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2019 Review of the Australian Domestic Gas Security Mechanism (ADGSM)

AGL Energy (**AGL**) welcomes the opportunity to respond to the Department of Industry, Innovation and Science's public consultation on Australian Domestic Gas Security Mechanism (**ADGSM**) Review.

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 over 3.5 million customers in New South Wales, Victoria, Queensland, Western Australia and South Australia. In FY19 this involved 167PJs 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 (**GSOO**) report¹ 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.

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, including the ADGSM, must be carefully considered to avoid reducing incentives for upstream participants to discover, develop and commercialise new gas reserves.

In assessing the potential interactions between export and domestic supply pressures, it is also important to understand the range of factors impacting gas supply across the east coast. In southern states, gas production from key off-shore supply basins is in chronic decline and pipeline constraints limit the quantity of Queensland gas that can be re-directed south. 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 southern states and that a strengthened ADGSM may not be the most effective response. In particular, we would caution against adjustments to the mechanism that may raise longer term risks or disincentivise further investment in new supply.

AGL is one of a number of entities exploring the construction of an 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 increase 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 shortfalls³ In response to community concerns, AGL's project is currently being assessed independently through an Environment Effect Statement process. AGL will follow all assessment requirements deemed necessary and is absolutely willing to be held to these standards, understanding its criticality in gaining community acceptance.

On balance we do not consider that the ADGSM should be broadened at this time but rather the focus be on stimulating other sources of supply to domestic customers.

Should you have any questions in relation to this submission, please contact Eleanor McCracken-Hewson, Senior Manager Policy & Strategy on 03 8633 7252, or myself on 03 8633 6514.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'B Sterland'.

Barry Sterland

General Manager Policy & Strategy, AGL Energy

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

³ AEMO Gas Statement of Opportunities (GSOO) March 2019