BUSINESS NSW

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Gas Options Team
Department of Industry, Science, Energy and Resources,
GPO 2013
CANBERRA ACT 2601

Business NSW response to Gas reservation issues paper

Thank you for the opportunity to respond to the *Gas reservation issues paper*.

In December 2019, *Business NSW* published *Running on Empty*[1], our 'roadmap' for improving gas supply in NSW. Our report responded to warnings from the Australian Energy Market Operator (AEMO) that gas supply in NSW will not meet demand in the winter of 2025.

In *Running on Empty* we addressed the idea of an expanded domestic gas reservation policy. We concluded that such a policy was unlikely to make a meaningful difference to NSW gas users and that other measures should be prioritised. Changes to government policy and gas market trends through the pandemic have not altered our position on this issue.

Gas prices have already risen in response to tight supply, presenting a serious challenge to manufacturers and other gas users. Sydney gas prices have almost doubled in four years, as traditional gas supplies decline and alternate high value markets for producers (such as LNG) became available. After Hobart, Sydney is forecast to have the highest wholesale residential and commercial gas prices on the east coast.

Prior to the COVID-19 pandemic, commercial and industrial gas users were reported to be postponing pay increases, reducing headcount and deferring investments or expansions due to high gas prices. Some have closed altogether.

More beneficial measures for NSW

Despite sitting on abundant natural gas resources, NSW imports practically all of its gas from other states. In-state production from NSW gas fields has also dwindled to historical low levels.

Although the long-awaited approval of the Narrabri Gas Project should begin to reverse this trend, this project alone will be far from sufficient to meet NSW demand. Production from

[1] https://www.businessnsw.com/content/dam/nswbc/businessnsw/pdf/015-Running-on-Empty-Report-7_PRINT.pdf

Narrabri has already been committed solely to meeting domestic demand, so a reservation policy brings no additional benefit.

NSW also faces constraints in bringing gas into the state from elsewhere. Queensland is the dominant source of available supply which makes pipeline infrastructure built for a time when Victoria was the major producer unsuitable. Government investment in pipeline capacity, which forms part of the 'Gas-Fired Recovery Plan', is important to address this issue.

LNG import capability could also form part of the solution. Proponents are developing two LNG import terminals in NSW which, should one or both proceed, will bring welcome flexibility to the market.

In contrast to the Narrabri gas project, pipeline expansion and LNG import capability, a gas reservation policy will be of limited value to NSW gas users. Restricting the ability of producers in Queensland to export LNG does not mean NSW can bring in any more gas if pipeline capacity has already peaked.

Furthermore, because the proposed reservation policy would apply only to newly developed gas production, the risk of deterring investment in new production in states outside NSW remains a concern. Any proposed reservation policy would have to demonstrate benefits not only in comparison to no action being taken, but also to the already-enacted Australian Domestic Gas Security Mechanism (ADGSM) provisions. The issues paper does not indicate that a reservation policy could deliver such benefits.

The only circumstance that would merit in a national gas reservation policy is if all the Eastern market states imposed their own state-by-state reservation schemes, limiting inter-state trade. The current policy in Western Australia has little impact on the Eastern market, while measures extant in Queensland and proposed in Victoria are less stringent than a blanket domestic reservation policy would be. The Commonwealth should continue to monitor this should states progress further down this path.

The LNG market has gone through major changes in 2020 due to the pandemic and falling demand in importing nations. Prices for LNG cargoes have fallen, as have prices in the domestic (east coast) market. This calls into further question the premise that it is LNG exports, rather than fundamental constraints in the domestic market, that are the primary driver of prices paid by domestic users.

In the longer term, decisions about emissions targets and the availability of substitutes, such as hydrogen, will shape demand both in Australia and in LNG importing countries. Japan and China have both recently announced new targets for reaching 'net zero emissions' – by 2050 in Japan and by 2060 in China.

Clarity over Australia's intent will shape the investment conditions for gas supply and gas transmission infrastructure. At present uncertainty over future emissions constraints and about the development (or not) of hydrogen as a significant energy sector appear more material than the question of whether or not to restrict gas exports in a limited number of situations.

Business NSW supports recent government efforts to expand pipeline capacity and increase production in NSW. In contrast, a reservation policy has very limited benefit for NSW gas user and carries risks of stalling needed investment.

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If you would like to discuss *Business NSW's* submission, please contact me on 0415 819 091 or at simon.moore@businessnsw.com.

Yours sincerely

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