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SELECT COMMITTEE ON THE COST OF LIVING

Dear Chair

The Australian Petroleum Production & Exploration Association (APPEA) welcomes the opportunity to provide a submission to the Senate Select Committee on the Cost of Living. This submission supplements evidence that I provided in my testimony before the Committee on 3 February 2023.

The Australian Petroleum Production & Exploration Association (APPEA) is the peak national body representing companies actively engaging in oil and gas exploration and production in Australia. **Over the past decade, APPEA's members have invested more than $400 billion in the Australian economy, supported 160,000 jobs throughout the industry's value chain, and have made payments in excess of $60 billion to state and federal governments through taxation and royalties.**

The industry is working to provide Australian households and businesses with a secure, stable and affordable supply of natural gas. Like everyone, the industry recognises the cost-of-living pressures facing Australians and we welcome efforts to provide effective relief to households and business. We know that energy and natural gas prices are an important element of today's cost-of-living pressures.

Ultimately the price of gas, both domestically and globally, depends on the demand for and the supply of gas in the market. The only effective and enduring mechanism for reducing the price of gas while continuing to meet demand is to increase the supply of gas in the market. In contrast, in the east coast gas market we have seen falling supplies and moratoria on the development of new gas fields in some states. The Australian Energy Market Operator (AEMO) is projecting a 43 per cent decline in Bass Strait gas production by 2025. More investment in domestic gas supply is required to avoid further upward pressure on prices. Internationally, a lack of investment in new supply saw gas prices rising even before Russia's invasion of Ukraine triggered a global energy crisis.

Increased supply is necessary to put sustained downward pressure on gas and electricity prices. Prices have moderated since their peak in August 2022 and may fall further as markets rebalance in the short-term. In the medium- to long-term however, the Australian Competition and Consumer Commission (ACCC) has made it clear that without expansion in gas production, domestic gas supply will be structurally insufficient to meet demand from 2027, which would "*place continued upward pressure on prices in the gas market, as well as pressure on the electricity market*".[1]

Queensland LNG producers have demonstrated their commitment to the domestic market, but interruption of exports cannot avoid the need for investment in domestic supply and infrastructure. The majority of gas developments in Queensland were underpinned by the export market and by very substantial international investment, based on long-term contracts for the supply of gas to key international trading partners. Queensland LNG producers are also important contributors to domestic supply – injecting gas into the domestic market that would not have been produced if not underwritten by export opportunities. However, AEMO has warned that diversion of Queensland LNG exports will not be an option to address shortfalls in the southern states from 2027, given pipeline capacity constraints limiting the movement of gas from north to south.

East coast LNG producers worked collaboratively with the Government to come to a voluntary Heads of Agreement in September 2022 that ensures gas that is not already contracted for export is first offered to the domestic market. Consistent with this agreement and the steps taken by LNG producers to ensure domestic supply, the April 2023 ACCC Gas Inquiry 2017-2030 indicated there is sufficient supply to meet demand in the east coast gas market for 2023. The contribution of LNG producers to domestic supply becomes increasingly important as domestic supply reduces in the near-term, particularly in Victoria.

Government gas market interventions are chilling investment in domestic supply – the opposite of what is needed to sustainably reduce energy prices. Since the Heads of Agreement was finalised, the Government has made several far-reaching interventions in the gas market; including the 12 month price cap on the wholesale gas market of $12/GJ and proposed ongoing regulation of gas prices through a mandatory code of conduct. These interventions have brought significant uncertainty into the market and have resulted in several projects being put under review, including the $1 billion Senex Atlas project that plans to supply the domestic market. Gas supply agreements are also being delayed and major producers are reducing their investment cycles from 12 months to six due to the uncertainty.[2]

The oil and gas industry is committed to net zero and supports economy-wide emissions reduction policy, but recent changes to the Safeguard Mechanism risk increasing the cost of achieving our climate mitigation targets. Natural gas supports the transition away from coal in Australia and in our region, provides the firm dispatchable energy required to unlock large-scale renewable energy deployment, and powers Australian industries across the economy including those processing the critical minerals necessary for net zero. The Safeguard Mechanism reform process is aimed at driving emissions reductions across Australian industry. APPEA continues to engage constructively to ensure the Safeguard Mechanism can achieve this aim in the most efficient and cost-effective way. However, following negotiations between the Labor party and the Greens, an agreement was reached that singles out the gas sector with additional emissions reductions requirements. These changes compound the uncertainty and deteriorating investment sentiment across the oil and gas

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[1] ACCC Gas Inquiry 2017-2030 Interim report – January 2023

[2] https://www.afr.com/companies/energy/impossible-rinehart-posco-stall-1b-queensland-gas-project-20221221-p5c85p
https://www.senexenergy.com.au/federal-government-gas-intervention-puts-1-billion-atlas-expansion-in-queensland-at-risk/
https://www.appea.com.au/all_news/media-release-investment-risk-of-intervention-shown-in-senex-energy-pause-on-1-billion-expansion/

industry, further risking the availability of gas supply going forward. In doing so, these changes risk increasing the costs of meeting net zero for Australian households and business.

Our regional partners also rely on the supply of gas from Australia to meet their energy demand and transition to net zero emissions by 2050. The Asia Pacific Energy Research Centre (APERC) reports that over the medium term gas demand in South East Asia will increase by 4.2 per cent per annum. Part of this rise in demand comes from South East Asian economies seeking to displace coal in electricity generation[3]. In the absence of a reliable supply of gas from Australia, the energy demands of these nations will be likely be met by other exporters or increased reliance on higher emitting fuels, including coal. This latter trend was evident in 2021 and 2022, where higher gas prices and limited supply resulted in gas to coal switching in major economies. The International Energy Agency reported that this contributed to global CO_2 emissions increasing by 1.9 Gt in 2021.

Industry is ready to invest, to bring on new supply and put downward pressure on prices, but market uncertainty persists. Currently there are around $20 billion of planned investments in new gas supply on the east coast. If this investment comes to fruition this additional supply would ultimately put downward pressure on domestic gas prices. Continued uncertainty in the market caused by government interventions makes the decisions to go ahead with these investments more challenging at a time when this investment is urgently needed. According to AEMO:

> *Despite increased production commitments from the gas industry since the 2022 GSOO, gas supply in southern Australia is declining faster than projected demand. As Australia transforms to meet a net zero emissions future, gas will continue to complement zero emissions and renewable forms of energy, and to provide a reliable and dispatchable form of electricity generation, and may provide potential pathways to incorporate hydrogen and other 'green' gases within Australia's energy landscape*[4].

The transitions in the National Electricity Market are also impacting on the cost of living pressures for households and business. During winter 2022, cold weather combined with coal fired generation outages and limited renewable capacity saw gas demand increase by 55 per cent compared the same period in 2021. Barriers to investment in new gas supply combined with an increasingly volatile demand profile contributes to higher prices for gas in the domestic market. This can also have the impact of putting pressure on electricity prices. AEMO's most recent Gas Statement of Opportunities report notes:

> *In the medium and longer term, as much of the coal-fired generation fleet retires, gas consumption for electricity generation is forecast to rise. In the long term, gas generation is forecast to continue to provide firming of electricity supply in a system with a high reliance on variable renewable energy (VRE) such as wind and solar, complementing electricity storage systems such as battery storages and pumped hydro*[5].

Gas will play a key role in Australia's energy mix to 2050, and beyond. AEMO projects that Australia will need 10 gigawatts of gas-fired generation for peak loads and firming in 2050. Gas-fired generation will play a crucial role as coal-fired generation retires. It will complement battery and pumped hydro generation in periods of peak demand, particularly during long 'dark and still' weather periods.

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[3] Asia _Pacific Energy Research Centre, Gas Report 2022, page 24
[4] Australian Energy Market Operator Gas Statement of Opportunities March 2023, page 4
[5] Australian Energy Market Operator Gas Statement of Opportunities March 2023, page 8

Gas will continue to be a major contributor to the manufacturing sector in coming decades. Gas will remain a critical feedstock and source of reliable energy to power our manufacturing sector. The Government's $15 billion National Reconstruction Fund aims to build resilience and sovereign capability in the Australian manufacturing sector, diminishing the impact of supply chain disruptions which have placed pressure on the cost of living still evident in the economy today. Restricting investments in new gas supply in Australia will add to the cost pressures facing the manufacturing sector which will have a knock-on effect through the cost of food and other essential locally manufactured goods.

To address barriers to new gas investment and ease the cost of living pressures being felt by all Australians, APPEA recommends that governments:

- Let the market work to unlock new gas supply and drive down energy prices across Australia.
- Support new oil and gas development through acreage releases, and encourage states to lift moratoriums on new exploration and development.
- Assign major project status for new energy supply and low emissions technology projects.
- Ensure a modern and competitive fiscal system that removes regulatory and investment barriers to efficient market operation.

We consider these measures would signal to the market that Australia will have an orderly transition where the market will be supported in bringing forward the new energy supplies required to keep the economy moving, and placing downward pressure on energy costs for Australian households and businesses.

I thank the Committee for the opportunity to provide this submission.

Yours sincerely,

Samantha McCulloch
Chief Executive Officer