

# BUSINESS NSW

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Submitted by email

## **BUSINESS NSW SUBMISSION TO THE SECURING AUSTRALIA'S DOMESTIC GAS SUPPLY OPTIONS PAPER**

Business NSW is grateful for the opportunity to submit its response to the *Securing Australia's Domestic Gas Supply* options paper.

### **Introduction**

Global supply challenges brought about by the conflict in Ukraine have been exacerbated by elevated demand for gas from domestic electricity generation and prolonged spells of cold weather in markets where gas is relied on for household heating. These factors, combined with slow progress on developing east coast sources of supply outside of Queensland, have meant that supply shortages previously forecast for 2024-25 have been brought to crisis point much sooner.

Recent developments in gas prices have put significant pressure on gas-consuming NSW businesses. Users have experienced price shocks of up to ~400% where especially exposed to spot prices, or when having to re-contract during the period since prices have risen. For some businesses this may lead to closure, especially when added to escalating business costs from wage increases, interest rate rises, input materials cost inflation and electricity cost increases. Many manufacturers are dependent on gas for processes which cannot be fuel-switched to use electricity. As the Australian Chamber of Commerce and Industry (ACCI) state in their recent submission on the Australian Domestic Gas Security Mechanism Extension:

“These prices are unsustainable. Already we are seeing [Commercial and Industrial] gas users under extreme pressure and indicating that if the price pressures cannot be relieved shortly, they will be forced to close and/or leave Australian shores.”<sup>1</sup>

### **Consultation Questions:**

- 1. Would a short term activation power effectively address sudden shocks or shortfall risks?**
- 2. What timeframes and limitations should apply to shorter-term activation powers?**
- 3. How would short-term activation interact with other energy security measures, like the Gas Supply Guarantee?**
- 4. What should be the threshold for a short-term activation mechanism?**

Business NSW is a funding and governance member of ACCI and the two organisations work closely on public policy issues of national importance. As such we support the view that “The ADGSM must be able to be activated in a timely manner in times of crisis in the gas market. It should not require 6

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<sup>1</sup> <https://www.australianchamber.com.au/wp-content/uploads/2022/07/Submission-DISR-ADGSM-extension-July-2022.pdf> ;

months of consultation with gas producers and other stakeholders before the responsible Minister makes a determination and the ADGSM is activated.

“There needs to be more regular monitoring of the supply-demand balance, at intervals of 3 months rather than 12 months, so that it is responsive to changing market conditions. It should be able to be triggered before there is a gas shortfall, to prevent, rather than respond to a gas market crisis.

“To be effective, the scope of the ADGSM must be broadened to focus not just on the sufficiency of supply at an aggregate level across the east coast market, but consider the sufficiency of supply at the state and regional level.

“The ADGSM must be better targeted to improve the outcomes for domestic gas consumers. There are a wide range of problems in the domestic gas market related to the availability of supply contracts and gas prices. In its current form, the ADGSM is not addressing these issues, particularly from the perspective of C&I gas users.

“The ADGSM must ensure certainty of both supply and prices to households and C&I gas users. Therefore, in addition to the gas supply trigger, the ADGSM should also have a price trigger to ensure gas users are not exposed to exorbitantly high gas prices.”

- 5. What factors should a reference price take into account? How should each factor be measured or monitored?**
- 6. Which entity is best placed to determine the price, and what should that process include?**
- 7. What implications or unintended consequences could price-base activation have, including on new supply and the competitive functioning of the market?**
- 8. How could the ADGSM be amended so that during a shortfall year, stronger incentives exist for LNG exporters to increase domestic supply?**
- 9. How could the TMSO be improved?**
- 10. What features would effective LNG export permits have?**
- 11. Should contracted gas be exempt from the ADGSM? If so, how could this exemption be designed to ensure the objectives of the mechanism are met?**

No response

- 12. What can the states and territories do to ensure their gas needs are met during the energy transition?**
  - a. How can the Commonwealth support the states and territories to do this?**

Business NSW has been a strong advocate of further gas resource development *during the period of energy transition*.

While over the long-term, a transition to a zero-emissions energy system is necessary, it is vital that energy supplies be maintained across the intervening period. While carbon-free technologies such as hydrogen hold promise for commercial applications, it is far too early to conclude that hydrogen is able to meet users' needs today given the developmental stage of the technology.

As a result, in its 2019 report *Running on Empty* Business NSW advocated a three-pronged approach to addressing supply shortages in NSW.<sup>2</sup> While some steps have been taken to develop these, there remains the potential to go further with each.

### **1) Develop new sources of supply**

The Narrabri Gas Project is NSW's largest forthcoming source of new supply into the market. However, following the receipt of government approvals it is still awaiting a Final Investment Decision, and commercial production remains years into the future.

Small scale projects to harness bio-methane<sup>3</sup> and hydrogen<sup>4</sup> have the potential to be replicated and rolled out more widely. However again both the limited scale of the resource at present and the time required to expand these pilots limits the extent to which they can moderate the immediate effects of the crisis.

Longer term, other gas development proposals in NSW should be given serious consideration as, in the aftermath of the Ukraine invasion, market conditions have altered considerably since the first time it was reviewed. Both Commonwealth and NSW Governments will need to be more open to new gas field developments to bridge the gap to hydrogen or other options becoming viable.

### **2) Strengthen the interstate pipeline network**

In 2019 Business NSW outlined a series of pipeline infrastructure improvements to alleviate bottlenecks. While some of these have proposed upgrades in progress, most remain in the same condition today as they were in in 2019.

- For the proposed LNG import terminals
  - The pipeline capacity from Australian Industrial Energy's (AIE) Port Kembla regasification facility to Sydney. A new pipeline from Port Kembla to the Sydney gas hub at Wilton, as proposed<sup>37</sup> by APA would need to transit populated and environmentally sensitive areas which may slow the construction timeframe.
  - The pipeline capacity from EPIK's Newcastle regasification facility to Sydney.
- For gas shipped from Moomba and northern Australia, review:
  - The proposed pipeline from Narrabri to the MSP, including peak day modelling and compression requirements for despatch into the MSP.
  - The MSP pipeline capacity and utilisation.
  - The Moomba hub pipeline connections and compression limitations, on the south-west Queensland pipeline to Moomba and the MSP.
  - The utilisation of Moomba underground storage to support NSW peak days and supply constraints. The potential for large scale pipelines from the NT to the east coast. Connecting the NT pipelines to Moomba would be to NSW's advantage.

The strengthened pipeline network is not just necessary to meet current challenges, but also plays a crucial role in preparing for the advent of hydrogen as a future fuel capable of meeting Australian energy needs.

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<sup>2</sup> [https://www.businessnsw.com/content/dam/nswbc/businessnsw/pdf/015-Running-on-Empty-Report-7\\_PRINT.pdf](https://www.businessnsw.com/content/dam/nswbc/businessnsw/pdf/015-Running-on-Empty-Report-7_PRINT.pdf)

<sup>3</sup> <https://jemena.com.au/about/innovation/malabar-biomethane-project>

<sup>4</sup> <https://jemena.com.au/about/innovation/power-to-gas-trial>

In addition to these, long-standing proposals to link Western Australia to the East Coast market have been revived in the wake of recent events. If such a proposal can be brought forward in a way that avoids imposing further costs on business gas consumers (either through government underwriting or through an arrangement that only charges users who are benefitting from lower wholesale costs it could enable.

**3) Facilitate LNG import terminal construction for NSW as an urgent priority.**

In the wake of recent market developments, LNG is perhaps a less attractive option than it was in 2019. However, LNG still has features which make it potentially useful in managing the East Coast gas market, namely the ability to respond at short notice (albeit at a price set by international markets), and the ability to deliver supplies close to major users' demand in NSW. However, it should be noted that the changed international market for LNG import capacity means other bidders in Europe are trying to acquire the floating LNG import facility pencilled in for Port Kembla.

An LNG import terminal could also facilitate a 'virtual pipeline' from Western Australia, allowing NSW buyers to access WA gas supplies without the need to incur such high capital costs as a cross-country pipeline would require.

Beyond the recommendations in *Running on Empty*, Business NSW also recommends a fourth critical component to addressing the current crisis, namely:

**4) A renewed focus on energy efficiency**

Given the lead times required by Options 1-3, there is also a need to find shorter term measures that can alleviate both cost and supply-demand pressures in the gas market. Supporting investments that can reduce demand for gas without reducing productive economic activity can achieve results more quickly than the other options. Increasing funding available and redoubling efforts to engage with business users of gas to identify demand reduction opportunities should be an area of focus for Commonwealth and NSW Governments this year.

If you have any questions about our submission or would like to discuss in more detail, please feel free to contact Business NSW by [simon.moore@businessnsw.com](mailto:simon.moore@businessnsw.com) or 0415 819 091.

Yours sincerely

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