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19 July 2022

The Hon Madeleine King MP  
Minister for Resources  
Department of Industry, Science and Resources

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Dear Minister King,

### **Extending the Australian Domestic Gas Security Mechanism**

Thank you for the opportunity to provide a submission to the Australian Government's consultation on extending the operation of the Australian Domestic Gas Security Mechanism (ADGSM) until 1 January 2030.

We welcome the proposal to extend the operation of the ADGSM until 2030. We also welcome the announcement on 9 June 2022 that the Australian Government will conduct an urgent review of the ADGSM and renegotiate the Heads of Agreement with the LNG exporters.

#### ***The important role of the ADGSM and Heads of Agreement***

The ADGSM and Heads of Agreement together play a role in addressing potential supply shortfall in the Australian east coast gas market and ensuring Australia's energy security:

- The ADGSM is an export control mechanism. It allows the Minister for Resources to determine if the following calendar year is likely to be a shortfall year in the domestic market and, if it is, apply export controls on the LNG exporters to limit the amount of gas they can export as LNG. It is designed to encourage consultation with industry and contemplates the possibility of a voluntary industry led solution to any forecast shortfall.
- Through the Heads of Agreement, LNG producers have voluntarily committed to offer uncontracted gas to the Australian market with reasonable notice and on competitive market terms before selling it to the international market.

As noted in your announcement, the ADGSM and current Heads of Agreement are currently due to expire on 1 January 2023. The gas supply outlook in the east coast market is expected to continue to deteriorate over the medium to longer term and domestic energy security will continue to be a risk. Given this, we support your announcement that the ADGSM will be extended and reviewed, and the Heads of Agreement renegotiated.

### ***There is a significant risk to Australian east coast energy security in 2023***

Since 2017, the ACCC has been conducting a wide-ranging inquiry into the Australian east coast gas market. We have monitored and reported on gas prices and the gas supply, and provided insights into commercial and industrial gas user experience and the pricing and utilisation of gas transportation and storage services.

In our most recent July 2022 report, we found that:

- Australian east coast gas supply conditions are expected to deteriorate in 2023, with a supply shortfall of 56 PJ now expected. This signifies a substantial risk to Australian energy security.
- LNG exporters are also forecast to withdraw 58 PJ more gas from the east coast gas market than they expect to supply into it and export most of their excess gas (167 PJ) as spot cargoes or additional LNG sales. These are impacting on the current state of the domestic east coast gas market.
- We continue to have concerns that under the current Heads of Agreement some LNG exporters are not engaging with the east coast market in the spirit in which the Heads of Agreement was signed.

It is very likely that to avoid the forecast shortfall in the east coast gas market in 2023, LNG producers will need to divert a significant proportion of their excess gas into the east coast market. As such, our July 2022 report recommends that the Minister for Resources initiate the first step of the ADGSM process, to:

- formally determine whether 2023 will be a shortfall year
- work with LNG exporters to supply more gas into the east coast market in 2023 over the latter half of 2022, so that the east coast market does not commence the 2023 supply year facing a material shortfall in supply.

We also strongly encourage LNG exporters to act immediately to increase their supply into the east coast market.

### ***Recommendations to strengthen ADGSM as part the Government review***

We recommend that the Australian Government strengthen both the ADGSM and Heads of Agreement. There are a number of potential shortcomings in the ADGSM which we recommend be considered as part of the review:

- **Flexibility in initiating or applying the ADGSM**

Currently, the Minister for Resources can only initiate the ADGSM in the year before a domestic shortfall year. The Guidelines and DISER indicate the timing of the Minister's notification will occur ideally by 1 July but no later than 1 October. This means the entire duration of the ADGSM process could take between three and six months before any export controls would take effect.

- **The Total Market Service Obligation calculation**

The Total Market Security Obligation (TMSO) is the proportion of a domestic supply shortfall that the Minister considers should be met by imposing export controls on LNG projects that are in net-deficit. In its 2020 review of the ADGSM, DISER found that the TMSO may not be able to recover sufficient domestic gas to address a potential market shortfall. This is due to the 'net-deficit' component only enabling export restrictions on

volumes of gas where exporters are drawing more gas from the domestic market than they are putting in.

- **Treatment of gas as third-party export compatible gas**

Prior to determining the TMSO, the Minister determines each LNG Project's net market position and whether each LNG Project is likely to be in net-deficit or a net-contributor to the domestic market in the forthcoming calendar year. An LNG Project will be regarded as being in net-deficit in the forthcoming calendar year if its Total gas used is greater than the sum of its Own gas and Third-party export compatible gas. The current application of the ADGSM could see export controls only applying to one LNG Project, and this may be to the LNG project with the least amount of excess gas (requiring them to breach their contractual obligations).

We recommend that the Government consider previous advice to government on the ADGSM as it undertakes its review.

We look forward to assisting the Australian Government as it undertakes its review of the ADGSM and renegotiates the Heads of Agreement, where appropriate.

If you have any questions, please contact Nicole Ross, General Manager, ACCC Gas Markets Branch.

Yours sincerely



Anna Brakey  
Commissioner