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Mr Mark Fitt

Committee Secretary

Senate Economics References Committee

Submitted online at: https://www.aph.gov.au/Parliamentary_Business/Committees/OnlineSubmission

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Dear Mr Fitt,

AGL Energy Limited (**AGL**) welcomes the opportunity to make a submission to the Senate Economics References Committee inquiry into Australia's Oil and Gas reserves. In particular, we would like to make some observations on the current challenges securing gas supply in south-eastern Australia.

About AGL and our gas operations

AGL is one of Australia's leading integrated energy companies and the largest ASX listed owner, operator and developer of renewable generation. Our diverse power generation portfolio includes base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources. AGL's gas assets include the Torrens Island and Barkers Inlet Power Stations in South Australia, the Kwinana Swift plant in Western Australia, Somerton power station in Victoria, as well as gas storage in central Queensland and Newcastle, New South Wales. We are also assessing the potential for new gas-powered generation in Newcastle.

AGL is also a significant retailer of energy and provides energy solutions to 3.7 million customers in New South Wales, Victoria, Queensland, Western Australia and South Australia. In FY19 this involved 167 PJ of gas sales across AGL's small customer, large business customer and wholesale customer base. We are also developing, in close consultation with the community, a proposed LNG import terminal in Victoria to provide additional sources of gas supply to south-eastern Australia.

The role of gas in Australia

Gas plays an important role in the Australian economy – used for domestic cooking and heating, as an energy source for manufacturing, and as a feedstock for industrial applications. Gas-powered generation also plays a significant role in the transitioning electricity market, as flexible capacity to support the greater penetration of intermittent renewable generation. And the significance of gas as an export commodity has amplified in recent years with investment in natural gas production, transport, liquefaction and export facilities reported to be as much as $300 billion over the last decade. Against this background, it is imperative to develop solutions that assure access to gas in the short and medium term, with the aim of maximising benefits to all Australians.

The Australian Energy Market Operator's (AEMO) 2019 Gas Statement of Opportunities (2019 GSOO)[1] report has reiterated its findings from previous reports that the gas supply-demand balance on the east coast of Australia remains tight. The Australian Competition and Consumer Commission (ACCC) has also reported on the challenging conditions in accessing gas, with prices paid in the wholesale market now materially

[1] AEMO Gas Statement of Opportunities (GSOO) March 2019

higher than historical levels. Increasing the supply of gas to domestic customers remains the key strategy for reducing pressure on gas prices.

Australia has multiple gas markets

It is well known that the Western Australian and east coast wholesale gas and electricity markets are not currently linked. There is no east-west transcontinental pipeline and, in the absence of an LNG important terminal, no way to ship liquified natural gas from Western Australia to the east coast. However, it is also important to understand that within an east coast context, there are effectively two (or more) markets operating. Most notably these are the northern market (Queensland and to a lesser extent the Northern Territory) and the south-eastern market (South Australia, Victoria, New South Wales and Tasmania).

Historically, Victoria has played a significant role in supplying gas not just to Victoria, but also to its neighbouring states. This gas originated from Victoria's offshore Gippsland, Bass and Otway Basins in Bass Strait, with pipeline flows generally running north and west out of the state on long-dated contract positions. However, gas production from these key off-shore basins is in varying stages of production decline. Although linked to Queensland through a network of transmission pipelines, the capacity of this pipeline network is insufficient to support the full extent of south-eastern volume requirements and, in particular those of Victoria, the country's largest demand centre. While existing infrastructure could theoretically be reversed and it's capacity expanded to supply Queensland gas beyond New South Wales and South Australia into Victoria, AGL's analysis indicates that the transmission charges payable would likely result in a Victorian delivered price that is much higher compared with alternatives such as import (discussed below).

This combination of declining local production, pipeline capacity and directional constraints are seeing a divergence in outcomes across Queensland and the south eastern market. In the 2019 GSOO, AEMO has forecast supply gaps in Victoria from 2024 onwards – particularly during the winter peak – unless additional southern reserves and resources, or alternative infrastructure are developed. Relevantly, the ACCC has recently observed that prices have fallen in Queensland with a declining netback price calculation, but this adjustment has not been realised in the south[2]. This supports the need to investigate alternative sources of new supply for south-eastern states. It also illustrates that broad-based domestic gas reservation policies are not a solution to the specific issues being faced in that market.

Options for increasing supply

AGL supports initiatives that bring more supply and a diversity of suppliers to the market. The most efficient way to ensure sustained supply in the short and long term is through market-initiated additions to supply, whether that be contracting new supply from existing market participants, increasing domestic gas production or importing gas from other markets. And we are encouraged by recent actions of LNG producers and project partners to offer greater volumes of gas into the domestic market. Potential measures to regulate exports or prices must be carefully considered to avoid reducing incentives for upstream participants to discover, develop and commercialise new gas reserves.

AGL is one of a number of entities exploring the construction of LNG import projects in different locations around Australia. The location of AGL's proposed Gas Import Jetty at Crib Point in Victoria is expected to improve resilience and boost supply competition by providing an additional unconstrained source of gas for Victoria, reduce pipeline and storage infrastructure congestion and significantly delay the timing and severity of expected gas shortfalls. In response to community concerns, AGL's project is currently being assessed independently through an Environment Effect Statement process, and we recognise that meeting

[2] Australian Competition and Consumer Commission, Gas Inquiry 2017-2020, Interim Report, July 2019

environmental and safety standards is a fundamental underpinning for gaining community acceptance of new supply projects.

Once approved, the relatively short build and commissioning timeframe for the import terminal means that it could be in place ahead of projected Victorian shortfalls and play an important role in ensuring a reliable source of supply to Victoria and potentially the broader south-eastern market. Whereas new on-shore exploration and production (should relevant jurisdictional bans be lifted), could not come online in the same timeframe and are unlikely to have a material impact on projected Victorian supply shortfall.

Reporting of reserves and resources

The COAG Energy Council is currently consulting on potential reforms to improve transparency around reserves and resources information. AGL is supportive of improvements here as this type of information can directly assist in understanding the future supply and demand balance and informs investment decisions across the gas supply chain. For example, if there are inadequate commercially recoverable reserves and resources to meet future demand, businesses have a strong case to either invest in additional supply sources (such as LNG import terminals) or to shift demand to other fuel types.

Should you have any questions in relation to this submission, please contact me on 03 8633 7252.

Yours sincerely,

Eleanor McCracken-Hewson

Senior Manager Policy & Strategy