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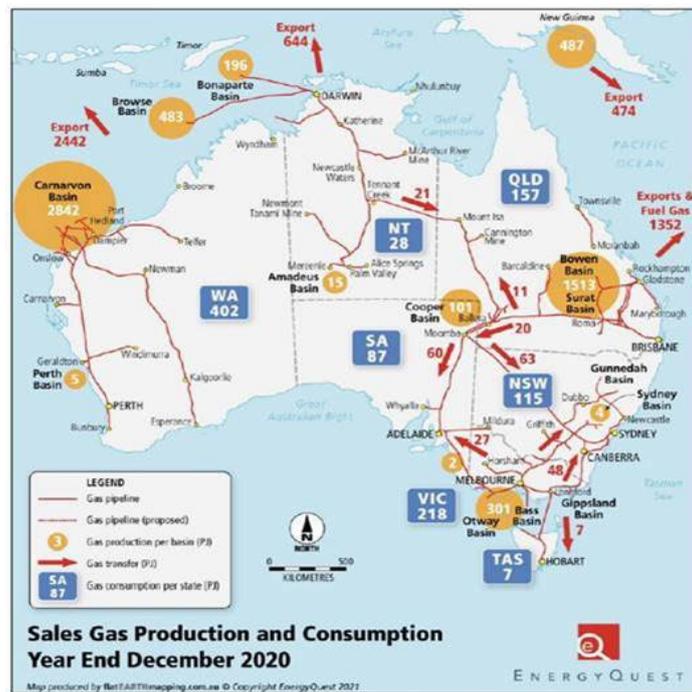


Figure 3: WA and QLD are Australia's gas production giants. Both have domestic reservation policies.

Western Australia

The WA Government has had some form of domestic gas reservation since 1979. Formalised in 2006, WA's Domestic Gas Policy requires LNG projects to make the equivalent of 15 per cent of LNG exports

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available to WA consumers as a condition of project approval.¹⁸ This policy has contributed to surplus domestic gas supply forecasts in WA, with prices on par with US Henry Hub prices (see Figure 4).¹⁹

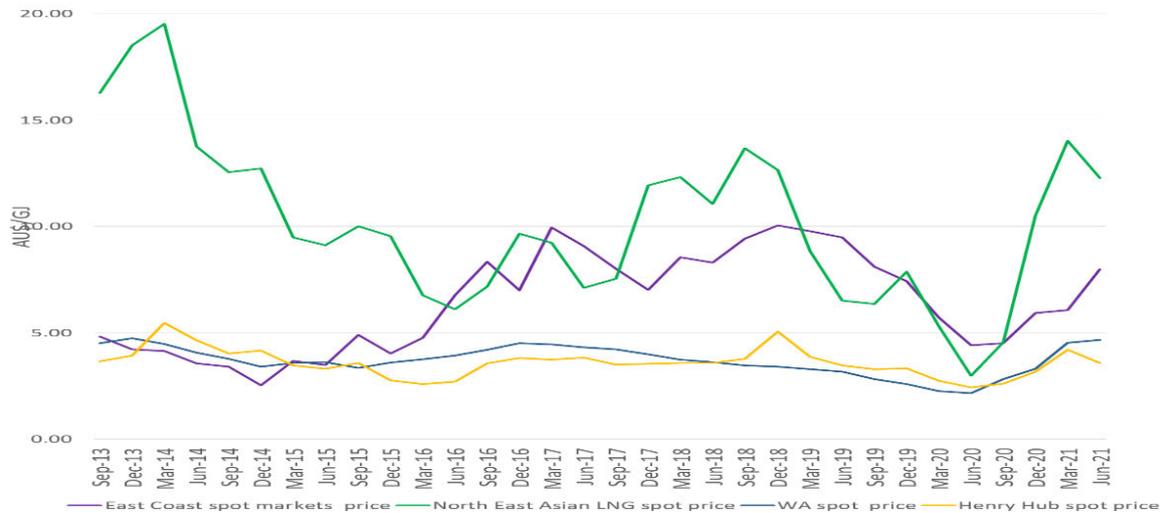


Figure 4: Domestic WA, east coast and international gas average quarterly spot prices, 2013-2020²⁰

The domestic gas reservation policy is given effect through long-term contractual agreements between developers of LNG export projects and the WA Government.²¹ In the agreements, the WA Government commits to providing a range of supporting infrastructure and services in return for domestic gas supply. These services include approving ports, building bridges and roads and social services such as schools and hospitals to support the communities servicing LNG projects.²²

WA's Domestic Gas Policy now applies to onshore gas projects. In 2020, the WA Government announced it will not agree to the export (including to eastern states) of gas via the existing WA pipeline network other than in exceptional circumstances.²³ This means 100 per cent of gas produced onshore in WA is reserved for WA users. However, the Waitsia Joint Venture gas project was given an in-principle exemption to the domestic reservation policy.²⁴ The exemption allows Waitsia to export gas, but requires it to supply 15 per cent of gas production to WA users.²⁵ A second exemption has been granted to Black Mountain Resources. Negotiations are underway determining export limits for the Valhalla project.

¹⁸ <https://www.wa.gov.au/government/publications/wa-domestic-gas-policy>

¹⁹ AEMO's base scenario forecasts WA's potential domestic gas supply to exceed demand until 2028. <https://aemo.com.au/en/energy-systems/gas/gas-forecasting-and-planning/wa-gas-statement-of-opportunities-wa-gsoo>

²⁰ The east coast spot market price is the unweighted average of the Brisbane STTM, Sydney STTM, Victorian DWGM, Adelaide STTM, and Wallumbilla Hub markets. Energy Edge, Gas Market Analysis Tool. www.energyedge.com.au/Products/GasMarketAnalysisTool.aspx. Gas Trading Australia Pty Ltd Spot Market data, <http://www.gastrading.com.au/spot-market/historical-prices-and-volume>; Bloomberg (2020); Argus (2020).

²¹ <https://www.wa.gov.au/government/publications/wa-domestic-gas-policy>

²² [https://www.legislation.wa.gov.au/legislation/prod/filestore.nsf/FileURL/mrdoc_1507.pdf/\\$FILE/North%20West%20Gas%20Development%20\(Woodside\)%20Agreement%20Act%201979%20-%20%5B01-a0-08%5D.pdf?OpenElement](https://www.legislation.wa.gov.au/legislation/prod/filestore.nsf/FileURL/mrdoc_1507.pdf/$FILE/North%20West%20Gas%20Development%20(Woodside)%20Agreement%20Act%201979%20-%20%5B01-a0-08%5D.pdf?OpenElement)

²³ <https://www.wa.gov.au/government/publications/wa-domestic-gas-policy>

²⁴ <https://www.mediastatements.wa.gov.au/Pages/McGowan/2020/08/Revised-policy-to-secure-domestic-gas-supply-and-create-jobs.aspx>

²⁵ https://www.wa.gov.au/sites/default/files/2021-01/Domestic-Gas-Commitment-for-the-Waitsia-Gas-Project_0.pdf

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While economic theory supports the negative impacts of gas domestic reservation on investment and supply, WA's experience shows supply expansion is possible with domestic reservation policies. Supply growth or contraction depends on the fundamental economics underpinning possible projects (production costs and returns). The economics are sensitive to international demand and prices. WA's policy has come to be accepted by the state's LNG exporters because their projects' financial margins have allowed them to absorb the costs associated with the policy to date.

Although beneficial to WA's gas users, the broader economic impact of WA's policy is negative. A 2019 peer-reviewed study found the policy has no net economic benefits.²⁶ WA's gas-fired electricity, aluminium and chemicals industries are sensitive to price, and benefit from cheaper gas. But the WA and Australian economies lose overall. Annually, the study estimated the overall net loss to the economy at \$600 million and to Australian households at \$300 million.

“ ...an expansion in domestic gas using industries does not necessarily imply an increase in overall employment or capital income for Australians in the long run. The labour and capital diverted to [domestic] gas-using industries could otherwise have been employed in industries where no subsidy is necessary; that is, in industries where those primary factors have a higher value.

Neill et al.

Queensland

In 2017, the QLD Government introduced the AMSC on certain new tenements, requiring any gas developed to be sold and used only in Australia.²⁷ The AMSC is prospective. Gas developers choose to participate, avoiding any perceptions of sovereign risk. The QLD Government decides on which tenements to apply the AMSC based on the gas supply outlook.

In 2019, a QLD Government commissioned review of the AMSC found it is generally accepted by the gas industry and has not hindered investment while domestic gas prices have been similar to LNG netback prices.²⁸

...it is strongly recommended that a scheme such as that employed in Queensland is enacted. That is, a scheme which is genuinely prospective and known before title ownership, does not change any rights relating to title, and therefore does not act to discourage investment.

Senex Energy²⁹ (CONFIDENTIAL)

²⁶ Neill et al. (2019), *Western Australia's Domestic Gas Reservation Policy: Modelling the Economic Impact with a Computable General Equilibrium Approach*, Economic Record, Vol. 95, No. 308, March, 2019, pp90–113.

²⁷ <https://www.dnrme.qld.gov.au/mining-resources/initiatives/review-of-domestic-gas-pilot-program>

²⁸ https://www.resources.qld.gov.au/__data/assets/pdf_file/0004/1486309/review-australian-market-supply-condition.pdf

²⁹ Senex Energy has four blocks subject to the AMSC, including the Atlas project. These blocks could supply up to nine per cent of QLD's gas demand and currently supply gas to regional energy generators and domestic manufacturers.

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Industry support for the AMSC was evident in submissions to the issues paper, the PC's 2020 Resources Regulation Study Report and in the department's ongoing contact with gas users and producers (see for example MS21-001360).

“ The alternative concept [to the ADGSM] in Queensland of tenement release for domestic supply only, has the big advantage of being clear ‘up front’, which improves the investment environment from the perspective of predictability, though, if it impacts price significantly, it is not likely to improve the economic attractiveness.

Centre for Natural Gas, University of Queensland³⁰

A key difference between the AMSC and WA's Domestic Gas Policy, in addition to the tenement-specific application, is to whom the reserved gas is available. WA's policy reserves gas for WA users, except where the project is exempt; QLD reserves gas for Australian users, particularly manufacturers.

Northern Territory

The NT is the only Australian LNG-exporting jurisdiction that does not have some form of domestic gas reservation. The NT market is not in shortfall, gas supply in the NT outstrips gas demand. There is no indication the Territory is considering domestic gas reservation.

The NT aspires to be a world-class gas production, manufacturing and services hub,³¹ but is at the nascent stages of establishing an oil and gas regulatory framework. Through implementation of the Beetaloo Strategic Basin Plan and negotiations on a bilateral energy and emission reduction agreement, the Commonwealth is encouraging the Territory to ensure the Territory's policy settings enable timely exploration and development of gas resources.

Victoria

Victoria does not have a domestic gas reservation policy. Similar to the Heads of Agreement though, section 152A of Victoria's *Offshore Petroleum and Greenhouse Gas Storage Act 2010* requires new gas to be offered on reasonable terms to Australian users first. Victoria refers to this as Domestic Gas Prioritisation. The Victorian Gas Program's Progress Report, No. 5 December 2020, argues Domestic Gas Prioritisation is sufficient to ensure Victoria's energy security by commercial means because the closest LNG export terminal is in Gladstone.³²

“ ...the most likely customers for Victorian gas are those closer to the supply source, because the only avenue for gas export in the east-coast gas market is through Gladstone in Queensland. This was a function of market dynamics.³³

Further, the Report also argues the Australian Constitution prevents Victoria from implementing a state-based domestic gas reservations scheme.

³⁰ Submission 24 to the Productivity Commission's *Resources Sector Regulation Study Report* (2020), available: https://www.pc.gov.au/__data/assets/pdf_file/0006/247191/sub024-resources.pdf

³¹ <https://cmc.nt.gov.au/advancing-industry/northern-territory-gas-strategy>

³² https://earthresources.vic.gov.au/__data/assets/pdf_file/0020/613091/VGP_PR05-161926-Low-res.pdf

³³ Ibid.

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... implementing a true gas reservation strategy, similar to that in Western Australia, would be extremely challenging for Victoria. This is because Victoria is part of an interconnected east coast gas market and the Australian Constitution prevents any impediment to trade between the states and territories.³⁴ ”

Victoria lifted bans on onshore conventional gas exploration and development in July 2021 and is currently consulting on regulations to re-open the onshore conventional gas industry.³⁵

New South Wales

NSW does not have a domestic gas reservation policy, but does have a soft version of domestic gas prioritisation. Action 15 of NSW's Gas Plan is "Gas companies will be asked to demonstrate how projects that develop NSW gas reserves will benefit NSW gas consumers".³⁶ Only projects verified through this process are eligible to receive 'Strategic Energy Project' status, which fast-tracks approvals.³⁷

Prioritisation aside, it is likely new NSW gas will go to domestic users. On 21 July 2021, the NSW Government released a statement outlining its plan for the state's gas industry.³⁸ The statement effectively limits future gas exploration and development in NSW to a single project – Santos' Narrabri Gas Project. Santos has committed to supplying 100 per cent of Narrabri gas to the domestic market.³⁹

South Australia

SA does not have or support a gas reservation policy. The Hon Dan van Holst Pellekaan MP, SA Minister for Energy and Mining wrote to the Commonwealth stating:

“ ...to date a gas reservation policy has not been supported by the SA Government. It continues to be the state government's view that greater supply will lead to better pricing and availability of gas for energy retailers and large gas users.⁴⁰

The SA Government encourages the development of petroleum resources by having a supportive regulatory regime and favourable royalty regime.

SA's programs do not perfectly align with the views set out in Mr van Holt Pellekaan's letter. The Plan for Accelerating Exploration Gas (PACE) grant program required SA gas users to have the first right to agree commercial terms to contract gas from supported projects.⁴¹ PACE increased SA gas production and prioritised it to SA users.

³⁴ Ibid.

³⁵ <https://engage.vic.gov.au/regulatory-impact-statement-draft-petroleum-regulations>.

³⁶ https://resourcesandgeoscience.nsw.gov.au/__data/assets/pdf_file/0005/534830/NSW-Gas-Plan.pdf

³⁷ https://resourcesandgeoscience.nsw.gov.au/__data/assets/pdf_file/0006/534831/NSW-Gas-Plan-Common-Questions-and-Answers.pdf

³⁸ <https://www.nsw.gov.au/regional-nsw/future-of-gas-statement>

³⁹ <https://www.santos.com/news/nsw-government-future-of-gas-statement/>

⁴⁰ Letter from Minister Pellekaan, 20 November 2020 (MC20-063265 refers).

⁴¹ <https://www.petroleum.sa.gov.au/industry-activity/pace-gas-grants>