



Our ref: J0262/201701
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Mr David Fredericks
Secretary
Department of Industry, Science, Energy and Resources
GPO 2013
Canberra ACT 2601

Attention: David Lawrence, General Manager, Onshore Minerals and Energy

Re: National Gas Reservation Issues Paper

Thank you for the opportunity to make a submission on the issues paper for a national gas reservation scheme. I am responding for the Western Australian Government.

Western Australia has a long-standing gas reservation policy, the *WA Domestic Gas Policy*. The policy secures the state's long term energy needs by ensuring gas from large-scale LNG projects is also available for local use and economic development. The policy emerged due to a combination of WA's geographic isolation and large but remote gas resources distant from its major population centre. It now supports industrial and mining activities throughout the state.

This submission outlines investment and LNG industry development occurring alongside the benefits realised for the WA gas market. It is a question for Commonwealth and east coast governments whether aspects of WA's gas reservation scheme may inform new initiatives to manage domestic gas availability. In the meantime, the policy and regulatory settings in WA are working and should not be disturbed.

I am happy for this submission to be made available as part of the consultation process.

Impact on investments in oil and gas and on Australia's LNG trade (Questions 2 & 3)

WA's experience shows oil and gas investment and international trade can thrive alongside a gas reservation policy. The LNG industry has brought significant investment to WA, contributing strongly to state product and export earnings. As a result of the *WA Domestic Gas Policy*, the WA gas market is well-supplied and continues to support local economic and industrial development.

The Western Australian LNG export industry is important for the economic well-being of Western Australia and the nation. Around 64 per cent of the total natural gas and ethane reserves in Australia lie in Western Australia or off its coastline and amount to an estimated 63,677 petajoules. Around 55 per cent of Australia's natural gas is produced here. Western Australia's LNG exports were 47.1 million tonnes in 2019-20, amounting to 12 per cent of global exports. LNG exports are worth \$27 billion, and form 16 per cent of all Western Australian minerals and petroleum sales.

The Western Australian LNG export industry contributes strongly to national economic outcomes, accounting for 59 per cent of Australian LNG export volumes and 56 per cent of export earnings in 2019-20.

The Western Australian Government is committed to the responsible and sustainable growth of the LNG industry. It is making significant investments in planning, developing and supporting petroleum projects and hydrocarbon processing precincts.

Domestic gas shortfall and impact on gas markets (Question 1)

The WA gas market relies on LNG exporters' *WA Domestic Gas Policy* commitments, which currently supply around half the market. The WA gas market is well-supplied and does not face the risk of a gas shortage in the medium term. Prices are low, less than half the prices on the east coast. At current levels of consumption, gas supplied from commitments in place can meet around half of the state's gas needs over the next two decades.

Thanks to the policy, all onshore LNG projects in Western Australia are and will continue to be net suppliers to the domestic market.

Box 1 – WA Domestic Gas Policy

WA governments have employed a domestic gas policy in one form or another since helping underwrite the North West Shelf Liquefied Natural Gas (LNG) project in 1979. The policy was first formalised in 2006, and clarified in 2012 and 2020. It secures the State's long-term energy needs by ensuring that LNG exporters also make gas equivalent to 15 per cent of exports available to local consumers. Gas supplied by LNG exporters under the policy complements supply from projects developed for the domestic market.

LNG project developers comply with the policy as a condition of project approval. They agree contractual arrangements with the State to:

- reserve gas equivalent to 15 per cent of their LNG exports;
- maintain domestic supply infrastructure; and
- market the gas in good faith to local consumers.

Domestic gas agreements are struck at project inception to provide certainty for LNG project developers and to allow for a sustained supply of gas into the local market.

The State has long term contractual arrangements in place with all four Western Australian LNG joint ventures that process gas onshore: Gorgon, Pluto, Wheatstone and the North West Shelf. Current domestic gas commitments amount to 4,710 petajoules and meet half of the current WA gas market's needs. These four projects correspond to over \$150 billion in investment in gas export capacity.

Benefits of domestic gas reservation (Question 4)

Gas supply for the domestic market is the key benefit of the *WA Domestic Gas Policy*. The WA LNG industry has played an important role in making gas available for the industrial and economic development of the State. In addition to domestic energy security, economic, jobs and regional development benefits flow from the LNG industry.

One of the reasons the LNG industry enjoys widespread support in Western Australia is because LNG exporters agree to make gas available locally as part of their projects. The *WA Domestic Gas Policy* is a major contributor to the social license to operate the LNG industry enjoys in WA.

LNG and domestic gas supply developments continue to grow. The State is negotiating new domestic gas agreements with offshore gas field developments planned to fill spare processing capacity and expand the North West Shelf and Pluto LNG facilities. Gas supply from new domestic gas commitments is an opportunity to attract investment in new downstream processing industry.

Recent gas discoveries onshore in the Perth Basin also provide significant upside potential for domestic gas supply. These discoveries are large for the WA market, close to existing infrastructure and low cost to develop. Discoveries continue to spur interest in exploration and development, with further drilling underway or planned.

The WA Government has commissioned independent analysis of the opportunity to attract major new downstream gas processing industry to the state, and what government and industry can do to realise it.

Successful gas reservation models (Question 5)

The *WA Domestic Gas Policy* has proven successful, ensuring gas availability to support economic development while providing certainty to LNG project developers and investors.

The WA Government applies the *WA Domestic Gas Policy* in a flexible manner to minimise the impact on LNG industry development. Contractual commitments are negotiated with the State at project inception to accommodate project needs and timeframes and in order to provide certainty for both LNG project developers and the domestic market. The commitments allow LNG exporters to determine domestic gas pricing and commercial terms in the market. LNG exporters are not forced to sell gas if the market is well supplied and can optimise the timing of domestic supply over time. However, any unsold gas must be reserved in support of future industrial and economic development.

Reservation is only one of three key elements to the *WA Domestic Gas Policy* (Box 1). The others are domestic supply infrastructure and marketing in good faith. With domestic supply infrastructure in place, the government and market can be confident reserved gas is available when it is needed. Domestic supply infrastructure is a major focus of domestic gas commitment negotiations and compliance reporting and monitoring.

For the *WA Domestic Gas Policy* to be effective, the market needs to know LNG exporters' commitments are being given effect and when, how and how much gas is available to it. The WA Government is committed to improving transparency and is consulting with industry on an annual statement outlining how much gas is supplied and available through *WA Domestic Gas Policy* commitments.

The *WA Domestic Gas Policy* continues to evolve with the LNG industry. The WA Government updated the policy in August 2020 to keep it fit for purpose by clarifying it will not support export of gas from the local pipeline network other than in exceptional circumstances. The clarification responds to emerging demand for gas from the local market to meet reserve shortfalls in the North West Shelf LNG facilities. (There is no change in the policy settings for traditional, large-scale LNG export developments.)

Interaction with state policies and regulations (Question 6)

A national gas reservation scheme should not interact or interfere with existing or potential contractual arrangements between the Government of Western Australia and LNG exporters. It is unnecessary because the arrangements in WA are working.

Any perception a national reservation scheme could affect WA LNG projects needs to be avoided as it will create uncertainty for project developers and undermine the state's attractiveness for new investment.

Other issues

The issues paper mentions the ban on unconventional gas development in Victoria. In WA, following consideration of an independent scientific inquiry report, the Government lifted the hydraulic fracture stimulation moratorium on all onshore petroleum titles existing as of November 2018, subject to maintaining a fracking ban in the South-West, Peel and Perth Metropolitan regions. The WA Government released its Implementation Plan in 2019, which consolidates the Inquiry's 44 recommendations together with the Government's Decisions into 20 implementation actions. Implementation of the actions is ongoing. While a number of actions will also require legislative changes to be fully implemented, industry is still able to progress with the submission of their projects for assessment.

The Commonwealth Government is contemplating a pipeline connection between the east and west coast gas markets. The WA Government does not support this proposition. Notwithstanding the questionable viability of such an undertaking, the WA Government is concerned about the ramifications for gas pricing and availability in the WA market.

Recommendations

The WA Government's domestic gas policy continues to meet local gas requirements and support ongoing industrial development. The policy and contractual arrangements with the State that give it effect are working and should not be disturbed.

Should a national gas reservation scheme proceed, it needs to be clear to international LNG investors and the Western Australian LNG industry that WA is not to be affected.

I am happy to provide any further information on Western Australia's domestic gas policy arrangements to support consideration of a national reservation scheme.



Richard Sellers
A/DIRECTOR GENERAL

27 November 2020