

## Government response to the Economics and Industry Standing Committee's 'Inquiry into Domestic Gas Prices'

Recommendation	Response and Comments
<p><i>Recommendation 1:</i> That the Department of Mines and Petroleum review the methodology, assumptions and historical database of natural gas supply and demand (including average price information) for Western Australia to confirm the veracity of this information.</p>	<p><b>Noted.</b> On 17 September 2010, the Department of Mines and Petroleum responded to questions on notice from the Economics and Industry Standing Committee. Question 7 asked the Department to provide data on the production of “sales gas” into the Western Australian economy over a period of at least 10 years. The Department provided data for the period 1990 to 2010.</p> <p>The data for the years 1995-96 to 1998-99, questioned by the Committee in its report (page 19), was checked by the Department’s Royalties Branch and was consistent with that previously provided to the Committee.</p> <p>The data provided by the Department was based on the aggregation of data provided by producers and collected under:</p> <ul style="list-style-type: none"> <li>• the <i>WA Petroleum (Submerged Lands) Act 1982</i>, sections 143 to 151;</li> <li>• the <i>WA Petroleum and Geothermal Energy Resources Act 1967</i>, sections 142 to 149;</li> <li>• the <i>Commonwealth Offshore Petroleum and Greenhouse Gas Storage Act 2006</i>, sections 631 to 634;</li> <li>• the <i>Offshore Petroleum (Royalty) Act 2006</i>, sections 6 to 15; and</li> <li>• various Royalty Schedule Agreements between the Minister and the licensee of the licensed area under clauses 9 and 10.</li> </ul> <p>This information is the basis for the calculation of royalties payable to Western Australia.</p> <p>The average price data provided by the Department to the Committee is the sales value divided by the volume of sales gas. Quantity and value figures are provided by producers in accordance with the legislative requirements outlined above for determination of royalty payments. In addition, the companies provide data to the Department in relation to sales gas quantities relating to projects under the <i>Petroleum Resource Rent Tax Act 1987</i>.</p>

Recommendation	Response and Comments
<p><i>Recommendation 2:</i> The Office of Energy expedites the introduction of more reliable gas demand and supply forecasts for Western Australia that take price sensitivity and trends into account.</p>	<p><b>Accepted.</b> The Office of Energy is in the process of implementing arrangements to facilitate the periodic development and publication of Gas Statement of Opportunities reports.</p> <p>The Gas Statement of Opportunities is intended to provide a long-term supply and demand forecast across all stages of the gas market supply and demand chain. It will help improve transparency and competition in the Western Australian gas market.</p> <p>While these arrangements are being implemented, and in recognition of the importance of providing market participants with reliable information on gas availability and pricing, the Office of Energy is undertaking initial modelling work on forecast supply and demand, and future gas prices up to 2030. This work is being done as part of the Strategic Energy Initiative: <i>Energy 2031</i> and is scheduled for completion in 2011. This modelling information would form the basis of an inaugural Gas Statement of Opportunities.</p>
<p><i>Recommendation 3:</i> The flexibility within the state's domestic gas reservation policy should be maintained unless an independent cost-benefit analysis demonstrates that a strict reservation of 15 per cent of the gas from each LNG project for the domestic market represents a more valuable and efficient use of the resource.</p>	<p><b>Accepted.</b> The Government will continue to conduct negotiations with proponents based on the flexibility within the State's domestic gas reservation policy.</p>

Recommendation	Response and Comments
<p><i>Recommendation 4:</i> The government establishes an independent Gas Market Monitor to oversee the operation of the local wholesale gas market. Modelled on the Queensland Gas Commissioner and reporting to the Minister for Energy, the Gas Market Monitor's primary duties would be to:</p> <ul style="list-style-type: none"> <li>• publish an annual gas market review that includes price-sensitive supply/demand forecasts and identifies deficiencies in the operation of the market;</li> <li>• facilitate discussion between government and market participants on how to address identified market inefficiencies; and</li> <li>• provide the basis for ministerial and departmental discussions with LNG producers before future domestic reservation obligations are finalised.</li> </ul>	<p><b>Noted.</b> The proposed scope for the Gas Statement of Opportunities will include publishing of annual gas market information, including price sensitive supply and demand forecasts.</p> <p>This recommendation will be further considered by the Government in the context of developing the wholesale gas market initiatives outlined above, and as part of the Strategic Energy Initiative: <i>Energy 2031</i> process.</p>
<p><i>Recommendation 5:</i> The Department of State Development commence discussions with the North West Shelf Joint Venture to obtain a commitment from the joint venturers that production capacity at the Karratha Domestic Gas Plant will continue at current levels, as per the terms of the existing State Agreement, until at least 2025.</p> <p>Scope should remain open within the agreement to allow third party gas processing at the Karratha Gas Plant should North West Shelf reserves prevent full production capacity from being maintained after 2020.</p>	<p><b>Noted.</b> The Department of State Development has written to the North West Shelf Joint Venture and commenced discussions on these issues.</p>

Recommendation	Response and Comments
<p><i>Recommendation 6:</i> Under the terms of the State Agreement, the Minister for State Development confirm with the Gorgon joint venturers and advise Parliament on:</p> <ul style="list-style-type: none"> <li>• the current date by which the Barrow Island domestic gas processing plant is expected to be built to its full 300 terajoules per day capacity; and</li> <li>• the potential of this facility to process third party gas as an interim measure.</li> </ul>	<p><b>Noted.</b> The Department of State Development has written to the Gorgon Joint Venture and commenced discussions on these issues.</p>
<p><i>Recommendation 7:</i> Even with reduced formal powers, the state government should do all it can to obtain a commitment to the domestic gas market, including from developments using Floating Liquefied Natural Gas (FLNG) technology.</p> <p>The government should encourage the promotion of third party gas processing to meet such commitments.</p>	<p><b>Noted.</b> The Department of State Development has written to Shell to commence discussions on the possibility of providing gas to the domestic market.</p>
<p><i>Recommendation 8:</i> Department of State Development refine, and publish a list of, any general parameters that are deemed to satisfy “commercial viability” as it pertains to domestic gas reservation obligations.</p>	<p><b>Accepted.</b> The State’s domestic gas reservation policy does not explicitly specify that domestic gas supply will be subject to a commerciality test, although it does say that negotiations will be “on a case-by-case basis to take account of the different characteristics of each project”. The Department of State Development is developing a framework to provide more clarity on the issue of commercial viability and will consult with relevant industry bodies before publishing this information.</p>

Recommendation	Response and Comments
<p><i>Recommendation 9:</i> The review mechanism articulated in Clause 17 (Schedule 1) of the <i>Barrow Island Act 2003</i> should be regularly enforced until the Gorgon Joint Venturer's full domestic gas production capacity is contracted.</p>	<p><b>Noted.</b> Under Clause 17 of the <i>Barrow Island Act 2003</i>, the Gorgon Joint Venture provides quarterly reports to the Minister for State Development. This recommendation will be included in the discussion with the Gorgon Joint Venture referred to in Recommendation 6.</p>
<p><i>Recommendation 10:</i> To ensure that commerciality provisions applicable to domestic gas reservations are used appropriately, a register of all independent assessments of commercial viability claims should be maintained by the Department of State Development.</p> <p>Whilst commercially sensitive material should remain confidential, a detailed explanation of the reasoning behind each assessment should be published.</p>	<p><b>Accepted.</b> As noted under Recommendation 8, the Department of State Development is developing a framework to provide more clarity on the issue of commercial viability. This will include discussions with relevant industry bodies on the extent to which information underpinning assessments of commercial viability can be published.</p>
<p><i>Recommendation 11:</i> All future domestic gas reservation agreements should include a review mechanism, similar to that contained in Clause 17 of the <i>Barrow Island Act 2003</i>, which obliges producers to actively and diligently test the market and be subject to independent assessment.</p> <p>If prices are deemed by such an independent assessor to be commercially viable, producers should be further obliged to enter into contractual arrangements at the most attractive terms available to the producer.</p>	<p><b>Noted.</b> The Government recognises the merits of such a review mechanism but notes that it would need to assess the practical operation of the review mechanism before it became a standard component of domestic gas reservation agreements. This will be considered in the context of discussions with industry proponents.</p>

Recommendation	Response and Comments
<p><i>Recommendation 12:</i> The Department of Mines and Petroleum should request that the Commonwealth Department of Resources, Energy and Tourism (DRET) respond urgently regarding:</p> <ul style="list-style-type: none"> <li>• A detailed update on the status of the 2009 “Review of Policy relating to the Grant and Renewal of Retention Leases”.</li> <li>• DRET’s current position on retention lease management processes.</li> <li>• The merit of subjecting all retention leases with no development plans in place within the next five years to a re-evaluation of commercial viability by the Joint Authority.</li> <li>• Ensuring that the supply of gas to the domestic market is included as a priority in the process of renewing or issuing a retention lease.</li> </ul>	<p><b>Accepted.</b> On 6 May 2011, the Department of Mines and Petroleum requested an update from the Commonwealth Department of Resources, Energy and Tourism (DRET) on the issues identified by the Committee in Recommendation 12.</p> <p>On 16 June 2011, the Department of Mines and Petroleum received a response from DRET. In summary:</p> <ul style="list-style-type: none"> <li>• DRET will be working towards a timetable for the release of a revised Retention Lease Guideline no later than the operational establishment of NOPTA and NOPSEMA on 1 January 2012 and will consult with State and Territory Governments and the petroleum industry on amendments to the Retention Lease Guideline.</li> <li>• DRET believes that the existing commerciality provisions under which retention leases are granted or extended are being rigorously applied and appropriately take into account in the domestic market.</li> </ul>
<p><i>Recommendation 13:</i> The government should vigorously pursue the elimination of the joint marketing authority currently granted to the North West Shelf and Gorgon joint venturers when the applications come up for renewal in 2015.</p>	<p><b>Noted.</b> The Government recognises the purpose of this recommendation but notes that the effect of joint marketing arrangements on domestic gas prices will need to be assessed on the basis of market conditions at the time of review and in conjunction with the Australian Competition and Consumer Council, which will undertake the review.</p>

Recommendation	Response and Comments
<p><i>Recommendation 14:</i> The Minister for Energy proceed with the introduction of a Short Term Trading Market in Western Australia as a matter of priority.</p>	<p><b>Noted.</b> The Government is in the process of implementing a Gas Bulletin Board.</p> <p>In addition to providing transparent, near-term information on the state of the gas market, system constraints and market opportunities in Western Australia, it is envisaged that the Board may also include a voluntary facility to “introduce” matching buyers and sellers. However, this facility will not feature market settlement or other trading services and is intended to complement commercial trading arrangements. The merits of the inclusion of the voluntary trading facility will be assessed during consultation on the Board, scheduled for the second half of 2011.</p> <p>The Government notes there are some privately operated gas trading schemes for industry participants in Western Australia, and Government will consider the need for a compulsory Short Term Trading Market following a review of the operation of the Board and gas market developments across Australian jurisdictions.</p>
<p><i>Recommendation 15:</i> The Minister for Energy expedite the introduction of a Gas Market Bulletin Board and Gas Statement of Opportunities in Western Australia.</p>	<p><b>Accepted.</b> The Government is committed to the introduction of a Gas Bulletin Board and Gas Statement of Opportunities as soon as practicable.</p> <p>The Minister for Energy has recently selected the Independent Market Operator to administer the Gas Bulletin Board and Gas Statement of Opportunities. Work is proceeding to develop a regulatory framework in parallel with stakeholder consultation in the second half of 2011 on the detailed arrangements.</p>
<p><i>Recommendation 16:</i> That the Minister for Energy arrange for a review to be undertaken of identified shortcomings in Western Australia’s regulated gas transmission sector with a view to urgently progressing reforms that will overcome the need for gas market participants to trade in gas without first or separately having to enter into long-term transmission contracts.</p>	<p><b>Noted.</b> Creating a 'market carriage' system for gas transmission would remove the need for gas traders to also have a transmission contract to bring their gas to market. However, this is a major shift in market design from arrangements currently applying in Western Australia and states other than Victoria.</p> <p>The Government will consider the costs and benefits of further advancing this recommendation.</p>

Recommendation	Response and Comments
<p><i>Recommendation 17:</i> That the Office of Energy extends the planned Tariff and Concession Framework Review to cover the retail gas market.</p>	<p><b>Noted.</b> The Tariff and Concession Framework Review is currently not structured to address the issue of reticulated gas affordability through an Inclining Block Tariff. This is because of the current absence of data around domestic gas consumption - data which has only recently been obtained from the Electricity Corporations in relation to electricity.</p> <p>The incorporation of reticulated gas issues into the Tariff and Concession Framework Review would require a substantial extension in the project's timeline beyond the current August 2011 deadline.</p> <p>Gas affordability may best be addressed as a discrete issue following the Tariff and Concession Framework Review's advice to the Minister in August 2011. However, this would require additional resourcing particularly given that the implementation of reticulated gas Inclining Block Tariffs would follow a significantly different process to electricity.</p> <p>Consideration of reticulated gas tariff affordability and the implementation of an Inclining Block Tariff would have to also consider the needs of non-reticulated gas consumers (those who are dependent on bottled LPG). Increased electricity costs faced by households without access to bottled LPG or reticulated gas will be considered by the current Tariff and Concession Framework Review.</p> <p>Energy hardship issues are also being considered more generally as part of the Strategic Energy Initiative: <i>Energy 2031</i>. The recently released Directions Paper includes a key aim as part of the 2031 vision that, over a 5 to 10 year horizon, it is important that the State achieves realistic pricing of energy that improves the effectiveness of the market. It is noted that this must be linked with social provisions that protect the welfare of vulnerable people in the community.</p>



Recommendation	Response and Comments
<p><i>Recommendation 18:</i> To encourage the development of unconventional gas, and to ensure it is undertaken in a responsible and environmentally sustainable manner, the Department of Mines and Petroleum should:</p> <ul style="list-style-type: none"> <li>• work with all stakeholders to promptly resolve issues in the regulatory, environmental and native title approvals process; and</li> <li>• ensure that Environment Management Plan compliance audits and reviews are undertaken regularly in order to identify and act upon any practices that demonstrate improper or unsafe water management processes.</li> </ul>	<p><b>Noted.</b> The Department of Mines and Petroleum continues to work closely with all stakeholders in the regulatory, environmental and native title approvals process to resolve any issues identified.</p> <p>The Department has compliance processes in place to reinforce the role of the Environment Management Plan and to ensure that any potentially sensitive activities are regularly audited and that issues are identified early. These processes also ensure that safe and appropriate water management practices are applied to all resource activities.</p>