Gas (LNG) projects to be made available and delivered to the domestic market in timeframes agreed with by Government, and underpins this State's economic and social development; as well as being critical to the transition to net zero emissions.

The availability, and lower prices, of gas in WA has benefited households, businesses and industries, fuelling economic growth which has allowed WA to prosper – and the rest of the nation through revenue we generate.

However, there is currently a shortage of gas available to the WA domestic market, which is forecast to get much worse in the next decade.

AEMO's 2022 Gas Statement of Opportunities (GSOO) reflects these challenges, forecasting a gas shortfall in this State from this year to 2026, peaking at approximately 50TJ/d in 2024, and a large deficit from 2030 onwards with shortfalls of 300TJ/d, representing over 16% of demand each year.

The challenge ...

While the Alliance supports the policy, we have been advocating for some time that changes are needed to strengthen it to ensure that LNG producers deliver 15% of gas for domestic use as originally intended.

The policy only works on the basis of "good faith" compliance and there is clear evidence in the current market that when parties do not adhere to the policy in good faith, there is no enforcement mechanism and ensure that gas is delivered to the domestic market in accordance with the 15% target.

While some large gas suppliers operating in WA are adhering to the intent of the policy, others are not – and this is to the detriment of the suppliers doing the right thing, the consumers of gas – which includes DGA members, and the economy and future prosperity of the State.

Social licence to operate

While there is pressure for the use of gas to be phased out due to climate change, the reality is that it is critically needed in the short to medium term as we transition to renewable energy sources.

Gas will continue to play a vital role in WA's economy into the next decade and beyond. Demand will increase for the rest of this decade as coal generation is shut down and new gas-consuming projects are developed; many of which are focused on providing the world with materials for the clean energy sector.

Critical minerals are an important part of that energy transition and WA has some of the world's best deposits of these minerals which are essential for use in manufacturing batteries, solar PV panels, wind turbines, and in high technology applications. Extracting and processing these minerals requires large amounts of energy and heat which, in the short to medium term can only be provided economically and reliably by gas.

Recommendations

DomGas Alliance makes several recommendations to improve the effectiveness of the WA Domestic Gas Policy.

1. A new stand-alone publicly available document, which outlines the policy, an updated objective of what the policy is trying to achieve, and does not include exemptions or special circumstances;
2. The Minister should have the ability to order domestic gas suppliers to adjust their delivery of gas into the domestic market to prevent under-delivery and shortfalls to the market;
3. The obligation to “market gas in good faith” should be changed to “making gas available to the market in accordance with delivery obligations as agreed with Government”, ensuring consumers have confidence that Domestic Market Obligation (DMO) suppliers will make available 15% of their reserves to the market;
4. A policy principle should be that delivery of domgas is no lower on a yearly basis than 15% of LNG production to avoid the risk of domgas prices pairing to LNG netback and the risk of reserves downgrade;
5. A compliance mechanism should be developed by Government to ensure the commitments are adhered to, and that the information on performance is publicly available. The responsibility for monitoring compliance should be a body separate from the Department that manages State Agreements, such as the Economic Regulation Authority;
6. Each LNG producer covered by the policy should be required to inform the relevant authority, and AEMO, of its delivery of DMO gas to the market on a quarterly basis and if they have not met their domgas obligation, to explain why not;
7. There should be no further exemptions to the prohibition of export of gas that has access to the WA gas pipeline network under any circumstances, and this should be publicly stated by the Government;
8. Any gas saved as a result of LNG producers using alternate clean energy sources to provide power to their LNG processing facilities should be shared between export opportunities and domestic gas commitment and a priority should be to restore a healthy supply/demand balance in the WA gas market;

9. All new LNG export projects should have gas reservation obligations which are disclosed publicly and have firm commitments on targeting 15% of export volume, timing of delivery, provision of information, and be subject to oversight and compliance monitoring in accordance with the policy principles;
10. The State Government, in collaboration with the Commonwealth Government, reviews current management of Retention Leases with a view to ensuring they are more effectively regulated; and
11. Existing and future gas projects, should be assisted by Government in securing environmental and other approvals to ensure they can be developed as soon as possible in order to begin delivering gas.

Closing remarks: significance of gas to the WA and national economy

The DomGas Alliance is satisfied that, in general terms, the WA Domestic Gas Policy has delivered long term gas supply security to the State of Western Australia by ensuring the ongoing domestic market obligation applies to LNG projects which process their gas in Western Australia.

The gas industry is a significant driver of the growth and development of the WA economy, and is critical to decarbonising the energy sector.

In 2021-22, gas exports alone contributed \$48.2 billion to WA’s export income. The industries it fuels were responsible for 54.4% of WA’s economic activity, which employ more than 403,359 full-time equivalent jobs.

It is clear that gas will continue to play a vital role in WA’s economy into the next decade and beyond. Demand will increase for the rest of this decade as coal plant is shut down and new gas consuming projects are developed, many of which are focused on providing the world with materials for the clean energy sector.

The Domestic Gas Policy is the bedrock of our economic development, but needs reform to make it work as intended, and to ensure a smooth transition to cleaner energy. In particular, a compliance mechanism should be developed by Government to ensure the commitments are adhered to, especially in delivering 15% of exported LNG year on year, and that the information on performance is publicly available.

