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Chair
Inquiry and Advisory Committee

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Environmental Effects Statement on Crib Point Gas Project

The Australian Energy Council ('AEC') welcomes the opportunity to make a submission to the Inquiry and Advisory Committee's ('Committee') consultation on the *Crib Point Environment Effect Statement*.

The AEC is the industry body representing 22 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses.

The AEC is not in a position to comment on the specific environmental matters contained within the 11,000-page Environment Effect Statement ('EES') into the proposed Gas Import Jetty and Pipeline Project ('Project'). The AEC does, however, intend to draw the Committee's attention to the wider economic and climate benefits of this Project, which have become more urgent due to COVID-19. The AEC encourages the inquiry to weigh these broad benefits against any local impacts of the project, and to avoid undue delays in its approval.

The Project is necessary to support and smoothen Australia's long-term transition to a net-zero economy. It will play an important role in providing Victoria with energy security and affordability, as coal-fired power stations close and storage options continue to be developed.

Maintaining energy security in the transition to low emissions electricity

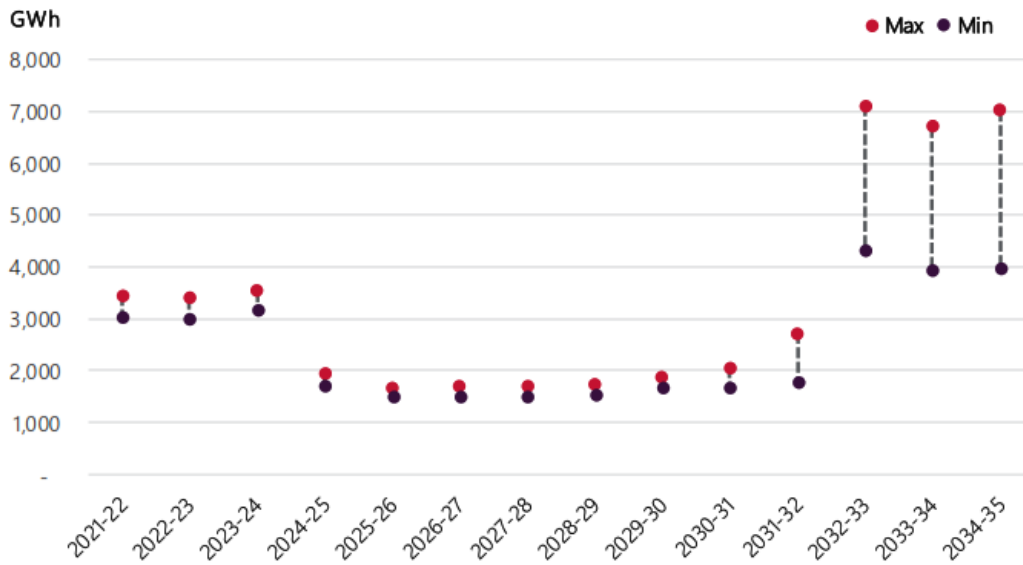
Electricity generation emits one third of Australia's emissions and is widely accepted as Australia's most important immediate carbon abatement task. Fortunately, the cost of solar and wind generation has fallen dramatically and is now widely assumed to provide the bulk of future Australian generation.¹ However, these sources are variable and require flexible, firm back-up capacity to cover periodic lulls in their output. This is the role to which gas-fired generation is well suited. Australia presently has insufficient back-up capacity to support a renewables-dominated electricity system. Whilst gas-fired generation does emit some carbon, its presence paradoxically reduces electricity emissions by permitting the retirement of coal whilst maintaining energy security.

Recent studies of the energy market have highlighted the important role gas will play in providing energy security to the National Electricity Market ('NEM') as it transitions to variable renewable generation. The Australian Energy Market Operator ('AEMO'), for example, forecasted in its *2020 Gas Statement of Opportunities* that gas-fired electricity generation will 'continue to provide a reliability and security role to complement variable renewable generation' in the medium to long term.² Australia's Chief Scientist, Alan Finkel, echoed this sentiment earlier in the year when he said that it is gas 'making it possible for nations to transition to a reliable, and relatively low emissions, electricity

¹ Australian Energy Market Operator, '2020 Integrated System Plan', July 2020, p12.

² Australian Energy Market Operator, 'Gas Statement of Opportunities', March 2020, p5.

supply'.³ The graph below, taken from AEMO's *2020 Integrated System Plan*, highlights that gas generation is expected to increase in output as coal-fired power stations close.⁴



Problematically though, current supply levels, especially in Victoria, do not appear sufficient to meet future demand forecasts. AEMO's *Victoria Gas Planning Report Update* recently concluded that 'the Victorian gas supply adequacy forecasts are becoming increasingly uncertain ... if the fields cease production earlier than forecast, then there are risks to the security of supply during 2023'.⁵ COVID-19 has exacerbated these uncertainties, with the Australian Competition & Consumer Commission's ('ACCC') *Gas Inquiry Interim Report* stating that the economic shock to oil prices means 'the risk of a (gas) shortfall, particularly in the south, now appears even greater' and 'one or more import terminals' should be developed as a policy solution.⁶ For these reasons, the AEC agrees with the EES' conclusion that this Project is critical to supply gas 'to meet the predicted 2024-onward shortfall' and 'assist with Victoria's transition to a low-carbon economy'.⁷ The interconnected nature of the NEM means this Project can benefit other states in their transition too if and when required.

Maintaining energy affordability

Both residential gas customers and industrial and commercial customers have experienced major financial pressures in recent years due to gas prices remaining steadily high. The ACCC has stated that 'only action by governments and the gas industry to increase domestic gas supply can bring material price reductions into the future'.⁸ The AEC sees this sentiment as consistent with the EES project rationale, which says the additional domestic supply of gas gained through this Project will place downward pressure on gas prices to the benefit of customers.⁹

³ Australia's Chief Scientist, 'National Press Club Address: The orderly transition to the electric planet', Australian Government, 12 February 2020,

<https://www.chiefscientist.gov.au/news-and-media/national-press-club-address-orderly-transition-electric-planet>.

⁴ Australian Energy Market Operator, '2020 Integrated System Plan', July 2020, p56.

⁵ Australian Energy Market Operator, 'Victoria Gas Planning Report Update', March 2020, p3.

⁶ ACCC, 'Gas inquiry 2017-2025 Interim report', July 2020, p14.

⁷ Environment Effects Statement, 'Gas Import Jetty and Pipeline Project: Summary Document', July 2020, p2.

⁸ ACCC, 'East coast gas market conditions have eased, but more gas required to lower prices', Media Release, 2 August 2018, <https://www.accc.gov.au/media-release/east-coast-gas-market-conditions-have-eased-but-more-gas-required-to-lower-prices>.

⁹ Environment Effects Statement, 'Gas Import Jetty and Pipeline Project: Project Rationale', July 2020, p43.

The AEC acknowledges that demand-side initiatives, namely enhancements to energy efficiency, have been proffered as alternatives for managing energy security and affordability. These measures have merit but should be viewed as complementary to, rather than substitutes for, supply-side initiatives. This is because demand-side reforms, like energy efficiency upgrades, take time to implement and will not have a significant enough downward impact on demand to balance current supply shortages.

Supporting Australia's economic recovery

The EES was prepared prior to the outbreak of COVID-19. The impacts of COVID-19 to the economy are far-reaching and have exacerbated the energy security and affordability concerns described above. The independent National COVID-19 Commission Advisory Board appears to have recognised this because it has stated investment in gas supply is critical to Australia's economic recovery. Likewise, the ACCC's *Gas Inquiry Interim Report* makes clear that having a secure domestic gas supply has now become more urgent.¹⁰ It is the AEC's view that these developments have strengthened the EES' project rationale. This is because the Project can address the ACCC's concerns about a secure domestic gas supply and do so in a manner that assists Australia's economic recovery by acting as an important source of local employment and investment.¹¹

The projected role of gas in the short to medium term should alleviate any concern that the Project will become a stranded asset. Furthermore, an attraction of a floating LNG import terminal is that it is, relative to gas production assets, a low-regret investment should conditions change from these forecasts. Until then, the Project will support Australia's economic recovery while providing it with the energy security it needs to transition to a net-zero economy.

Any questions about this submission should be addressed to Rhys Thomas, by email to Rhys.Thomas@energycouncil.com.au or by telephone on (03) 9205 3111.

Yours sincerely,



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¹⁰ ACCC, 'Gas inquiry 2017-2025 Interim report', July 2020, p14.

¹¹ For example, the project is expected to involve a capital investment of about \$250 million, employ in excess of 500 workers and create a \$7.5 million community fund for the local area, as cited in Environment Effects Statement, 'Gas Import Jetty and Pipeline Project: Summary Document', July 2020, p10; Environment Effects Statement, 'Gas Import Jetty and Pipeline Project: Project Rationale', July 2020, p43.