

Gas Options Project
Department of Industry, Science, Energy and Resources
Industry House
10 Binara St
CANBERRA ACT 2600

27th November 2020

Submitted online via <https://consult.industry.gov.au/onshore-minerals/gas-options/consultation/>

Dear Sir/Madam,

Gas Reservation Issues Paper

The Australian Energy Council (the “**Energy Council**”) welcomes the opportunity to make a submission in response to the Department of Industry, Science, Energy and Resources’ *Gas Reservation Issues Paper*.

The Energy Council is the industry body representing 21 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, sell gas and electricity to over ten million homes and businesses, and are major investors in renewable energy generation.

Discussion

Australia is rightly proud of its reputation as a free trading economy. It no longer restricts imports and exports in a short-sighted belief that such protection aids the economy. Australia is blessed with many natural resources that are used locally, such as coal, iron ore and copper, which it also freely exports, and the Commonwealth Government does not reserve a portion of those exports for domestic use. The Energy Council believes that the introduction of a domestic gas reservation policy runs counter to Australia’s free-trading philosophy. The attractions of protecting local consumers from the international price of gas are far outweighed by distortions that such protection creates, and the harm to Australia’s reputation as a trading nation.

Setting aside the singling out of natural gas for specific treatment, the need for such a policy is not borne out by the evidence of repeated inquiries by regulatory bodies into the topic. A summary of such inquiries is as follows:

WA

While WA has a domestic gas reservation (“**DGR**”) policy, it is not successful. In its *Inquiry into Microeconomic Reform in Western Australia*,¹ the Economic Regulation Authority (“**ERA**”) said that, “introducing a policy that artificially restrains price rises does not necessarily provide a sustainable approach to achieving efficient outcomes”, and noted “at the very least” it has the following negative consequences:²

- It reduces the incentive for investors to invest in the gas industry in the longer term, leading to potential future gas shortages.
- It perpetuates the existence of industries that may not have a comparative advantage in Western Australia at the expense of investment in other industries.
- It inhibits dynamic efficiency and technological innovation.
- It increases reliance on subsidised gas prices, leading to over consumption of the resource.

¹ Economic Regulation Authority of Western Australia, *Inquiry into Microeconomic Reform in Western Australia – Final Report*, 30th June 2014

² *ibid.*, pp.382-383

The ERA concluded, “the DGR policy is likely to inhibit development of the Western Australian gas market in the long term”.³ Its recommendation was to “Rescind the DGR policy as soon as practicable”.⁴

Australian Competition & Consumer Commission (“ACCC”)

The ACCC’s *Inquiry into the East Coast Gas Market* also recommended against a domestic gas reservation scheme.⁵

The ACCC Inquiry cited the former Bureau of Resources and Energy Economics *Gas Market Report*⁶ – an analysis of studies that had been conducted in the Australian market relating to reservation policies – which said,

“It is generally accepted that the higher domestic gas prices from linking to an export market are due to market dynamics and not a market failure. While there would be winners from a reservation policy, the gains to the winners (gas users) are unlikely to offset the direct economic losses to producers, and the broader economic losses that would arise over the longer term.”⁷

The Inquiry did not identify “any market failure in the east coast gas market that would justify the introduction of a gas reservation policy”.⁸ Instead it said that, “[t]he gas supply issues ... would not be fixed by a reservation policy; in fact they could be worsened if a reservation policy was enacted which artificially depressed prices in the short term and discouraged investment in new gas supply, thus reducing the likelihood of required supply diversity.”⁹ Finally it recommended that “gas reservation policies should not be introduced, given their likely detrimental effect on already uncertain supply”.¹⁰

Productivity Commission

While the previous reports are a few years old, the advice given remains relevant, with the Productivity Commission’s *Resources Sector Regulation Draft Report* confirming these previous findings,¹¹ observing that,

“Pressure to keep gas prices low for consumers and domestic industry has led several governments to implement domestic gas reservation policies. These may reduce domestic prices relative to global prices in the short term, but will reduce incentives to invest and reduce potential output over time. Community wellbeing is lower than would be the case if gas could be sold for the highest possible price (which may be on export markets).”¹²

This led to the draft finding that,

“Domestic gas reservation schemes can reduce returns to investors and discourage investment in gas exploration and extraction, leading to higher prices in the longer run and imposing net costs on the community.”¹³

³ *ibid.*, p.355

⁴ *ibid.*, p.383

⁵ Australian Competition and Consumer Commission, *Inquiry into the East Coast Gas Market*, April 2016

⁶ Bureau of Resources and Energy Economics, *Gas Market Report*, November 2014

⁷ *ibid.*, p.116

⁸ Australian Competition and Consumer Commission (2016), p.68

⁹ *ibid.*

¹⁰ *ibid.*, p.20, Recommendation 2

¹¹ Productivity Commission, *Resources Sector Regulation – Draft Report*, March 2020

¹² *ibid.*, p.101

¹³ *ibid.*, p.116

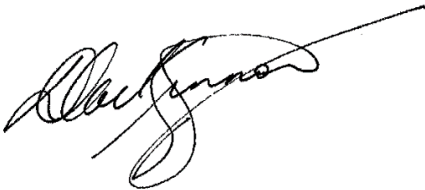
Conclusion

The National Gas Objective is “to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas”.¹⁴

The Energy Council does not believe that a domestic gas reservation scheme which singles out the natural gas industry, intervenes in the market and reduces community wellbeing will satisfy the objective, and submits that the proposed scheme should not be progressed.

Any questions about this submission should be addressed to the writer, by e-mail to Duncan.MacKinnon@energycouncil.com.au.

Yours faithfully,



Duncan MacKinnon
Wholesale Policy Manager
Australian Energy Council

¹⁴ Natural Gas Law, Section 23