



23 February 2023

Submission: Australian Domestic Gas Security Mechanism reform

The Australian Pipelines and Gas Association (APGA) represents the owners, operators, designers, constructors and service providers of Australia's pipeline infrastructure, connecting natural and renewable gas production to demand centres in cities and other locations across Australia. Offering a wide range of services to gas users, retailers and producers, APGA members ensure the safe and reliable delivery of 28 per cent of the end-use energy consumed in Australia and are at the forefront of Australia's renewable gas industry, helping achieve net-zero as quickly and affordably as possible.

APGA welcomes the opportunity to contribute to the consultation on the draft guidelines for the Australian Domestic Gas Security Mechanism (ADGSM) (the **Draft Guidelines**). APGA supports the intent to ensure affordable, reliable gas supply for all Australian gas customers. **However, we are concerned about potential impacts on firm long term export contracts and the future of the hydrogen export industry should the guidelines pass in their current form.**

APGA supports a net zero emission future for Australia by 2050¹. Renewable gases represent a real, technically viable approach to lowest-cost energy decarbonisation in Australia. As set out in Gas Vision 2050², APGA sees renewable gases such as hydrogen and biomethane playing a critical role in decarbonising gas use for both wholesale and retail customers. APGA is the largest industry contributor to the Future Fuels CRC³, which has over 80 research projects dedicated to leveraging the value of Australia's gas infrastructure to deliver decarbonised energy to homes, businesses, and industry throughout Australia.

In August 2022, DISER released an Issues Paper⁴ on options to secure Australia's domestic gas supply through improving the ADGSM. The Issues Paper acknowledged the necessity of Australia's governments taking measures to increase supply, and also acknowledged that respecting the trust which trading partners and international investors have shown in Australia's resources and energy sectors was a critical guiding principle of the ADGSM.

¹ APGA, *Climate Statement*, available at: <https://www.apga.org.au/apga-climate-statement>

² APGA, 2020, *Gas Vision 2050*, https://www.apga.org.au/sites/default/files/uploaded-content/website-content/gasinnovation_04.pdf

³ Future Fuels CRC: <https://www.futurefuelscrc.com/>

⁴ DISER, 2022, *Securing Australia's domestic gas supply: options to improve the Australian Domestic Gas Security Mechanism*, https://storage.googleapis.com/converlens-au-industry/industry/p/prj20b92342026da4123c0ec/public_assets/ADGSM-Issues-Paper-august-2022.pdf

The Draft Guidelines will undermine the trust which trading partners and international investors have shown in Australia's resources and energy sectors, including for the hydrogen export industry.

APGA provided a submission to the August 2022 Issues Paper outlining the need to increase domestic gas supply.⁵ Supporting the proposed Principles, we identified an additional Principle: supply method & locational neutrality. This would enable producers to optimise how they deliver additional supply into markets to the benefit of gas customers. This would also allow for investment in renewable gas production to increase domestic gas supply.

These documents are necessary context for APGA's comments on the Draft ADGSM Guidelines. We do not believe that these reforms have adequately considered the risk they would represent to the current LNG export industry, nor the risk to the viability of future export industries for hydrogen and hydrogen carriers.

New guidelines may breach firm LNG export contracts

The current ADGSM provides the Minister with the option to restrict LNG exports as a measure of last resort in the event of a domestic gas supply shortfall, in limited circumstances. However, this provision has never been enacted.

The Draft Guidelines places at risk firm long-term export contracts as a source of supply in a domestic shortfall scenario. The Draft Guidelines introduce limited protection of long-term contracts, where those contracts have underpinned a Final Investment Decision (FID) for an LNG project – with other long-term contracts only at the Minister's discretion. These contracts are not automatically protected from intervention from the Minister in the case of a domestic shortfall period; the Allowable Volume (AV) remains at the discretion of the Minister.

The AV may only be increased if the LNG project has exhausted all available commercial solutions to fulfil its contractual obligations, including through trade and purchasing LNG on the global market to meet a contractual obligation. This means, in the case of a domestic shortfall, LNG projects will be required to divert committed gas towards the domestic market, with the contract shortfall fulfilled through AV trade or spot market purchase.

The new guidelines risk damaging investor and trading partner trust through this interference in firm export contracts during a declared domestic gas shortfall quarter. Exporters may be restricted in their exports, potentially unable to make up the shortfall through trading or the spot market, and thus liable to breach penalties.

We appreciate that this reform is intended to solve domestic supply issues when demand is high. However, this instead will reduce confidence in those contracts, with a number of possible outcomes – including higher future breach penalties and force majeure carveouts

⁵ APGA, 2022, *Submission: securing Australia's domestic gas supply*
https://www.apga.org.au/sites/default/files/uploaded-content/field_f_content_file/220822_apga_submission_-_securing_australias_domestic_gas_supply_issues_paper.pdf

in contracts, potentially lower prices for LNG resulting in less royalties to Government, and reduced confidence towards reaching FIDs.

New guidelines will undermine future hydrogen exports

These draft guidelines will also undermine the ability of future export projects in Australia to reach FID, including future hydrogen export projects. If firm LNG export contracts can be undermined by new legislation today, firm hydrogen export contracts can be undermined by new legislation tomorrow. Delivery and revenue certainty will not be guaranteed for Australia's international hydrogen export partners such as Japan and South Korea. This will undermine confidence in Australia's ability to deliver upon long term hydrogen export contracts in the future.

Any new amendment to legislation relating to LNG exports must consider the future impact on hydrogen and renewable gas markets. There is a great deal of development underway nationally and internationally in green hydrogen export, and as green hydrogen is a manufactured product, Australia will not necessarily have the same level of production advantage as it has enjoyed for LNG. The future Australian hydrogen export industry will rely on the ability for trading partners and international investors to trust Australian hydrogen exporters contracts can be relied upon.

Case study: Breach of firm LNG contracts with developing nations

Europe has been forced to import large quantities of LNG in the midst of the Ukraine crisis, driving international LNG spot prices beyond \$40 per gigajoule. This has led LNG suppliers to breach firm LNG supply contracts with developing nations such as Pakistan. The resulting shortfalls have seen parts of Pakistan experiencing planned blackouts of more than 12 hours per day.⁶

A senior Pakistan Government official made the following comment: *"We will not let them make money by selling our term cargoes in the spot market for windfall profits and depriving Pakistan of its term cargoes [...] enough is enough."*⁷ Similar energy shortages are arising in other Asian and Pacific countries including Bangladesh and Philippines, broadening the impact to a multi-national scale.

These multiple developing nation energy crises are being summarised as *"Power-hungry Europe is leaving developing countries starving for electricity."*⁸ This is despite firm contracts being with LNG traders rather than Europe-based LNG production companies or Europe

⁶ Mangi F and Stapczynski S, 2023, "Europe's plan to quit Russian fuel plunges Pakistan into darkness", *Bloomberg*, in *The Japan Times*, 14 June,

<https://www.japantimes.co.jp/news/2022/06/14/world/europe-russia-fuel-pakistan-darkness/>

⁷ Mustafa K, 2022, "Pakistan to penalise defaulting LNG supplier", *The News International*, 24 February,

<https://www.thenews.com.pk/print/936342-pakistan-to-penalise-defaulting-lng-supplier>

⁸ Bhattacharya A, 2022, "Power-hungry Europe is leaving developing countries starving for electricity", *Quartz*, 6 October, <https://qz.com/power-hungry-europe-is-leaving-developing-countries-sta-1849624921>

itself.⁹ The international reputation risk of being associated with breaching LNG supply contracts is real and unfolding for Europe-based LNG companies today.

The long run reputational cost of these defaults will remain, with developing nations experiencing blackouts for the long term. Australia risks this type of outcome by targeting long term firm LNG supply contracts through the current Draft Guidelines – a risk which will be attached to Australian firms as they start to negotiate future hydrogen export contracts.

Other options to address domestic shortfall should be prioritised

Breaching firm LNG export contracts is not the only solution. APGA recommends the curtailing of export by spot cargo arrangements is explicitly prioritised in the ADGSM, rather than long term export contracts. Long term contracts have gas production associated with them, while spot cargos are the source of the potential for uncontracted gas to access high international LNG spot prices.

As noted in our submission to the Issues Paper, it is also critical that the Federal Government work with State and Territory governments to facilitate new supply for future gas production. Returning the east coast gas market to being long in supply will ensure that domestic supply shortfall events become rarer. In particular, APGA supports solutions which deliver affordable and reliable renewable gases for Australian gas customers as this solution can increase supply while also supporting Australia’s emissions reduction goals.

To discuss any of the above feedback further, please contact APGA National Policy Manager, Jordan McCollum, on +61 422 057 856 or jmccollum@apga.org.au.

Yours Sincerely,



STEVE DAVIES
Chief Executive Officer
Australian Pipelines and Gas Association

⁹ Sullivan A, 2022, “Europe’s Liquefied Natural Gas demand surge hits Asia”, *Deutsche Welle*, 10 November, <https://www.dw.com/en/lng-european-thirst-for-natural-gas-puts-bangladesh-and-pakistan-in-the-dark/a-63401354>