

Inquiry into the WA Domestic Gas Policy

Australian Petroleum Production and Exploration Association | 18 August 2023

APPEA welcomes the opportunity to provide input into the Economics and Industry Standing Committee *Inquiry into the WA Domestic Gas Policy*.

The oil and gas sector in Western Australia (WA) is committed to providing a secure, reliable and affordable supply of natural gas to WA households and businesses. To deliver on this commitment, the industry requires a stable policy and regulatory environment that provides certainty to natural gas sector participants and investors.

Recent changes to the Domestic Gas Policy (DPG) in WA are contrary to the principles of policy and regulatory stability and puts at risk adequacy of future domestic gas supply in WA. The recent announcement by the WA government to exclude any exemptions to the onshore DGP, prior to the conclusion of the inquiry, puts at risk critical investment at a time when the state needs more gas supply to meet growing demands. The decision runs counter to the WA government's role of ensuring adequate availability of domestic gas into the future, particularly over the short- to medium-term. Further, the oil and gas industry have engaged in the *Inquiry into the WA Domestic Gas Policy* in good faith and are disappointed to see this decision being made prior to the conclusion of the inquiry.

In order to ensure the timely delivery of gas to the domestic market as well as transparency of supply and price of gas available to the domestic market, it is recommended that:

- **Offshore domestic market obligations (DMO) should be retained.** The current offshore DMO of 15% maximises the number of projects supplying the domestic market without significantly impacting supply outlooks and provides additional incentive for investment which strengthens government royalties and job creation.
- **Onshore domestic gas policy (DGP) should be more closely aligned with offshore, including the removal of the current export prohibition.** The onshore DGP is restrictive and hinders industry's ability to meet WA's growing domestic gas demand in the short-, medium-, and long-term. Lifting the onshore export prohibition and bringing the onshore DGP in line with offshore operations can be expected to increase investment in onshore gas production, in turn increasing the availability of gas to the domestic market.
- **A regulatory framework should be established for the development of unconventional gas reserves.** The introduction of a regulatory framework for unconventional gas development will alleviate gas supply pressures domestically.
- **Faster approvals are needed to unlock new gas supply.** Ongoing delays in project approvals, both at a Federal and state level, represent a barrier to much needed new gas supply. Fast-tracking project approvals and enabling the oil and gas sector to deliver on the pipeline of projects necessary to meet growing demand in the state will help ensure availability of domestic gas in the short- to medium-term.
- **A framework for price transparency should be developed in collaboration with industry.** Industry welcomes the opportunity to work with government and other key stakeholders to determine a framework to increase information and transparency around domestic gas prices.

Further details are provided below, and attached at Appendix B is an independent study on WA gas policy, undertaken by Rystad Energy.

APPEA and industry would welcome further opportunity to engage in good faith with the government on the DGP to ensure it continues to deliver for all Western Australians.

Yours sincerely

Caroline Cherry

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Introduction

Australian natural gas has a central role to play in reaching net zero in Australia and the region, providing secure, reliable and affordable energy to homes and businesses. Natural gas is supporting the transition away from coal, providing the firm dispatchable energy required to unlock large-scale renewable energy deployment, and powering Australian industries across the economy, including those processing the critical minerals necessary for achieving net zero.

APPEA's member companies account for more than 95% of Australia's oil and gas production, the majority of which is produced from facilities located in, or in waters adjacent to, WA. The WA oil and gas industry is a major contributor to the state and national economies, creating jobs and business opportunities whilst providing essential energy to domestic and international consumers. APPEA members remain committed to supplying these markets and working with consumers to secure short-, medium-, and long-term gas supply contracts.

APPEA members also remain committed to complying with the Domestic Gas Policy (DGP) and will continue to foster communication and flexibility with gas users to ensure adequate supply to meet demand requirements.

Industry recognises the government's objective to safeguard a proportion of production for the domestic market to ensure energy security. APPEA considers the focus of this inquiry should be on creating a stable policy framework that fosters the development of gas resources to cater to domestic needs and also promote Western Australia's position as a world leading LNG exporter.

Maintain the Domestic Market Obligation for offshore producers

Offshore gas producers in WA are required to reserve domestic gas equivalent to 15% of LNG production from each LNG export project. This Domestic Market Obligation (DMO) has been in place for a significant period and provides a stable regulatory framework. This policy stability enables producers with DMO to make long-term investment decisions with confidence and has contributed to providing the domestic market with a significant supply of gas – meeting around 50% of domestic gas needs.

Importantly, the DMO has been applied to take account of specific project circumstances, with some State Agreements¹ offering flexibility in relation to the DGP's requirement for 15% DMO. Some projects may have specific volume-based obligations in their State Agreements, to alter this would require agreement of the proponent and the state and require an Act of Parliament.

Recent Australian Government policy intervention on the east coast in the gas market is putting Australia's reputation as a stable investment environment at risk. It is imperative that the WA Government maintain its reputation of being a stable regulatory jurisdiction and should not change the DGP in relation to offshore projects.

Recommendation: The offshore gas DMO should remain unchanged.

Remove the prohibition on onshore gas export to unlock more supply

Export bans are stifling investment in new supply

The onshore gas industry has significant potential to contribute to increasing gas supply to the state in order to meet growing demand, see *Figure 1*. The existing DGP, and most notably the changes to the DGP in 2020 prohibiting the export of onshore gas, is restrictive and can harm the timely supply of gas to the domestic market.

¹ State Agreements refers to both Acts of Parliament (i.e. North West Shelf, Gorgon) and Domestic Gas Commitment Agreements (DCA) under which the DGP is implemented.

Project Outlook for Sanctioned/Pre-Sanctioned Domestic Gas Projects¹

Project	Development Type	Potential Resources (PJ)	Development Status	Expected Start-Up Year	Peak Production Year	Infrastructure Access to WA	Forecast CAPEX ² (MUSD)	RE Assessment ⁴
Waitsia Stage 2	Expansion	300	FID	2029	2030	Yes	65	●
Lockyer Deep	Backfill	551	Feasibility	2026	2029	Yes	411	●
Greater Erregulla	Greenfield	749	FID in 2023	2025	2029	Yes	568	●
Beharra Springs Expansion	Expansion	338	Feasibility	2026	2034	Yes	333	●
Rafael	Greenfield	232	Early	2028	2030	No	214	●
Corvus	Backfill	112	Feasibility	2027	2028	Yes	198	●
Browse	Backfill	1816	Feasibility	2033	2036	Yes	1,487	●
Red Gully	Greenfield	7	Possible Restart	2027	2028	Yes	9	●
Equus	Backfill	1931	Early	2028	2032	Yes	3,054	●
Dorado	Backfill	640	Feasibility	2036	2038	No	832	●
Ocean Hill	Greenfield	244	Early	2026	2029	Yes	199	●

Notes: (1) Values shown are in real 2023 terms; expected start-up dates based on Rystad Energy's qualitative assessment.
 (2) USD converted to AUD at 1.476 conversion rate; CAPEX spent is based on a forward looking basis from 2023;
 (3) Weighted average based on potential resources and breakeven cost of all assets;
 (4) RE assessment is based on various factors such as the development status, start-up year and above parameters
 Source: Rystad Energy research & analysis

● Likely development
 ● Possible development
 ● Probable development
 ● Unlikely development

Figure 1 Rystad Energy Western Australia Gas Policy Study 2023

The policy changes made by government in 2020, and as recently as 16 August 2023, were made without industry or stakeholder consultation. A well-functioning market provides optimal outcomes for all parties involved, both producers *and* consumers, and allows market participants to effectively and efficiently negotiate prices, sales volumes, and investments. Government intervention may distort this balance. In the case of the onshore gas export ban, it has stifled investment, development, and production – all of which has hindered not increased domestic gas supply.

Banning the export of onshore gas reduces the incentive for domestic and international investment, with fewer projects coming online. The ban on exports for onshore gas also impacts Australia's international trading partners who rely on Australian gas for energy security and decarbonisation purposes.

Enabling access to larger international markets would improve the commercial prospects of gas developments and increase the number of projects moving forward – ultimately resulting in an increased gas supply. Government plays a significant role in facilitating the capacity of industry to explore and pursue commercial projects to benefit consumers, both domestically and abroad.

In *Figure 2*, Rystad Energy notes that prohibiting onshore gas producers from exporting a percentage of their gas production reduces the number of projects potentially supplying the domestic market. Without these additional projects, the additional benefits from investment and economic development, government royalties and job creation may not be realised.

Some of the more commercially challenging projects are unlikely to be online prior to 2033 with the onshore export ban in place

Projects supplying to the domestic market over 2020-33: Overview of commercial projects

Development Status	Projects	15% DMO (LNG Exports) + Export Ban (Dom Onshore)
Producing	Devil Creek	●
	Greater Gorgon Area (DMO)	●
	Macedon	●
	KGP	●
	Pluto (DMO)	●
	Varanus Island Hub	●
	Waitsia Stage 1	●
	Walyering	●
	Wheatstone (DMO)	●
	Beharra Springs	●
Under development	Scarborough (DMO)	●
	Waitsia Stage 2	●
Discovery ¹	Greater Erregulla	●
	Beharra Springs Expansions	●
	Lockyer Deep	●
	Varanus Island Hub (Spar Deep)	✘
	Varanus Island Hub (Kultarr)	✘
	Varanus Island Hub (Corvus)	✘
	Cash-Maple (Padthaway)	✘
	Roc (Phoenix South)	✘
	Okapi	✘
	Yulleroo	✘
	Browse (DMO)	✘
	Equus Phase 1 (Nimblefoot)	✘
	Equus Phase 1 (Mentorc)	✘
	Equus Phase 2 (Glenloth)	✘
	Equus Phase 2 (Glencoe)	✘

Notes: (1) Despite commerciality, the Browse, Ocean Hill and Equus fields face challenges, and are not included in the economic analyses.
Source: Rystad Energy research and analysis

✘ Excluded
● Included

Figure 3 Rystad Energy Western Australia Gas Policy Study 2023

Flexibility in DGP application is needed

Flexibility of the DGP is also essential for certain projects which will only be commercially viable with exemptions to enable access to international markets. One such example of this is the Black Mountain Energy’s Valhalla Natural Gas Project. In the words of then Deputy Premier, the Honourable Roger Cook:

“I appreciate the challenges Black Mountain faces in developing the Valhalla gas field, particularly its remote location and lack of established pipeline infrastructure. I also recognise the potential benefits the project offers for the Kimberley and the broader Western Australian community through regional jobs and business opportunities, royalties and domestic gas supply.”²

TA project such as this has the potential to contribute to the domestic gas market, create local jobs, add tax revenue to the State, and supply gas to international trading partners.

The DGP may have unintended consequences for the domestic market

The primary objective behind the onshore DGP is to prevent onshore gas producers from exporting gas, with the goal of ensuring that all onshore gas produced remains available to the domestic market. However, development of projects by onshore producers to supply gas into the domestic market is not a definite outcome. The prohibition on exporting onshore gas could lead to alternative business models and uses that would not necessarily facilitate gas supply to the WA domestic market where it is most needed or valued, including for power generation as coal is phased out of the South West Interconnected System. For example, vertical integration of business models to develop gas supply for manufacture of fertilisers, ammonia and chemicals – including for export – is a likely market response.

The demand for gas for industrial use is also anticipated to grow. Onshore gas can play an important role in downstream processing and decarbonisation of industrial operations. Companies wishing to decarbonise through increased gas consumption in place of other fuels is another example of gas

² <https://www.blackmtn.com/press-release/black-mountain-energy-secures-export-exemption-to-western-australian-domestic-gas-policy/>

producers finding innovative ways to utilise gas resources in commercially productive ways. The natural demand for gas is increasing and it is imperative that supply increases to meet this demand.

Recommendations:

- **Remove the onshore gas export ban and align the onshore reservation policy with that of offshore.**
- **To the extent this is not possible, ensure flexibility to take into account specific project circumstances.**
- **Review the onshore reservation policy after a 5-year period to ensure domestic supply will be met.**

Establish regulatory frameworks for unconventional gas

WA has significant onshore gas reserves and resources, particularly considering the immense potential of unconventional gas. Modifying the policy settings around onshore gas will assist in unlocking investment into these resources. The potential contribution of unconventional resources is enormous, as shown in *Figure 3*. Restricting the export of onshore gas and the absence of a suitable regulatory framework for unconventional gas development pose obstacles to the industry's efforts to enhance much-needed supply. APPEA contends that improving and enhancing WA's regulatory framework could instil greater confidence in onshore development and subsequently bolster the supply of gas from WA.

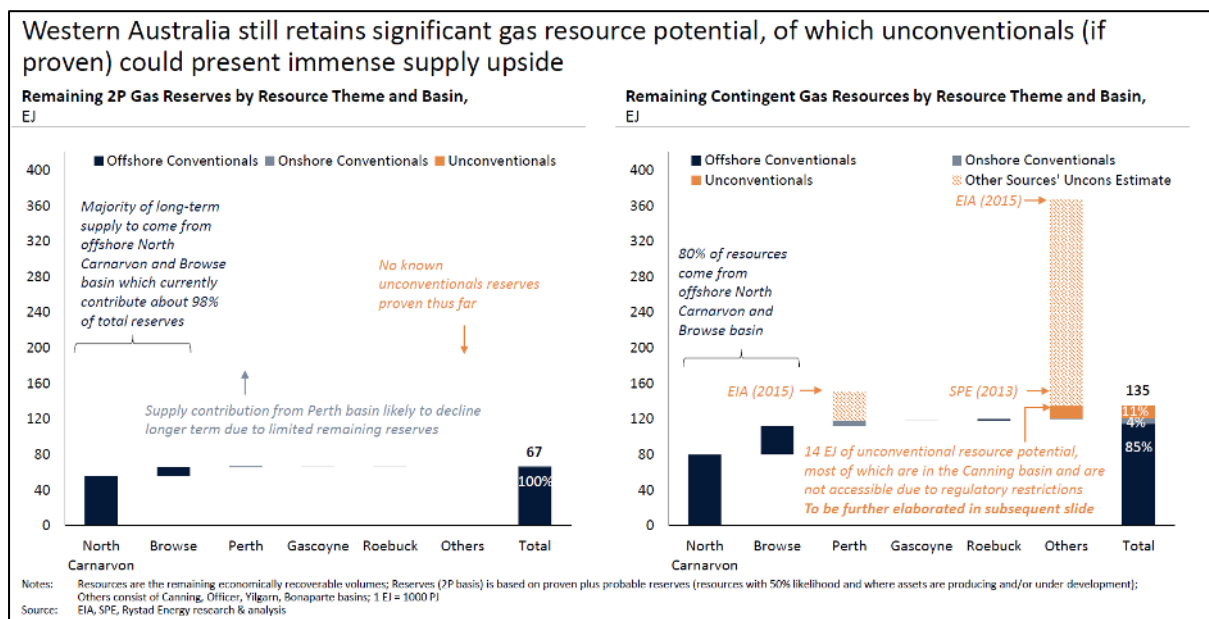


Figure 3 Rystad Energy Western Australia Gas Policy Study 2023

WA's regulatory framework should seek to avoid duplication, be simple in its approach, endeavour to protect people and the environment and seek a simplified approvals and compliance process. APPEA and its members would welcome the opportunity to work with government on the regulatory framework.

Recommendation: Prioritise the establishment of the necessary regulatory frameworks to permit unconventional resource development.

Faster approvals are needed to unlock new gas supply

The domestic gas market would be best served by Government approving more gas projects. APPEA's members have a number of gas projects awaiting approvals at both the State and Federal

levels, and it is Government's response times that are impeding these projects from progressing and eventually coming online to assist in meeting the increasing demand.

Approval processes required for oil and gas projects in WA are sufficient in ensuring proper management and regulation, however, these processes are currently subject to delays and are not operating as efficiently as they could. Approval delays, whether environmental or otherwise, not only impact the specific project the regulator is reviewing but has broader impact on industry's confidence in the timely and reasonable regulatory oversight of industry activities. Industry confidence in the regulatory and approval process is a key factor in investment decisions.

The government's role in ensuring adequate availability of domestic gas into the future

The current perspective of the WA Government regarding its role in the domestic gas market can be summarised as follows:

- To "facilitate the delivery of secure, reliable, sustainable and affordable energy services to Western Australian households and businesses."³
- To "lead Western Australia's economic development, international trade and investment."⁴
- To "[s]upport a safe, fair, and responsible future for the Western Australian community, industry, energy, and resources sector."⁵

The supply of gas to the domestic market is most effectively and efficiently realised when industry has confidence in the stability and effectiveness of the regulatory framework and is incentivised to invest.

APPEA's members remain motivated to increase the supply of gas for domestic and international consumption. With improved policy direction, a stable framework, and efficient approvals, it is possible to enhance the supply of gas from WA producers to meet domestic demand while simultaneously catering to international markets. This outcome is beneficial to the State, domestic gas consumers, international gas consumers, the environment, and industry.

Recommendation: Ensure regulatory agencies are adequately resourced and approvals are progressed in an efficient and timely manner.

A framework for price transparency

LNG producers have obligations in relation to supplying and marketing gas to domestic consumers, and gas producer's agreements with the WA Government require producers to report on these obligations annually as part of the DMO compliance reporting. There remains public criticism of DGP non-compliance, to alleviate this misconception, industry is very supportive of initiatives towards greater price transparency. Significant care and consideration though must be exercised so as to not impact negotiated outcomes between buyers and sellers in providing greater information on prices.

It should be noted that as part of the update to the DGP in 2020, the WA Government proposed an annual report to ensure operators are working in compliance with the DGP. To date, due to resourcing constraints, no annual report of this nature has been released.

Recommendation: The WA Government should consult with onshore and offshore gas producers and relevant stakeholders to determine the most appropriate framework for price transparency.

³ <https://www.wa.gov.au/organisation/energy-policy-wa>

⁴ <https://www.wa.gov.au/organisation/department-of-jobs-tourism-science-and-innovation>

⁵ <https://www.dmirs.wa.gov.au/>

The findings and recommendations of the 2011 Inquiry into Domestic Gas Prices, prepared by the previous Economics and Industry Standing Committee (2008–2013).

Many of the findings and recommendations from the 2011 inquiry are not relevant to the current inquiry, given the significant changes in natural gas and LNG markets over the intervening period. APPEA’s comments on the findings and recommendations of the 2011 Inquiry are found in Appendix A.