



Government of **Western Australia**
Department of **State Development**

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Glenys Beauchamp
Secretary, Department of Industry, Innovation and Science
Industry House
10 Binara Street
Canberra ACT 2600

Attention: Manager Onshore Gas

Dear Ms Beauchamp,

Thank you for the opportunity to comment on the exposure draft regulations and guidelines for implementing the Australian Domestic Gas Security Mechanism. The four business day consultation period has not allowed more detailed analysis, and so this submission reiterates comments made in the letter of 17 May 2017 from Western Australia's Premier Mark McGowan MLA to Matthew Canavan, Commonwealth Minister for Resources and Northern Australia. Unfortunately, it appears the issues raised in Premier McGowan's letter have generally not been addressed in the design of the regulations.

The proposed mechanism is a short term measure, operating from 1 July 2017 until 1 January 2023. The mechanism uses Liquefied Natural Gas (LNG) export controls to fix the gas supply shortfall in the eastern states gas market. While it rightly identifies the Western Australian gas market as separate, the mechanism allows for interference with contractual arrangements existing between the Government of Western Australia and LNG exporters. These long term contractual arrangements ensure the Western Australia domestic gas market is well supplied. They render the proposed Australian Domestic Gas Security Mechanism redundant in Western Australia and there is no reason, in the timeframe of the proposed mechanism, why the actual supply situation in Western Australia should not be publicly recognised.

The Western Australian Government has anticipated and addressed risks to Western Australian energy supplies by entering into long term, contractual arrangements with LNG exporters at project inception. Western Australia's gas market is currently well supplied and does not face the risk of a gas shortage during the period of application of the Commonwealth's proposed Australian Domestic Gas Security Mechanism. Accordingly, the Gorgon, Pluto, Wheatstone and North West Shelf LNG projects in Western Australia should be excluded from the mechanism.

Under the auspices of the Western Australian Domestic Gas policy, the Western Australian Government has entered into long term contractual arrangements with the Gorgon, Pluto, Wheatstone and North West Shelf LNG projects (Table 1).

These arrangements also apply domestic gas provisions to other future third party users of the facilities. They secure the provision of gas to Western Australian

consumers while providing certainty to LNG investors through export and infrastructure approvals. An overview of the policy is attached.

Table 1: Domestic gas agreements

Agreement <i>(Project, operator, date)</i>	Reserves <i>(2P, 2016)</i>	LNG export capacity	Remaining domgas obligations	Domestic supply infrastructure
Barrow Island Act 2003 <i>(Gorgon, Chevron, 2003)</i>	42.9 TCF	15.6 mtpa	2,000 PJ	300 Tj/day
Pluto Domgas Arrangements <i>(Pluto, Woodside, 2006)</i>	3.4 TCF	4.9 mtpa	500 PJ	-
Gas Processing (Wheatstone Project) Agreement <i>(Wheatstone, Chevron, 2011)</i>	12.1 TCF	8.9 mtpa	1,300 PJ	200 Tj/day
North West Gas Development (Woodside) Agreement Act 1979 <i>(NWS, Woodside, 2015)</i>	11.3 TCF	16.9 mtpa	1,050 PJ	650 Tj/day

The domestic gas commitments in Table 1 correspond to around \$150 billion of investment in gas export capacity. The proposed mechanism could impose new constraints on these LNG projects and could override existing contractual arrangements between the State and LNG exporters. This creates uncertainty for LNG investors in Western Australia, undermining Western Australia's attractiveness for new investment and compromising the future development of gas reserves, and is unnecessary and unwarranted.

Any proposal to address the domestic gas shortfall in the eastern states should be implemented in a way that minimises uncertainty for Western Australian LNG exporters. Thanks to the Western Australian domestic gas policy, all LNG projects in Western Australia are and will continue to be net suppliers to the domestic market. It needs to be clear to the community and industry that Western Australian LNG projects already contribute to the domestic gas market and are not the target of LNG export controls.

The Western Australian Government remains diligent in ensuring the domestic gas policy continues to supply adequate volumes into the future. The policy and underlying contracts are working and should not be disturbed. I look forward to working with you on improving energy security for Australian consumers in a way that recognises Western Australia's arrangements and supports the continued development of the LNG industry.

Please do not hesitate to contact me for information about the domestic gas policy or the Western Australian Government's arrangements with LNG exporters.

Yours sincerely,



Stephen Wood
DIRECTOR GENERAL

12 June 2017

Western Australia's gas market and domestic gas policy

Western Australia's domestic gas market

- The Western Australian gas market is not connected to east coast or Northern Territory pipeline systems. Equally there are no interstate electricity connections to bolster energy security. Western Australia's energy markets stand alone and cannot draw on cross-border infrastructure in times of crisis, such as the Varanus Island explosion in 2008.
- Western Australian gas consumption is comparatively small, at around 1,000 terajoules a day. Most gas is transacted between a small number of users and suppliers.
 - Western Australians rely on LNG exporters for around half their gas supply.
 - Production from local-only domestic gas plants complements domestic gas supply from LNG projects. Three local-only gas plants—Varanus Island (215 Tj/day), Macedon (213 Tj/day) and Devil Creek (91 Tj/day)—account for half of Western Australia domestic gas supply. A number of smaller plants in the Perth basin produce a little over one per cent of Western Australia domestic gas consumption (27 Tj/day).
- The Western Australian domestic gas policy secures the state's long-term energy needs by ensuring LNG exporters make gas available in the domestic market.
 - LNG producers control 97 per cent of the gas reserves in Western Australia and off its coastline and favour gas exports over the domestic market.
 - The Western Australian Government has maintained a domestic gas policy in some form or another since underwriting Australia's first LNG project, the North West Shelf, in 1979. The significant take or pay contract with the state's energy utility and the construction of the Dampier to Bunbury gas pipeline launched the North West Shelf development.
 - The Western Australian Government formalised its domestic gas policy in 2006 and further clarified it in 2012.
- The domestic gas policy requires exporters of LNG to make gas equivalent to 15 per cent of their exports available in the domestic market. LNG exporters comply as a condition of project approval by:
 - reserving domestic gas equivalent to 15 per cent of LNG production from each LNG export project;
 - developing and obtaining access to the necessary infrastructure to meet their domestic gas commitments as part of the approvals process; and

- showing diligence and good faith in marketing gas into the domestic market.
- Western Australian gas reserves are remote. Building or having access to domestic supply infrastructure is a key aspect of the policy. If domestic supply infrastructure is in place, there is a commercial incentive for LNG producers to use it.
- The policy provides for gas prices and contract terms to be determined in the market.
 - If there is no domestic market for gas for a time, LNG producers are not forced to supply gas but must reserve gas in line with their obligation.
- The policy affords LNG producers flexibility in how they comply with domestic gas commitments. LNG producers may offset their domestic gas commitment by supplying gas or energy from an alternative source.