Climate Council of Australia

Submission to: Gas fired recovery plan

Addressed to:	Department of Industry, Science, Energy and Resources via https://consult.industry.gov.au/energy/gas-fired-recovery-plan/
Submission from:	Climate Council of Australia Pty Ltd 8 Short Street, Surry Hills, NSW 2010 Tel: 02 9356 8528 Email: info@climatecouncil.org.au

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About the Climate Council

The Climate Council is an independent non-profit organisation funded by donations by the public. Our mission is to provide authoritative, expert advice to the Australian public on climate change and solutions based on the most up-to-date science available.

To find out more about the Climate Council's work, visit www.climatecouncil.org.au.

1. Recommendations

Recommendation 1. To lower the price of energy in Australia and increase productivity – bringing new jobs and new industries while increasing the resilience of the Australian economy – the Federal Government should focus on modelling and incentivising gas demand reduction measures, increasing energy productivity and electrification of industry gas users. Given the immense quantities of gas shipped overseas each year, there is no need to increase the supply of gas for domestic users.

Recommendation 2. It is unacceptable that a plan of this significance is developed behind closed doors. If the NGIP intends to replicate the successes of the ISP, it must replicate its processes. The NGIP must be opened up to the full body of expert advice by allowing full transparency and proper consultation.

2. Detailed submission

We thank the Department for the opportunity to feed into the development of the Gas Fired Recovery Plan. In this submission, we would like to speak particularly to the issues raised by the National Gas Infrastructure Plan.

The Climate Council is, above all else, led by the best available science in everything we do. The 2020 calendar year was the equal hottest year on record, sitting alongside 2016 and 2019 at around 1.2°C above the average temperature of 1850–1900. This has brought significant and devastating extreme weather to one of the world's most vulnerable developed countries.[1]

This heating of the global atmosphere has been driven by increasing atmospheric concentrations of carbon dioxide and other greenhouse gases.[2] In turn, increasing greenhouse gas concentrations are dominated by the production and consumption of coal, oil and gas worldwide.[3] Despite a temporary drop in emissions in 2020,[4] atmospheric concentrations of carbon dioxide[5] and other greenhouse gases[6] continued to increase through the necessary health response to COVID-19. Without more, these small reductions will amount to little for the climate.[7]

Alongside this, it is worth re-stating several simple facts about the use of gas in Australia. As well as being the world's largest metallurgical coal exporter and second largest thermal coal exporter, Australia is also the world's equal largest exporter of liquefied gas, alongside Qatar.[8] The sector has undergone very significant and sudden growth over the past decade.

As shown in Figure 1 (below), in the financial year ending 2019, approximately 80% of Australia's gas was either exported as liquefied gas, or used to process liquefied gas for export. The gas sector itself used more of its own product to ready gas for export than the entire Australian manufacturing sector in that year.

Even ignoring the quantity of the fossil fuel that is exported, the gas export industry itself is now likely to be the largest user of gas in Australia. This is because Australian gas exports continued to grow in the following financial year,[9] at least until a global glut of gas took hold that sent the international market for gas into 'meltdown'.[10] At the same time, use of gas in the Australia's largest electricity grid collapsed,[11] in a trend that is likely to continue into the future.[12] Combined, this is sufficient to see the gas industry's own use of gas overtake even the use of gas for electricity across the entire country.

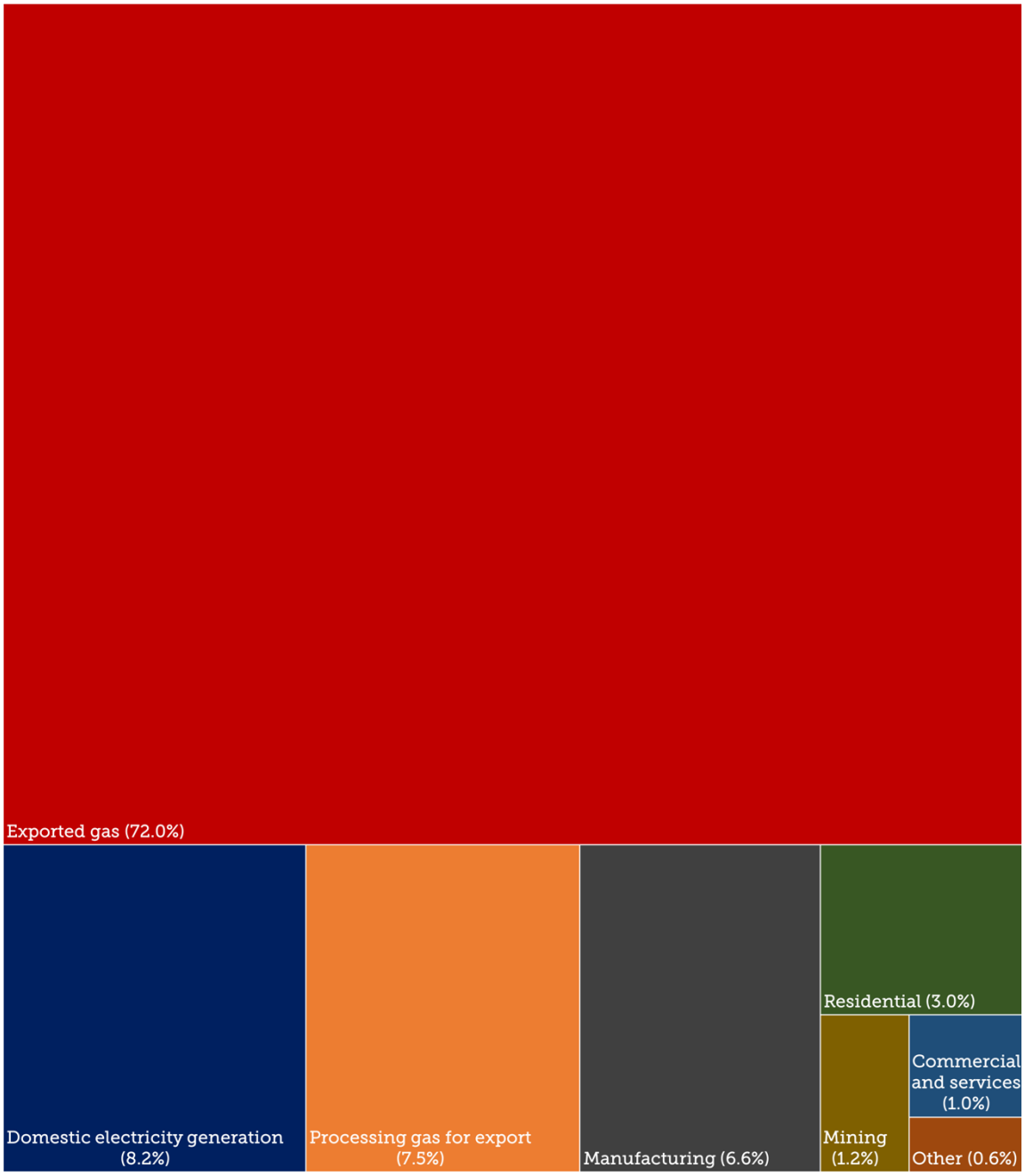

Figure 1: Proportion of gas used by sector. Data source: Department of Industry, Science, Energy and Resources.[13]

The growth of gas exports has placed a considerable burden on any Australian domestic use of gas. The gas export industry has repeatedly and publicly been cautioned by the Australian Competition and Consumer Commission for overcharging Australian consumers of their product.[14] After the three Curtis Island export facilities began operating in the second half of the 2010s, east coast gas prices tripled.[15] While the public narrative around the closure of Hazelwood is dominated by references to the 'fact' that shutting that facility drove up the price of power,[16] the increased price of electricity correlates better with the start of east coast exports.[17] This is

especially true given that once the international gas market eased in late 2019, then collapsed in 2020, so did the wholesale price of power in the eastern states.

By increasing the price of energy, the gas export industry places pressure on Australian businesses and households. Extraordinarily few Australian workers are employed in those sectors using large amounts of gas in Australia.[18] However, it is vital to recognise that past efforts to increase the supply of gas – particularly for the overseas market – has had obvious and serious consequences for all Australians living in regions serviced by the east coast gas network and National Electricity Market. The Federal Government's interventions, to date, have accomplished very little

Australian energy prices on the east coast are now acutely exposed to the vicissitudes of the famously boom-and-bust international market for oil and gas. And while it may be convenient to think that increasing supply of Australian gas will lower energy prices in Australia, the reality is that much of Australia's cheap gas has already been extracted. As noted by the Australian Petroleum Production and Exploration Association, the idea of cheap gas at prices similar to those proposed by National COVID Commission's manufacturing taskforce is a 'myth':[19]

> *New projects have production costs of up to $8.25 per gigajoule before transport, distribution, retailing, commerical* [sic] *or financial costs.*

With future gas reserves being expensive to produce and no realistic prospect of the price decreasing, east coast Australian gas producers will remain at the top of the price stack, relative to our international competitors. The current rank of eastern Australia's gas export facilities relative to competitors is shown in Figure 2 (below). Gas in the range of $8/GJ will either be perpetually constrained – and so unused – or drive up the average price of gas even further than it has gone in recent years. There is no middle ground between these two points.

Increasing supply of Australian gas stands no prospect whatsoever of insulating Australian energy users from volatile international gas prices.[20] Despite being a nation with abundant gas, Australia's gas price – particularly on the east coast – is now intractably linked to the international market. And despite Australia being the world's equal largest gas exporter, gas produced in other countries will always be cheaper than what is produced here. There are few levers Australia can pull to steer the direction of international prices.

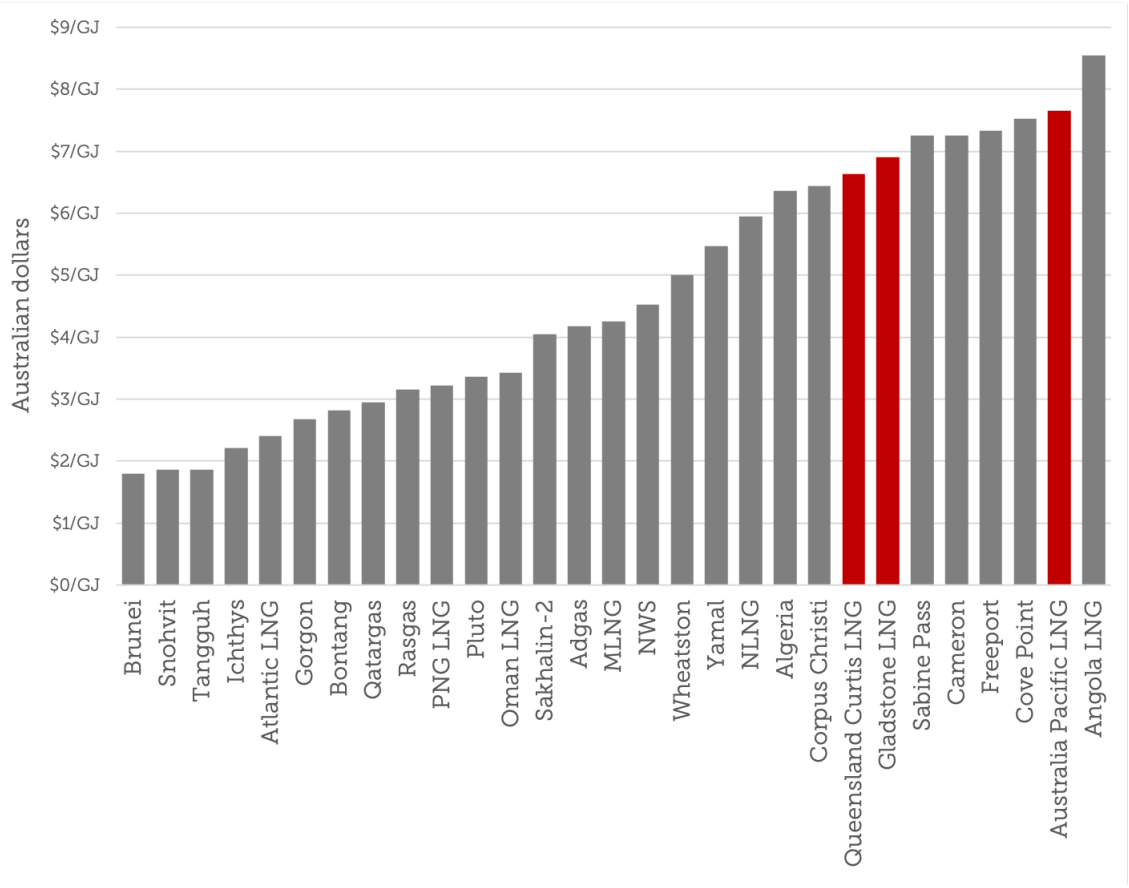

Figure 2: Breakeven point of eastern Australian gas export facilities (red) versus competitors (grey) and the current futures price in the two largest importing markets. Converted from: HSBC[21]

Recent surveys conducted by the Australian Energy Market Operator as part the 2021 Gas Statement of Opportunities have shown that demand for gas is unlikely to increase, even if prices fall.[22] With alternatives to the fossil fuel available today for most users of gas,[23] it seems that Australia's domestic consumption of gas can only fall. The combination of electrification and cheap, reliable renewable energy backed by storage and transmission upgrades will reduce energy prices for energy consumers, and there is no remaining prospect of a shortfall in the supply of gas on the most recent assessment.

There is no need for additional gas basins or gas infrastructure to manage the declining demand for gas in Australia, especially where simple demand reduction policies – such as the ACT's policies on household gas connections, or Victoria's Home Energy Assist Program – will free up significant quantities of gas to meet this declining need.

It is against this background that the Federal Government plans its 'Gas Fired Recovery'. If the National Gas Infrastructure Program intends to be taken seriously by either the market or the electorate, then it must grapple with the considerable weight of evidence that the overarching work program has been wrong-headed from the outset.

If it is true that the National Gas Infrastructure Plan is intended to replicate the good work of the Australian Energy Market Operator in its biennial Integrated System Plans, but for the gas sector – as the Prime Minister has claimed previously[24] – then the processes used for the ISP should be replicated for the NGIP. This includes, opening up the NGIP, and its assumptions, to the scrutiny of Australia's considerable body of energy experts. The ISP is a model that would deliver the best possible outcome for Australia's energy users by allowing their voices to be heard at multiple stages of the scoping, design, modelling and reality-testing process. It does not appear that the NGIP intends to follow any of these steps.

As a result – as currently designed – the NGIP cannot deliver meaningful outcomes for either consumers or the climate.

Recommendation 1. To lower the price of energy in Australia and increase productivity – bringing new jobs and new industries while increasing the resilience of the Australian economy – the Federal Government should focus on modelling and incentivising gas demand reduction measures, increasing energy productivity and electrification of industry gas users. Given the immense quantities of gas shipped overseas each year, there is no need to increase the supply of gas for domestic users.

Recommendation 2. It is unacceptable that a plan of this significance is developed behind closed doors. If the NGIP intends to replicate the successes of the ISP, it must replicate its processes. The NGIP must be opened up to the full body of expert advice by allowing full transparency and proper consultation.

Endnotes

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