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Committee Secretary
Senate Economics Legislation Committee
Parliament House
Canberra ACT 2600

RE: SENATE INQUIRY: COMPETITION AND CONSUMER (GAS MARKET CODE) REGULATIONS 2023

The Australian Petroleum Production & Exploration Association (APPEA) welcomes the opportunity to input into the Senate Economics Legislation Committee inquiry into the *Competition and Consumer (Gas Market Code) Regulations 2023*.

The Australian oil and gas industry is committed to providing a secure, reliable and affordable supply of natural gas to Australian households and businesses. To deliver on this commitment, the industry requires a stable fiscal and policy environment that facilitates an open and competitive wholesale gas market. The Mandatory Code of Conduct (Code) is the latest in number of government interventions that have occurred in the east coast gas market over the past twelve months. Together, these complex and often overlapping and contradictory interventions have compounded to create significant uncertainty across the gas market, including uncertainty among investors and project developers of domestic gas supply as well as among Australia's liquified natural gas investors and export partners. Should interventions continue and market uncertainty persist, they risk compounding the impacts already being experienced and further undermining the security and reliability of Australia's energy natural gas supply and our ability to reach net zero, as well as exacerbating cost-of-living pressures for Australian households and businesses.

With the Code putting the government at the centre of east coast gas market operations, the government must urgently prioritise bringing on new gas supply. This includes through providing clear policy direction on the ongoing importance of gas, providing a long-term price signal to the market and removing regulatory barriers to new investment. The Code represents a permanent extension of the \$12/GJ price cap combined with a complex framework of automatic and conditional exemptions, with the conditional exemptions being bilaterally negotiated by government in order to match total supply with forecast demand. The process for granting conditional exemptions is opaque, based solely on ministerial discretion and can be expected to lead to gas supply being negotiated on a project-by-project, company-by-company basis. Conditional exemptions can then be unilaterally revoked in "*exceptional circumstance*" – the definition of which is also down to ministerial discretion. Such an approach risks muting the market signals associated with price setting, allocating volume, investment in ongoing production at existing fields, and for bringing on new supply – all in contrast to an open, competitive market. With the government now at the centre of the gas market operations, it must prioritise putting in place the drivers to bring on the new gas supply needed to avoid the widely forecast structural gas shortfalls from 2026-27, particularly in southern states, and to mitigate the near-term risk of peak shortfalls in winter periods.

If shortfall risks are not addressed as a priority, the essential role of gas in powering Australian households and businesses will be undermined, meaning further cost-of-living pain for all Australians and an increased risk of blackouts. The Australian Energy Market Operator (AEMO) is clear on the ongoing importance of natural gas stating, "*Gas is forecast to have a continuing role in the integrated energy system, including a critical role for gas generation of electricity*", further highlighting that "*gas generation plays an increasingly important role in firming renewable energy as coal generation retires.*"



But against the backdrop of the continued importance of gas, AEMO and the Australian Competition & Consumer Commission (ACCC) both continue to warn of gas shortfall risks due to declining gas production, in particular in Victoria, with insufficient new supply coming online to meet demand. And the impacts of shortfalls will be significant. The ACCC states that shortfalls “*would place continued upward pressure on prices in the domestic gas market, as well as pressure on the electricity market*” at a time when Australian households and businesses are already suffering with immense cost-of-living pressures. This is in addition to risking the lights going out if the gas supplies needed to back up renewable energy and to support the phasing out of coal power are not there when and where they are needed. And while the shortfalls are largely driven by the decline of natural gas production in southern states, it is the same states that continue to put barriers in the way of new gas production, instead looking to other states to ensure their energy security.

Government must bring forward the review of the Code with a focus on establishing a sunset date on the price cap provisions to avoid the impact of permanent price controls on the market. The International Energy Agency (IEA) clearly warned that the \$12/GJ emergency price order “*should remain temporary and not become a remedy to deal with structural market shortcomings*” otherwise “*investment in natural gas production development can be at risk.*”. To minimise the long-term impacts of the Code on investment in the sector, including eliminating the ongoing uncertainty around if/when the price cap may be revoked, and to return as quickly as possible to an open and competitive wholesale gas market, it is recommended that a sunset date on the price cap provisions of the Code be included as part of the Code review process. Should shortfalls forecasts persist, the review should be brought forward in order to fast-track the sunseting of the Code.

To support the implementation of the Code, the Future Gas Strategy must also prioritise addressing forecast structural gas shortfalls in the near- to medium-term by bringing on the new gas supply needed to power Australian homes and businesses securely and affordably. The Future Gas Strategy will need to identify the policies necessary to underpin investment, remove regulatory barriers and streamline permitting processes in order to bring on new gas production, from existing and green field developments, to ensure we can maintain a reliable, affordable energy supply and deliver the natural gas necessary for net zero.

APPEA and its members remain committed to working with government to find an effective, workable, and sustainable way forward that ensures sufficient supply and puts downward pressure on prices.

Yours sincerely,



Samantha McCulloch
Chief Executive