

# Securing Australia's Gas Supply Consultation Paper

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## About the Public Interest Advocacy Centre

The Public Interest Advocacy Centre (PIAC) is leading social justice law and policy centre. Established in 1982, we are an independent, non-profit organisation that works with people and communities who are marginalised and facing disadvantage.

PIAC builds a fairer, stronger society by helping to change laws, policies and practices that cause injustice and inequality. Our work combines:

- legal advice and representation, specialising in test cases and strategic casework;
- research, analysis and policy development; and
- advocacy for systems change and public interest outcomes.

## Energy and Water Consumers' Advocacy Program

The Energy and Water Consumers' Advocacy Program works for better regulatory and policy outcomes so people's needs are met by clean, resilient and efficient energy and water systems. We ensure consumer protections and assistance limit disadvantage, and people can make meaningful choices in effective markets without experiencing detriment if they cannot participate. PIAC receives input from a community-based reference group whose members include:

- Affiliated Residential Park Residents Association NSW;
- Anglicare;
- Combined Pensioners and Superannuants Association of NSW;
- Energy and Water Ombudsman NSW;
- Ethnic Communities Council NSW;
- Financial Counsellors Association of NSW;
- NSW Council of Social Service;
- Physical Disability Council of NSW;
- St Vincent de Paul Society of NSW;
- Salvation Army;
- Tenants Union NSW; and
- The Sydney Alliance.

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Public Interest Advocacy Centre



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The Public Interest Advocacy Centre office is located on the land of the Gadigal of the Eora Nation.

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**Recommendation 1**

*That this review be undertaken in cooperation with the Department of Climate Change Energy the Environment and Water as a first step to ensure close alignment with wider climate and energy transition policy objectives, principles and considerations.*

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**Recommendation 2**

*That the review process be guided by an objective which is aligned with, and supports, wider climate and energy transition and industry policy objectives and requirements.*

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**Recommendation 3**

*That Principle 1 be amended to:*

*Ensure sufficient, affordable supply of gas to the domestic market to efficiently support Australian domestic energy requirements during the transition of the energy system*

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**Recommendation 4**

*That Principle 2 be removed and rolled into an amended Principle 1*

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**Recommendation 5**

*That Principle 3 be removed in its entirety.*

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**Recommendation 6**

*That Principle 4 be amended to:*

*'Ensure measures allow for existing legal obligations to be met during the energy system transition.'*

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**Recommendation 7**

*That existing principle 5 be amended to:*

*'Reflect, support, and enable the transition of the energy system in line with climate change goals'*

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**Recommendation 8**

*That Existing principle 6 be amended to:*

*'Ensure transparency of processes and enable competitive pricing outcomes for gas consumers during the energy transition.'*

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**Recommendation 9**

*That existing principle 7 be amended to:*

*'Optimise efficiency to ensure complexity and cost of implementation is proportionate to the benefit to domestic energy users, during the energy transition'*

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**Recommendation 10**

*That options under consideration include a more comprehensive range of measures to address the optimisation of supply for domestic use, reduction of domestic gas demand, enforcement of legal obligations, and better use of resource income to support affordability throughout the transition of the energy system.*

# 1. Introduction

PIAC welcomes the opportunity to respond to the Department of Industry Science and Resources (DISR) *Securing Australia's Domestic Gas Supply Consultation Paper* (The Paper).

Gas currently plays a crucial role in the affordability of energy and the sustainability of industry in Australia. Gas generators are often responsible for setting the wholesale energy price, and this will increasingly be the case while coal generators are retired and firmed renewable energy generation is developed as part of the transition of the energy system.

Many industries are currently dependent upon gas as a feedstock and a significant proportion of Australian households have a network gas connection which supports their heating, water heating and cooking needs. Many of these households are increasingly struggling with the cost of energy and are unlikely to be able to afford measures to electrify and benefit from domestic solar or storage options that must be part of future energy security. While a response to climate change requires Australia to accelerate efforts to actively reduce the role of gas in the Australian energy system, it is necessary for domestic gas availability to be sufficient and affordable during this transition.

PIAC supports this review process as an important part of ensuring households have secure and affordable access to the energy they need. However, the process as set out in the Draft is isolated from climate and energy transition, industry and other policy considerations. PIAC considers gas supply measures should be an integral plank in a co-ordinated strategy to drive a rapid, equitable, affordable and sustainable transition to a zero emissions economy. The principles and process set out in The Paper require substantial expansion in scope and amendment in substance, to be achieve this.

This review must be informed by and aligned with the objectives, principles and key priorities of climate and energy transition and industry policies. As a first step, PIAC recommend this process be undertaken in co-operation with the Department of Climate Change Energy the Environment and Water (DCCEEW).

## ***Recommendation 1***

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*That this review be undertaken in cooperation with the Department of Climate Change Energy the Environment and Water as a first step to ensure close alignment with wider climate and energy transition policy objectives, principles and considerations.*

The immediate context of this review is a period of rapid increases in energy prices, with the domestic availability and price of gas a significant contributor. Despite this, PIAC contends the framing of current circumstances as a 'gas supply shortfall' is inaccurate. The ACCC gas report gives clear evidence that there is no actual evidence of a gas shortfall<sup>1</sup>. Predicted supply more than sufficiently exceeds committed overseas contracts and domestic supply. The 'shortfall' is artificial, based upon the premise that a significant portion of uncommitted gas will be exported in preference to meeting domestic supply. It is necessary to assess whether this is in the interests of Australian energy consumers. In any case, it is unreasonable to assume the issue is one of

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<sup>1</sup> ACCC ['Gas inquiry 2017-2025, interim report'](#) pp 20-21, July 2022.

supply. There is little reason to expect any additional supply that may be enabled would not also be exported, leaving domestic consumers no better off.

By focusing on increased new supply, the Draft fails to sufficiently consider the medium to long-term implications of climate and energy transition policies on gas supply requirements and the role of gas in the domestic energy system generally. Responding to climate change and improving affordability and efficiency in energy supply necessitates measures to rapidly reduce gas demand through electrification, particularly in households where it can contribute to significant household savings. This process, focussed on ensuring domestic supply adequacy, must be able to consider demand, what will impact it, and how it can be reduced in the short-term to reduce the impact of gas prices on domestic energy users.

In the remainder of this submission PIAC makes recommendations regarding amended principles for this review, as well as comments on which measures should be given further consideration as part of this process.

## 2. Principles

This review process should be explicitly guided by an objective which is aligned with wider climate and energy transition and industry policy requirements. Measures to ensure affordable and adequate domestic gas supply must promote the long-term interests of energy consumers and must support and be shaped by efforts to reduce greenhouse gas emissions in line with what is required by the Paris Climate agreement. Such an objective could be framed:

*“Domestic energy needs are met efficiently during the transition to a zero-carbon economy, with Australian resources contributing to a just transition through affordable and equitable access to energy”*

### **Recommendation 2**

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*That the review process be guided by an objective which is aligned with, and supports, wider climate and energy transition and industry policy objectives and requirements.*

PIAC supports a principles-based review of the Australian Domestic Gas Supply Mechanism (ADGSM) but does not regard the principles set out in the Draft as sufficient for the purpose.

Given the significance of Gas as a climate change driver, and the role of gas in the energy system, the review of the ADGSM must be driven by a principles that integrate gas supply measures with long term climate and energy policy, and support the long term interests of energy consumer. The proposed principles do not do this.

### **Ensure sufficient supply of gas to the domestic market to support manufacturing and energy security**

This principle is largely appropriate. However, there should be explicit recognition of the timeframe and purpose of sufficient supply in relation to the longer-term transition of the domestic economy's away from reliance on fossil gas.

It is also necessary to ensure the review considers the affordability of gas supply, with the intent of ensuring that the transition of the energy system does not impact on energy affordability.

PIAC recommend the following amendment to reflect this.

*'Ensure sufficient, affordable supply of gas to the domestic market to efficiently support Australian domestic energy requirements during the transition of the energy system'*

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### **Recommendation 3**

*That Principle 1 be amended to:*

*Ensure sufficient, affordable supply of gas to the domestic market to efficiently support Australian domestic energy requirements during the transition of the energy system*

#### **Put downward pressure on domestic gas prices**

While PIAC supports consideration of affordability as a priority for this review, we do not consider this principle sufficient. The intent of this principle would be more effectively reflected if integrated into the supply consideration, as outlined above.

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### **Recommendation 4**

*That Principle 2 be removed and rolled into an amended Principle 1*

#### **Maintain Australia's position as leading contributor to global energy security**

PIAC strongly disagrees with this being a priority principle shaping the consideration of measures to ensure domestic energy supply security. As currently drafted this principle potentially subordinates considerations of domestic energy supply security and affordability to a broad concept of comparative international contribution to energy security.

There are many ways Australia can contribute to international energy security without undermining the adequacy, sustainability, and affordability of meeting our domestic needs. This principle implies an obligation that Australian contribute domestic supply to meet international needs above and beyond any contractual obligation. This is not accurate or appropriate in the context of a review of measures to ensure domestic supply adequacy.

PIAC recommend removing this principle entirely.

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### **Recommendation 5**

*That Principle 3 be removed in its entirety.*

#### **Respect the trust trading partners and international investors have shown in Australians resources and energy sector**

PIAC disagrees with the framing of this principle and considers it unnecessary. We contend it expresses an excessive and subjective consideration for international perception and is not an appropriate principle to guide consideration of measures to ensure domestic supply adequacy.

If this principle is retained, it must be substantially amended to focus more narrowly on fulfilling legal obligations.

*'Ensure measures allow for existing legal obligations to be met during the energy system transition.'*

Regardless of whether this principle is retained, another must be added to recognise that Gas resources are the property of the Australian people and nation, and rights to access and exploit them are given by the Crown on behalf of the Australian people, in the interests of the Australian people. A process, such as this, considering how to ensure adequacy of resources for domestic needs must be recognise of the source of the resources, the circumstances of their development and how they do or do not support the interests of the Australian people. PIAC recommends the addition of a further principle:

*Recognise gas resources are developed on behalf of the Australian people and should be controlled, developed, and utilised for the benefit of the Australian people to support the energy system transition.*

### **Recommendation 6**

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*That Principle 4 be amended to:*

*'Ensure measures allow for existing legal obligations to be met during the energy system transition.'*

*And that a new principle 5 recognising the role of Australian resources be added:*

*'Recognise gas resources are developed on behalf of the Australian people and should be controlled, developed, and utilised for the benefit of the Australian people to support the energy system transition.'*

### **Supports energy transition in line with climate change goals**

While it is appropriate and necessary for this to be a separate and explicit principle, it must be strengthened and more fully integrated into the other principles setting priorities for this review process. Accordingly, each principle should include reference to the transition of the energy system. Further, PIAC recommends strengthening this principle to more accurately reflect the role of climate change in shaping how gas supply is managed.

*Reflect, support, and enable the transition of the energy system in line with climate change goals*

### **Recommendation 7**

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*That existing principle 5 be amended to:*

*'Reflect, support, and enable the transition of the energy system in line with climate change goals'*

### **Enhance transparency and processes that support competitive pricing outcomes for gas consumers**

Enhancement of transparency and processes is a worthy intent, but not sufficient in relation to current circumstances of opacity and failure of competitive pricing. Transparency could be enhanced without making a material difference to outcomes for energy users. PIAC recommends reframing this principle with focus more the outcome of transparency.

*‘Ensure transparency of processes and enable competitive pricing outcomes for gas consumers during the energy transition.’*

### **Recommendation 8**

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*That Existing principle 6 be amended to:*

*‘Ensure transparency of processes and enable competitive pricing outcomes for gas consumers during the energy transition.’*

### **Minimise implementation cost and complexity for the government and industry**

PIAC supports efficient measures that are simple to implement as rapidly as possible. However, the current framing is ambiguous and may result in consideration of overall cost to industry. This may unreasonably exclude measures including reservations, price controls, export taxes or other relevant measures. Such measures would potentially incur a material, but justified, cost to industry and should be considered. As currently framed this principle may result in undue priority to cost minimisation and ease of implementation, over full consideration of measures which meet the intent of the policy. Accordingly, PIAC recommends amendment:

*Optimise efficiency to ensure complexity and cost of implementation is proportionate to the benefit to domestic energy users, during the energy transition.*

### **Recommendation 9**

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*That existing principle 7 be amended to:*

*‘Optimise efficiency to ensure complexity and cost of implementation is proportionate to the benefit to domestic energy users, during the energy transition’*

## **3. Options**

PIAC does not consider any of the options presented are likely to be effective. The options presented in the Draft focus on measures to increase overall supply, without addressing structural issues, or how supply and demand interact, and how they are impacted by the energy system transition and the requirements of climate policy. PIAC considers any response which does not include robust measures to rapidly reduce domestic gas demand does not appropriately meet climate requirements and does not decouple domestic energy from the international gas market, and fossil gas itself, is not sufficient to affordably and sustainably support Australia’s energy needs.

Further, it is unlikely that any single measure will meet the amended criteria (outlined above) and a combination of responses within scope, co-ordinated with other measures consistent with climate, energy and transition policies will be required.

The recently announced Victorian Gas Substitution Roadmap<sup>2</sup> is an example of how climate, energy and transition policy should be integrated, and utilise co-ordinated demand reduction measures to ensure sustainable supply is capable of supporting domestic needs while minimising that need in line with the requirements of climate policy.

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<sup>2</sup> DELWP [‘Victorians Gas substitution Roadmap’](#) 11 August 2022

Measures to increase, incentivise or expand exploration and supply of gas are not compatible with Australia's obligations and commitments to respond to climate change. Further, the operations of gas suppliers, as evidenced in the most recent ACCC report demonstrate that the failure is not one of available supply<sup>3</sup> and may arguably result from illegal behaviour. Accordingly, increased supply is unlikely to make a material difference to the affordable availability of gas to meet domestic needs, without significant measures to address the operation of gas suppliers and the way Australia manages its gas resources through the transition.

In this context PIAC strongly recommends the options considered in this review process be expanded to include:

- Ensuring the objectives and principles of any measures resulting from this process are, shaped by, are consistent with, and actively support, the objectives of climate change and energy transition and industry policies.
- Co-ordinated action, including from the Australian Competition and Consumer Commission (ACCC) and Australian Taxation Office (ATO) to ensure all entities associated with the extraction, production, domestic supply and export of Australia's fossil resources are acting in accordance with their obligations under Australian law. Priority should be given to fulfilment of obligations set as part of extraction and export permissions, and taxation obligations.
- Assessment of measures to ensure Australia's gas resources are utilised to support an affordable and equitable transition of the energy system, including:
  - A domestic gas reservation policy which ensures there is sufficient supply to support domestic energy security during the transition of the energy system.
  - An east coast fossil gas export levy to encourage diversion of supply to domestic users and create a domestic price differential equal to the level of the levy<sup>4</sup>.
  - Review of resource taxes, levies and royalties (particularly the Petroleum Resource Rent Tax) to ensure the extraction of gas resources generates income to assist support the energy affordability and the acceleration of the energy transition.
  - Review of fossil fuel and energy subsidies to ensure incentives are efficient, consistent, and aligned with overall climate and energy transition objectives.
- A Commonwealth gas transition strategy, similar to that developed by the Victorian Government<sup>5</sup>, co-ordinating with and supporting the objectives of climate and energy transition, energy affordability and industry policies, with elements including but not limited to:
  - Identifying policy and regulatory reforms to enable rapid electrification of households, businesses and industry
  - Accelerating measures to improve household energy efficiency and supporting the full implementation of all elements of the Trajectory for low energy homes, including updates to the National Construction Code, Mandatory disclosure of residential energy efficiency and mandatory minimum standards for energy efficiency in rental properties.

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<sup>3</sup> ACCC '[Gas inquiry 2017-2025, interim report](#)' pp 20-21, July 2022.

<sup>4</sup> Climate Energy Finance '[Windfall profits: time to fix loopholes and subsidies to serve Australians better](#)' August 2022. Pp19-22

<sup>5</sup> DELWP '[Victorians Gas substitution Roadmap](#)' 11 August 2022

- Co-ordinated policies, supported by government funding, to accelerate household electrification, including a moratorium on new household gas connections and incentives to decommission existing household gas connections.
- Reform of gas network pricing and regulatory policy.
- Ensuring that measures to develop new domestic supply are avoided, unless explicitly identified as necessary to support an affordable energy transition in the short to medium term. Any process identifying a requirement to develop new domestic supply should be subject to limitations in line with climate and emissions commitments.

#### ***Recommendation 10***

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*That options under consideration include a more comprehensive range of measures to address the optimisation of supply for domestic use, reduction of domestic gas demand, enforcement of legal obligations, and better use of resource income to support affordability throughout the transition of the energy system.*

## **4. Further engagement**

We would welcome the opportunity to meet with the DISR and other stakeholders to discuss these issues in more depth.