



Gas Reservation Issues Paper

Submission to Department of Industry, Science,
Energy and Resources

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1. Introduction

The South Australian Chamber of Mines and Energy (SACOME) is the peak industry body representing companies with interests in the South Australian minerals, energy, extractive, oil and gas sectors and associated service providers.

SACOME welcomes the opportunity to provide input to the Department of Industry, Science, Energy and Resources (DISER) Gas Reservation Issues Paper (the Paper), recognising the development of a prospective National Gas Reservation Scheme (NGRS) is driven by the Commonwealth Government's aim of implementing market and regulatory measures that promote the supply of affordable and reliable gas to the domestic market.

SACOME has a diverse membership which includes gas producers, gas pipeline operators and large Commercial and Industrial (C&I) operators with a range of views regarding the establishment of a NGRS. In preparing this submission, SACOME has sought to represent these diverse views in a balanced and constructive fashion.

The South Australian oil and gas industry is an important contributor to the State economy, the combined activity of SACOME's oil and gas member companies has realised the following economic outcomes for the State:

- \$1.7 billion in production value.
- \$642 million in commodities exported to global trading partners.
- \$128 million in royalties to the South Australian Government.
- \$108.8 million for the new petroleum projects.
- The direct employment of 2878 people.

(All data sourced from SARIG 2020)¹

Gas is a critical component of South Australia's energy sector, comprising almost half of the State's electricity generation,² with the price of gas having a direct effect on electricity prices, as well as the cost of gas-reliant industrial processes.

South Australia has been at the vanguard of energy change on multiple fronts, including the cost of gas. SACOME member companies often cite energy affordability as an area of key concern, directly impacting business viability, new project development and investment decisions.

¹ <https://map.sarig.sa.gov.au/>

² Pg. 30 https://www.aemo.com.au/-/media/Files/Electricity/NEM/Planning_and_Forecasting/SA_Advisory/2019/2019-South-Australian-Electricity-Report.pdf

The importance of the South Australian oil and gas sectors' economic contribution to the State; and the importance of gas to electricity generation and industrial processes in South Australia means the impacts and opportunities arising from a NGRS on industry and consumers need to be carefully considered.

In particular, the impacts and opportunities need to be considered in the context of ongoing uncertainty surrounding both the continuing effect of COVID-19 and low oil and gas prices on international gas demand.

While some large C&I member companies have expressed support for a prospective NGRS; SACOME supports fully functioning, efficient gas markets underpinned by regulatory frameworks that remove barriers to energy supply and encourage the discovery and extraction of new gas reserves as key to increasing supply and lowering prices for all gas consumers.

SACOME is committed to working collaboratively with DISER, Commonwealth and South Australian Governments towards unlocking the nation's gas resources to support fully functioning, efficient domestic gas markets for the benefit of all stakeholders.

2. Australian Gas Markets

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

SACOME broadly supports Draft Finding 4.3 of the Productivity Commission's Draft Resources Sector Regulation Report that domestic gas reservation schemes can reduce returns to investors and discourage investment in gas exploration and extraction, leading to higher prices in the longer run and imposing net costs on the community. SACOME's submission to that process can be accessed [here](#).

SACOME submits that the key to addressing any potential domestic gas shortfall are regulatory frameworks geared towards removing barriers to energy supply and which facilitate the discovery and production of new gas reserves in a safe, timely and cost-effective manner.

Clear, efficient and effective regulatory frameworks are critical to Australia's "investment attractiveness" and to attracting the global investment required to ensure an affordable, diversified and reliable supply of gas in domestic markets.

SACOME brings to the Commonwealth Government's attention the Fraser Institute's Global Petroleum Survey 2018³ (the 2018 Survey). The Fraser Institute ranks petroleum jurisdictions according to a "Policy Perception Index" (PPI), reflecting the perceived extent of barriers to investment in each jurisdiction.

The 2018 Survey shows that, since 2014, the PPI of all Australian jurisdictions apart from Western Australia has been in decline and ranks Tasmania, Victoria and New South Wales in the 10 least attractive jurisdictions for investment with countries like Bolivia, Venezuela and Yemen.

The 2018 Survey continues to rank South Australia as the best petroleum jurisdiction in Australia, however South Australia's decline in the rankings is attributed to increased concerns over regulatory enforcement.⁴ "Investment attractiveness" is of paramount importance in South Australia where challenging landscapes, remoteness of project locations and a lack of existing infrastructure already act as a deterrent to private sector investment.

SACOME submits that the establishment of a NGRS could be considered as further regulatory intervention and potentially operate as an increased barrier to investment, discouraging investment in gas exploration and extraction at a time when it is critically needed to meet domestic demand.

SACOME submits that all levels of Government should focus on funding gas exploration incentive programs to accelerate the development of new gas reserves, increase the supply of gas to the domestic market and to lower gas prices as an investment attraction tool.

³ Pg. 18 <https://www.fraserinstitute.org/sites/default/files/global-petroleum-survey-2018.pdf>

⁴ Pg. 39 <https://www.fraserinstitute.org/sites/default/files/global-petroleum-survey-2018.pdf>

Previous South Australian exploration incentive programs required gas users be provided with a first right to agree commercial terms to contract gas from successful grant-supported projects. These programs resulted in the discovery of ~50TJpd of new gas, with 10TJpd of this for local use and 40TJpd for export.

In a similar vein, SACOME has called on the South Australian Government to establish a Gas Acceleration Program to advance meritorious gas projects in South Australia and bring forward locally produced natural gas for local electricity generators and industry customers at a reasonable cost.

SACOME's call also supports the upgrade of pipeline infrastructure to facilitate the efficient transport of new gas reserves to end users and to increase capacity on the two pipelines servicing South Australia.

In making this call, SACOME and industry acknowledge the practical reality that Government's may wish to place conditions on the use of some of the gas extracted as a condition of receiving subsidy funding.

3. Trade and investment in Australia's oil and gas sector

Question: How would a prospective national gas reservation scheme affect investment in oil and gas projects?

Question: What would be the impact of a prospective national reservation scheme on Australia's LNG trade?

SACOME submits that the establishment of a NGRS has potential to create sovereign risk concerns, investment uncertainty and regulatory confusion that may have a detrimental impact on investment in Australian oil and gas projects and Australia's Liquefied Natural Gas (LNG) trade.

Gas projects require long-term regulatory stability to underwrite their significant development costs, even more so now given the increased risks and uncertainties of COVID-19 and low oil and gas prices on international gas demand.

The Office of the Chief Economist has forecast that the impact of COVID-19 on international gas markets will see Australia's LNG forecast exports earnings decline sharply, from \$48 billion in 2019–20 to \$31 billion in 2020–21, due to weak prices and export volumes, before a partial recovery to \$37 billion in 2021–22.⁵

SACOME notes the Commonwealth Government has indicated that a potential NGRS would only be applied to prospective gas projects. While, this assurance appropriately protects current gas projects it does not provide gas producers with the certainty and confidence they require to develop new gas reserves.

Since 2019 the Commonwealth Government has introduced a series of market and regulatory measures, including the Australian Domestic Gas Security Mechanism (ADGSM) and a Heads of Agreement with East Coast LNG exporters to offer uncontracted gas into the domestic market in the event of a shortfall.

These member companies submit that each Government gas market intervention creates a perception of greater risk and uncertainty in the market; and raises the prospect of further Government interventions. This ultimately impacts investment decisions made by operators.

By way of counterpoint, SACOME C&I members have raised the following points in support of a NGRS having no detrimental impact on trade and investment in Australia's oil and gas sector:

- Despite an "Australian Market Supply Condition" placed on certain petroleum and gas tenures in Queensland requiring the holder of the tenure to supply gas produced under the tenure to the Australian market, these acreages have been well-contested.

⁵ Pg. 67

<https://publications.industry.gov.au/publications/resourcesandenergyquarterlyseptember2020/documents/Resources-and-Energy-Quarterly-Sept-2020.pdf>

- An increase in the net domestic gas contribution from Queensland LNG exporters since the ADGSM came into effect.⁶

SACOME reiterates that regulatory frameworks geared towards removing barriers to energy supply and facilitating the discovery and extraction of new gas reserves in a safe, timely and cost-effective manner are critical to ensuring an affordable, diversified and reliable supply of gas in domestic markets.

⁶ Pg. 14 <https://www.industry.gov.au/sites/default/files/2020-01/review-of-the-australian-domestic-gas-security-mechanism-2019.pdf>

4. Domestic gas users

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

SACOME recognises the importance of gas as both an energy source and as a raw material for industry. SACOME's large C&I members continuously raise energy affordability, including the price of gas as a key concern.

However, SACOME notes the effectiveness of existing Government interventions in lowering the cost of gas for domestic users; and submits the establishment of a NRGS has the potential to distort the market and dissuade investment in gas exploration and extraction, thus reducing supply.

SACOME submits that the key to lowering domestic gas prices for C&I operators is the development of new gas reserves to increase domestic supply.

5. Market interventions and regulatory frameworks

Question: Are there gas reservation models that have worked in other jurisdictions which could work at the national level in Australia or are there examples of unsuccessful policies Australia can learn from?

Question: How would a prospective national gas reservation scheme interact with state and territory regulations?

SACOME reiterates that the key to increasing supply of gas into the domestic market and lowering gas prices are regulatory frameworks geared towards removing barriers to energy supply and facilitating the discovery and production of new gas reserves in a safe, timely and cost-effective manner.

SACOME does not support the Western Australian model of blanket reservation that requires LNG producers to reserve the equivalent of 15 per cent of LNG production for the domestic market.

SACOME notes the Paper specifically addresses the Queensland and Victorian gas reservation policies as examples of policies that inform investment and encourage gas supply for the East Coast.

The Queensland Government's acreage reservation policy imposes a condition that petroleum developed on the leased acreage must be sold and used only in Australia.

The Victorian Government's preferential reservation policy requires offshore producers in Victorian state waters to provide domestic consumers with an equal first opportunity to buy new petroleum and gas discovered under acreage released in 2018.

SACOME's call for the South Australian Government to establish a Gas Acceleration Program incorporating a domestic reservation policy as a means of ensuring supply for local use is similar to both the Queensland and Victorian examples.

SACOME recognises that a trade-off for Government subsidy that incentivises the development of new gas reserves is that Government will want to direct some of the gas extracted for a particular use.

SACOME submits the best approach towards ensuring an affordable, diversified, reliable supply of gas is for the removal of all bans and moratoria on gas exploration and extraction, across the nation.

Bans and moratoria prohibit activity of potential value to the community and unnecessary limits gas supplies.

In South Australia the imposition of a 10-year ban on unconventional gas exploration in the Limestone Coast via legislated moratoria has raised state-based investment risk concerns for the resources sector.

6. Conclusion

SACOME welcomes the opportunity to provide input into DISER's Gas Reservation Issues Paper, recognising that SACOME and its members are key stakeholders in the establishment of a prospective NGRS.

SACOME has sought to provide high-level commentary on such a scheme in a balanced and constructive way, reflecting the importance of both the South Australian oil and gas sector to the State economy; and gas as a critical feedstock to electricity generation and gas-reliant industrial processes.

SACOME member companies support fully functioning, efficient gas markets and submit that regulatory frameworks that remove barriers to energy supply and encourage the discovery and extraction of new gas reserves, are key to increasing supply and lowering gas prices nationwide.

SACOME is committed to working in partnership with DISER, Commonwealth and South Australian Governments towards unlocking the nation's gas resources to support fully functioning, efficient domestic gas markets.