

Domgas reservation – is it still a good idea?

Jeanette Roberts

March 2024

Domgas reservation – is it still a good idea? **Jeanette Roberts Consulting**

Topics to be discussed today:

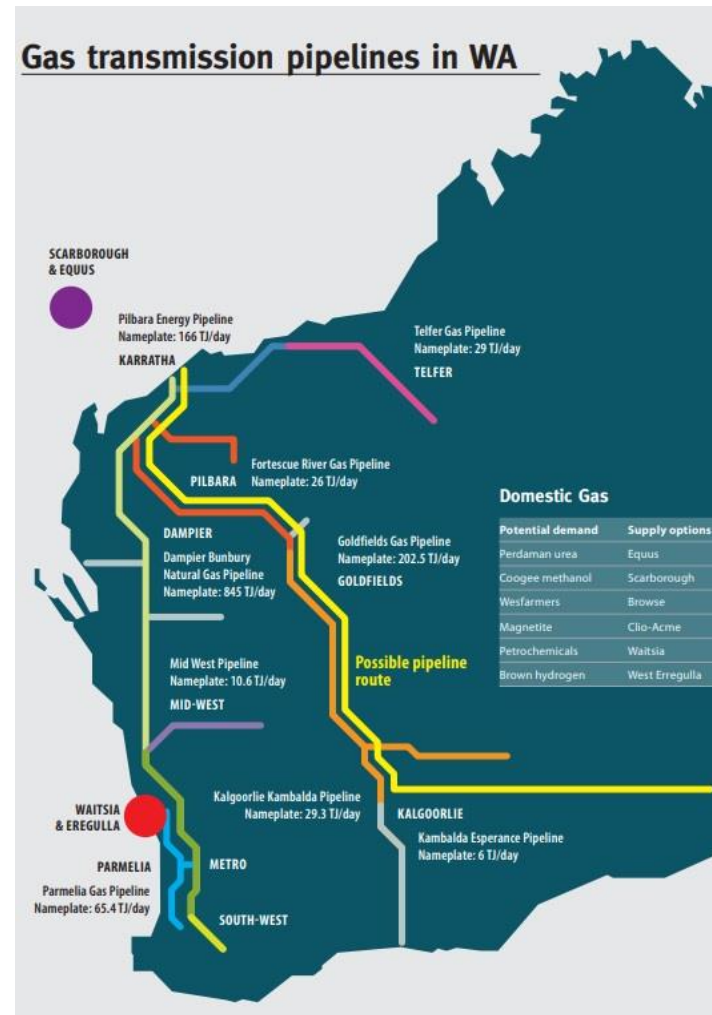
- What is it exactly?
- Domgas in WA
- WA gas storage
- History
- Waitsia gas project
- Mitsui operations in Australia
- Industry response
- Other jurisdictions – Queensland
- Queensland gas production
- Queensland LNG production
- Industry resistance
- Domgas reservation in Queensland
- 2020 review
- Global experience
- WA parliamentary inquiry
- Industry reaction
- WA domgas reservation
- Is it still a good idea?

What is it exactly?

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Domgas – domestic gas

Gas used for industrial and retail fuel consumption.



Domgas in WA

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LOG IN

MAP

FLOW

PARTICIPANTS

NETWORK

REPORTS

DOCUMENTS

NETWORK

DAMPIER

GOLDFIELDS

KALGOORLIE

KARRATHA

METRO

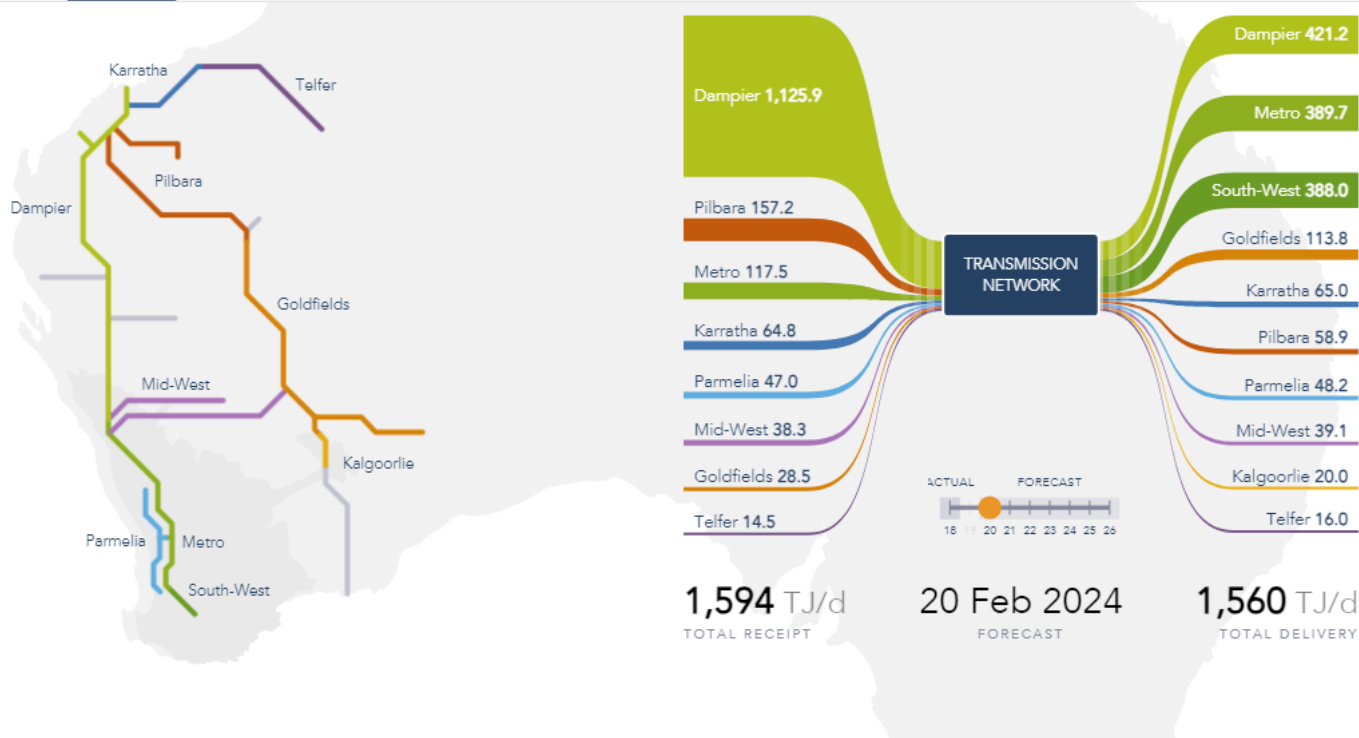
MID-WEST

PARMELIA

PILBARA

SOUTH-WEST

TELFER



Domgas in WA

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Capacity Outlook from Gas Day 20/02/2024, as at 20/02/2024 13:43:55 [GSI Rule 85(a)]

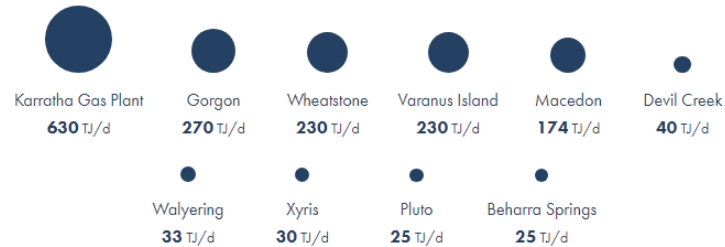
LINEPACK STATUS

ALL GREEN

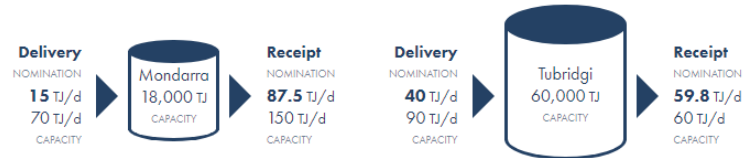
PIPELINE CAPACITY OUTLOOK

Dampier to Bunbury Natural Gas Pipeline	845 TJ/d
Wheatstone Ashburton West Pipeline	337 TJ/d
Goldfields Gas Pipeline	202.5 TJ/d
Pilbara Energy Pipeline	166 TJ/d
Northern Goldfields Interconnect Pipeline	76 TJ/d
Parmelia Gas Pipeline	68 TJ/d
Fortescue River Gas Pipeline	64 TJ/d
Telfer Gas Pipeline	29 TJ/d
Mid West Pipeline	10.6 TJ/d

PRODUCTION CAPACITY OUTLOOK



STORAGE CAPACITY OUTLOOK & NOMINATED AND FORECAST FLOWS



[Capacity Outlook Report](#)



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rev 1.20-377-4

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For information on gas flows in other Australian states, visit the [Natural Gas Services Bulletin Board](#)

WA gas storage

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Mondarra gas storage



Mondarra gas storage

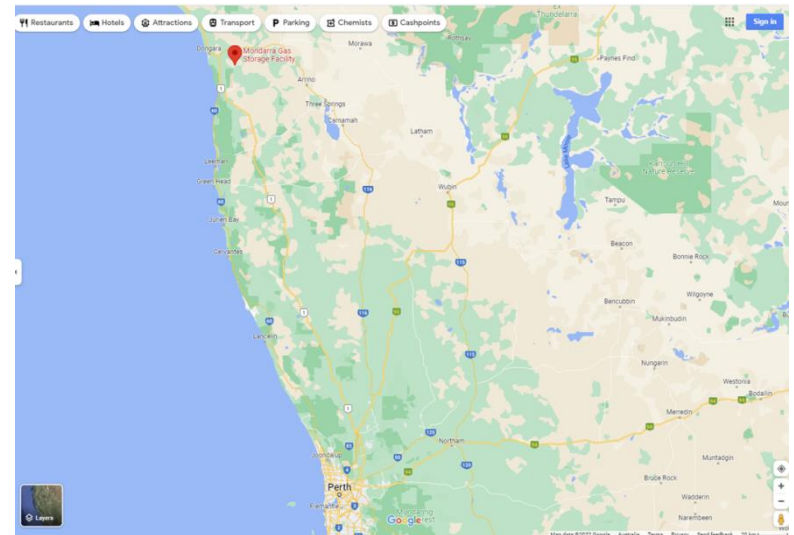
- The Mondarra gas storage facility is owned and operated by APA.
- Mondarra is a depleted onshore reservoir which was previously produced by WAPET.
- It was converted into a gas storage facility in 1994

Facilities include:

- Two compressors
- Three injection and withdrawal wells
- Gas processing equipment

Current capacity is:

- 70 TJ/d of injection
- 150 TJ/d of withdrawal
- 18 PJ of storage



WA gas storage

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Turbridgi gas storage



Tubridgi gas storage

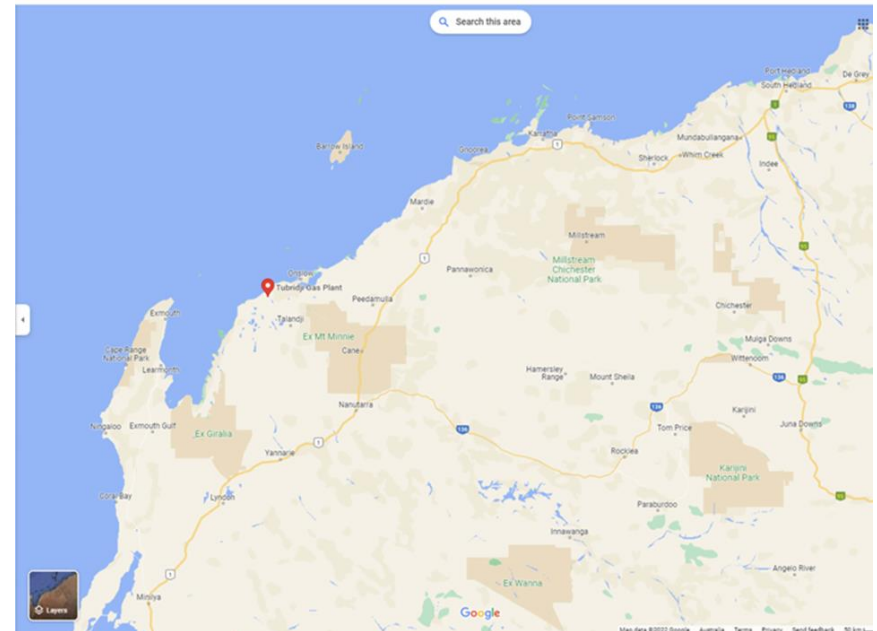
- The Tubridgi Gas Storage Facility (TGS) is 100% owned and operated by the Australian Gas Infrastructure Group (AGIT)
- Tubridgi is a depleted shallow onshore reservoir which was previously operated by BHP.
- It was converted into a gas storage facility in 2017

Facilities include:

- two 2.7MW compressors
- five injection and withdrawal wells
- a gas processing facility.

Current capacity is:

- 90TJ/d injection
- 60TJ/d of withdrawal
- 60PJ of storage



History

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- Initial domgas reservation policy was introduced in 2006
- It legislated that 15% of gas from WA's giant offshore fields and LNG projects be reserved for the domestic market
- Policy updated in 2020 addressing onshore gas developments in the south of WA (primarily Perth Basin).
- This required generally that onshore projects are required to supply the domgas market.

EXCEPT WAITSIA

- Inquiry into the policy is currently underway

Waitsia is special

- Premier McGowan made the second stage of the Waitsia field in the Perth Basin the sole exception to the new policy.
- The Premier's statement said Waitsia could "export some of its gas as LNG for a short period of time."
- In fact, Waitsia will export almost all its gas for about five years, accounting for about half the field's reserves.

Waitsia gas project

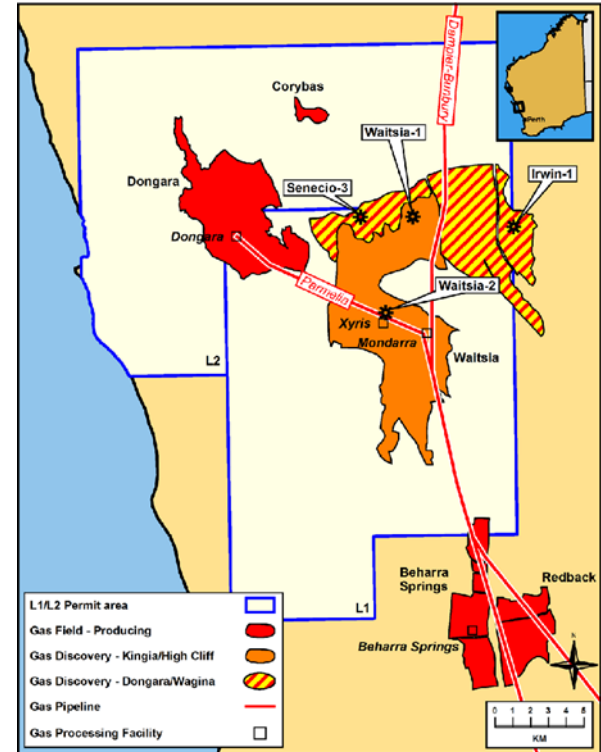
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New Perth Basin development

- 1st LNG shipped January 2024

Partners

- Mitsui 50% - operator
- Beach Energy 50%



Waitsia gas project

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Mitsui

- Mitsui took over AWE in 2018

Mitsui's portfolio in Australia includes:

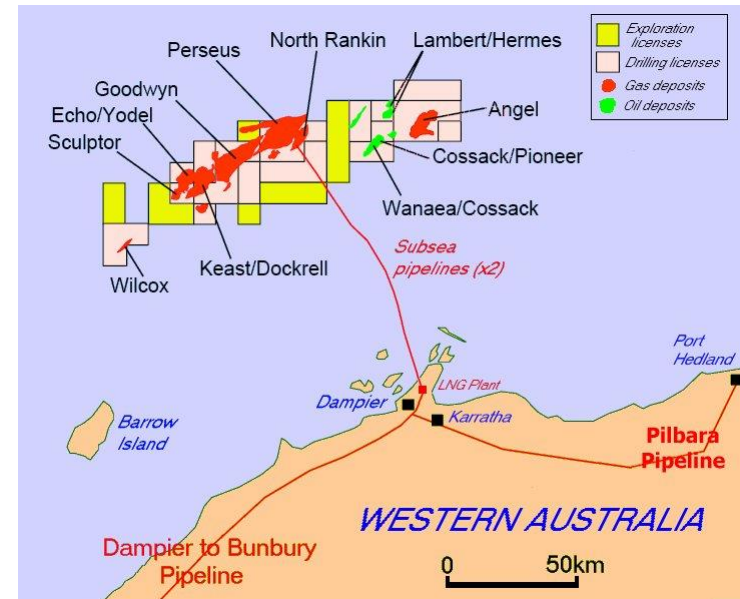
- Perth Basin, Exmouth sub-Basin and Browse Basin (Western Australia),
- Otway Basin and Gippsland Basin (Victoria),
- Bowen Basin (Queensland).



Beach

- ASX listed
- Market cap AUD 3.75 bn
- Gas focussed – historically domgas
- Headquartered in Adelaide
- Historically focussed on domgas in the Cooper Basin SA
- Seven Group owns 29% of Beach Energy

- Mitsui has a JV with Mitsubishi known as MIMI.
- MIMI is a foundation partner in the North West Shelf Venture as 1/6 partner.
- As a result, Mitsui has been exporting LNG from the North West Shelf Venture since 1989.



Industry response

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Business Analysis Sport Science Health Entertainment Lifestyle Fact Check Other

WA gas reservation policy confusing, Opposition says

Posted Thu 5 Oct 2006 at 6:09pm

[abc.net.au/news/wa-gas-reservation-polic...](#) [Copy link](#) [Share article](#)

Western Australia Opposition Leader Paul Omodei says the Premier's domestic gas reservation policy is unworkable.

Premier Alan Carpenter says WA gas producers will be required to set aside 15 per cent of their reserves for domestic use.

He had previously set a limit of between 10 and 20 per cent.

Mr Carpenter says the Government will be flexible in the implementation of its policy, and allow gas reserves to be traded, or even deferred if a project's viability is under threat.

Mr Omodei says the policy is confusing.

"If the Premier is saying that every gas field should have a 15 per cent gas reservation policy, the people that we talk to in the sector, some of the larger gas fields, would be placed in jeopardy from a viability perspective as a result of a 15 per cent policy," he said.

Posted 5 Oct 2006

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5 October, 2006

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WA gas policy harmful, says Apache

PCM_ADMIN December 6, 2019, 9:28 am

Head of Apache's Australian subsidiary Tom Maher has argued that instead of increasing available supplies for local gas suppliers, the policy is driving prices higher and stalling small and mid-size companies' exploration projects.

"Our view is [the policy] has put a dampening effect on continued exploration of the North West Shelf, particularly for the smaller fields," Mr Maher said.

Western Australia's gas reservation policy mandates that 15 per cent of gas production from export projects must be retained purely for the domestic market.

Apache has said that smaller domestic gas suppliers are deterred from exploring new supply opportunities as, being aware of all the gas held by Chevron, Shell, and Woodside off Western Australia, they realise that some of those reserves must come ashore for the local market.

December 6, 2019

Industry response

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Gas reservation policy needed to fix 'broken' market, lower energy prices, says IEEFA

By business reporter Sue Lamin

Posted Thu 11 Jul 2019 at 1:21pm, updated Thu 11 Jul 2019 at 1:25pm



WA's DomGas Alliance says the east coast market is "broken". (ABC News, Jessica van Vonderen)

abc.net.au/news/calls-for-gas-reservation... [Copy link](#) [Share article](#)

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11 July 2019

Business Companies Energy

This was published 1 year ago

'It's ridiculous': Architect of WA policy calls for national gas reservation

Colin Kruger and Peter Milne

June 18, 2022 – 5:00am

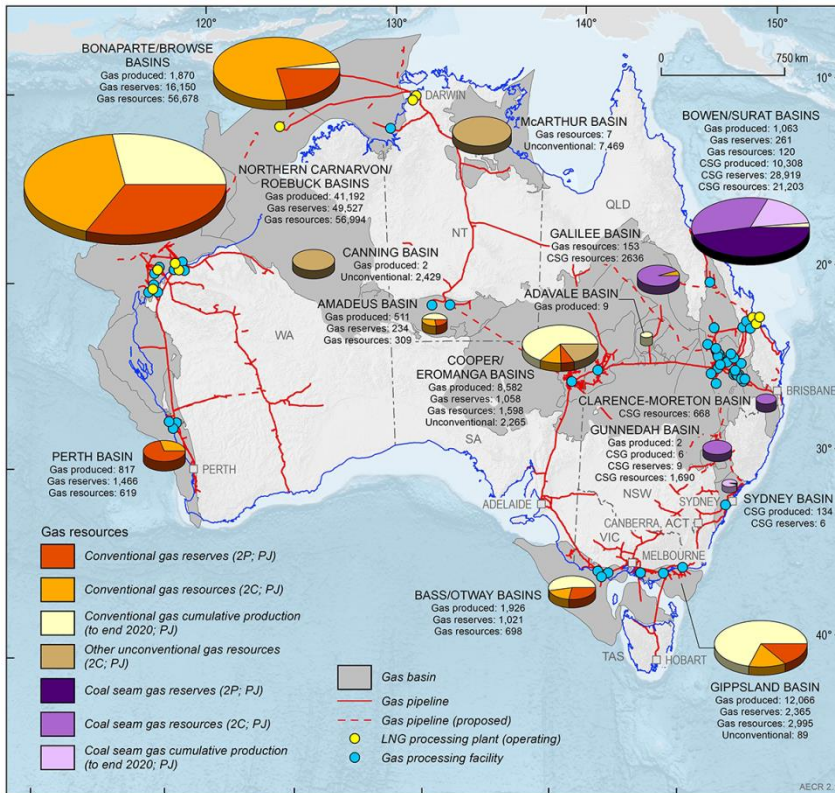
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The architect of Western Australia's gas reservation policy has called for the scheme to be adopted nationally, with the worst energy crisis in decades reigniting calls for gas producers to be forced to reserve some supply for domestic use.

June 18, 2022

Other jurisdictions - Queensland

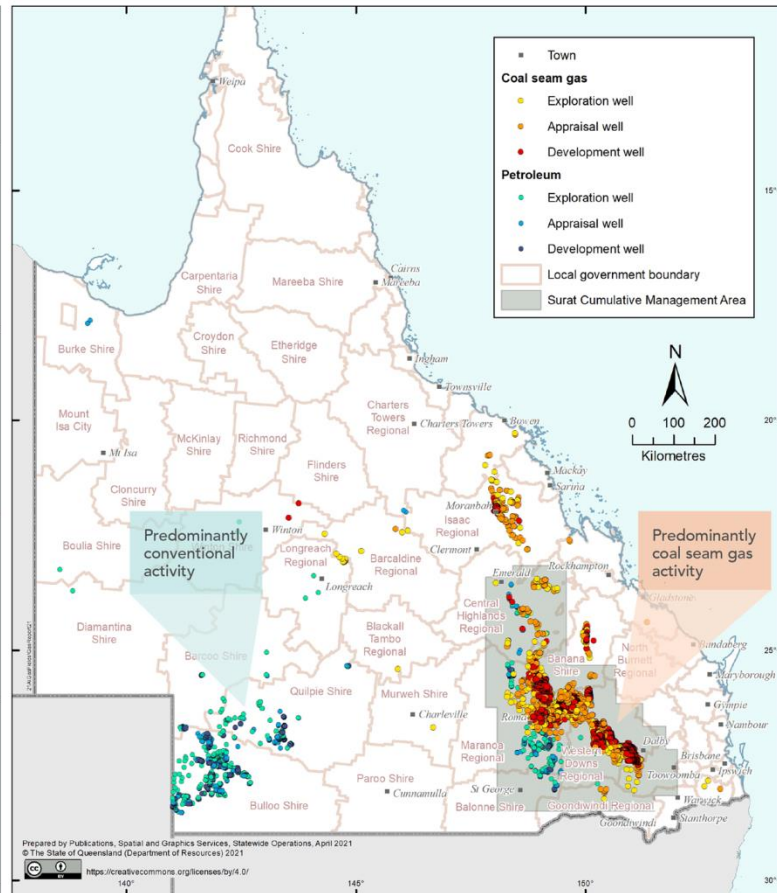
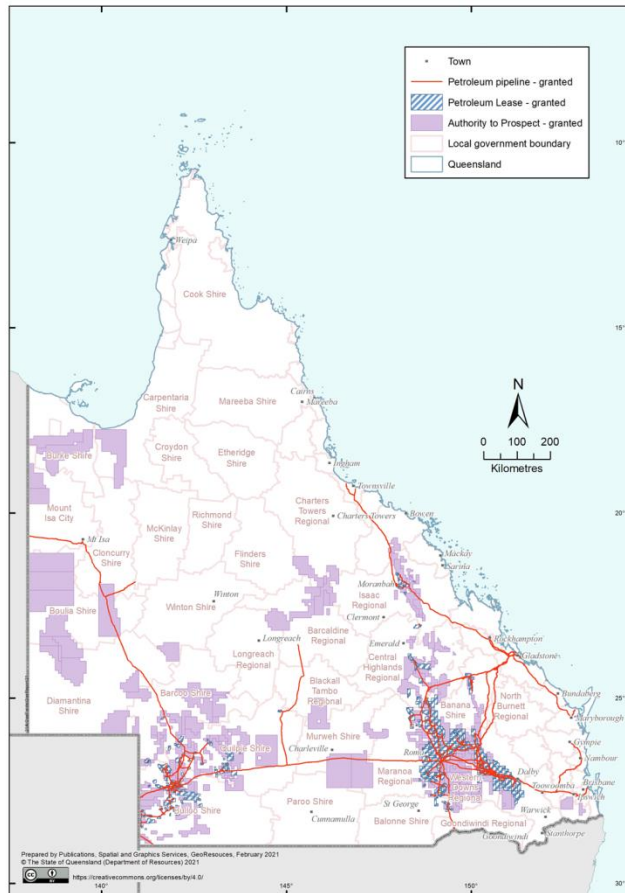
- Queensland is also a major gas producer, their gas fields are onshore
- Queensland produces both conventional gas and coal seam gas (CSG)



Sources: Geoscience Australia; GPInfo.
 Pipeline routes from the GPInfo petroleum database.
 Note: LNG = liquefied natural gas, PJ = Petajoules.

Queensland gas production

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Queensland LNG production **Jeanette Roberts Consulting**



Source: Department of Industry, Innovation and Science

Queensland has 3 LNG plants side-by-side on Curtis Island in Gladstone

The LNG feedstock is CSG – a world first

There have been ongoing issues in obtaining sufficient gas flow to feed the LNG plants.

East coast gas market

- The impact of a DGR is to – in effect – place a simultaneous tax on domestic gas production and subsidy on domestic gas consumption.
- Like all taxes and subsidies, the DGR distorts economic decisions and generates an unequivocal economic loss – one which compounds over time as future investment decisions are affected.
- Indeed, the analysis presented in this report demonstrates that the introduction of a DGR on the east coast of Australia would come at a significant cost to the nation's economic welfare.
- Against a scenario where production, investment and export decisions are not impeded, the introduction of a DGR on the east coast is projected to cost the Australian economy **\$6 billion in forgone GDP at 2025.**

Australian Energy producers, October 2013

- In February 2017, the Queensland Government released for the first time land for gas development with the Australian market supply condition.
- Any gas produced on a tenure with the Australian market supply condition must be supplied and used in Australia to help meet domestic gas demand.

- The Australian Market Supply Condition (the Supply Condition) is a condition imposed on certain petroleum and gas tenures in Queensland that requires the holder of the tenure to supply gas produced under the tenure to the Australian market.
- The first tenure granted with the Supply Condition occurred in March 2018.
- Since then there have been seven tenures granted across Queensland with the Supply Condition.
- Of which, **only one of the tenures** is a Petroleum Lease that **has commenced production**.

Key points raised by gas industry:

- The Supply Condition does not currently impact on investment decisions while gas prices for the Australian market and LNG net back are similar
- The process for land releases and decision-making process to applying the Supply Condition lacks transparency
- The Supply Condition has:
 - For small/medium sized explorers/producers, improved their competitiveness for land release tenders
 - For major gas producers, generally decreased competitiveness for land release tenders
- There are a number of benefits to supplying gas to the LNG market over the east coast gas market
- The legislative framework that applies the Supply Condition is too rigid.

Key points raised by industrial gas users were:

- There are currently no alternative resources to gas viable for industrial gas users
- Industrial gas users can negotiate better gas supply agreements by negotiating directly with gas producers
- Industrial gas users are noticing improvements in the gas supply market and consider the Supply Condition is working as intended
- Gas demand forecasts are stable for the short to medium term, but industrial gas users have mixed preferences for short versus long term gas supply agreements

Other LNG exporters who intervene in domestic price setting for natural gas include:

- Qatar,
 - Oman,
 - Egypt,
 - Algeria,
 - Russia,
 - Peru,
 - Indonesia
 - Malaysia
-
- Experience is that the policy artificially stimulates demand, restricting supply, leading to gas shortages and imports of gas from other countries at higher prices.
 - There is little incentive for energy efficiency and often governments must decide on the allocation of scarce gas to particular industries, picking winners on political grounds.
 - The regulatory policies are often associated with government ownership, or control of downstream industries, and controls on exports to avoid leakage of the subsidies provided by regulated gas prices.
 - It is typically politically difficult to increase prices once they are regulated

Interim report released February 2024

- WA domgas reservation policy has only delivered half its intended supplies
- LNG exporters have on average delivered around 8% of domestic gas relative to LNG exports
- The inquiry concluded that the policy is no longer fit-for-purpose

- The results of the inquiry will likely result in more market intervention

Major interventions are under consideration, including:

- Limiting the price of gas supplied to the local market (the east coast market has a similar price cap of \$12/GJ)
- Boosting the reservation requirement for LNG exporters above the 15% ceiling
- Rescinding licences if gas fields are not developed within a fixed period

Industry reaction

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Not surprisingly, industry has responded vociferously:

“The last thing WA households and businesses need is government intervention because that will only spook investment in the new gas supply that is urgently needed.”

*Australian Energy Producers
WA Director, Caroline Cherry*

Is it still a good idea?

- Certainly the major LNG projects have delivered gas to the domestic market
- Yes, the domgas supplied has not reached the 15% target
- But major interventions will absolutely spook business and hamper future investment

Is it still a good idea?

- Business needs pragmatic, policy settings.
- More importantly business needs policy certainty

Is it still a good idea?

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So:

- DO maintain the 15% domgas reservation policy for LNG export projects
- DON'T spook industry with punitive policies that discouraged investment
- DON'T provide special deals (eg Waitsia)



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