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15 August 2025

To: Gas Market Review Team
Re: Gas Market Review consultation

Thank you for the opportunity for the Institute for Energy Economics and Financial Analysis (IEEFA) to provide input to the Gas Market Review.

IEEFA is an independent energy finance think tank that examines issues related to energy markets, trends and policies. The Institute's mission is to accelerate the transition to a diverse, sustainable and profitable energy economy.

As outlined in this submission, IEEFA:

- Considers that the existing instruments have not been effective in addressing the underlying issues in domestic gas markets: a lack of domestic supply due to high spot exports of liquefied natural gas (LNG); and insufficient competition due to market concentration (in the east coast gas market).
- Notes that LNG exporters across Australia continue to export material volumes of spot LNG even while the Australian Energy Market Operator (AEMO) and Australian Competition and Consumer Commission (ACCC) forecast potential gas shortages.
- Recommends implementation of a new export licensing framework for long-term contracts, with licensing criteria set to incentivise domestic supply.
- Recommends implementation of an export tax for spot LNG exports to create stronger incentives for domestic supply, with a spot LNG export cap framework to allow governments to cap or prohibit spot LNG exports in specified circumstances (such as when a gas shortage is forecast for a given period).

Kind regards,

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LNG market exposure has caused gas price increases and impacted on domestic energy security

Exposure to LNG markets has had profound impacts on the east coast gas market, increasing gas prices and price volatility. At the same time, the prospect of future shortages, along with industry responses to recent reforms, has increased investment uncertainty, which arguably has driven a trend towards shorter terms in gas supply agreements (GSAs) to the detriment of major gas users.

In the period since Queensland's liquefied natural gas (LNG) export sector commenced operations, eastern Australia's domestic gas consumption has fallen by about 32% across all three major categories: industrial; electricity generation; and residential and commercial. The Australian Energy Market Operator (AEMO) also recently noted that eastern Australia gas demand fell by 3% from Q2 2024 to Q2 2025. There are, of course, a range of drivers for declining domestic gas consumption, but the increase in gas prices due to LNG market exposure has undoubtedly contributed to declining gas use, particularly in industry. The past few years have seen a number of high-profile gas-using businesses cease operations, with high gas prices cited as a key factor.

More recently the war in Ukraine, and its subsequent impact on global LNG prices, have impacted on eastern Australia, sending domestic gas prices to record levels. This in turn contributed to higher energy bills for businesses and households, and broader inflation pressures across the economy.

The experience of Western Australia (WA), which has a domestic reservation policy, is in stark contrast to that on the east coast. While industrial gas demand has fallen in eastern Australia over the past decade, it has actually increased in WA due to its lower gas prices. This has occurred despite WA itself being one of the largest LNG exporters in the world, accounting for about 12% of global LNG exports in 2023. WA's Domestic Gas Policy effectively mandates domestic supply from LNG exporters.

That said, gas prices in WA are increasing and there is a prospect of gas shortages in the coming years. Meanwhile, WA LNG exporters remain well behind on their domestic reservation commitments, with a WA Parliamentary Inquiry finding that only 8% of reserves had been domestically supplied, compared with the 15% required of most projects under the Domestic Gas Policy. This partially reflects that existing reservation agreements do not explicitly specify when reserved gas needs to be supplied. As a specific example, Woodside's Pluto project was found to have supplied only 6% of its total domestic gas commitment (equating to not much more than 1% of its LNG exports from Pluto).

On the east coast, the contribution of each LNG exporter to tight market conditions differs, reflecting their relative net gas supply to the domestic market. Since 2017, APLNG has been a net supplier to the domestic market, whereas Santos's GLNG project has siphoned material volumes of gas on a net basis to meet its export commitments. QCLNG has also been a net supplier since 2017, but in 2024 purchased more gas from third parties than it sold domestically

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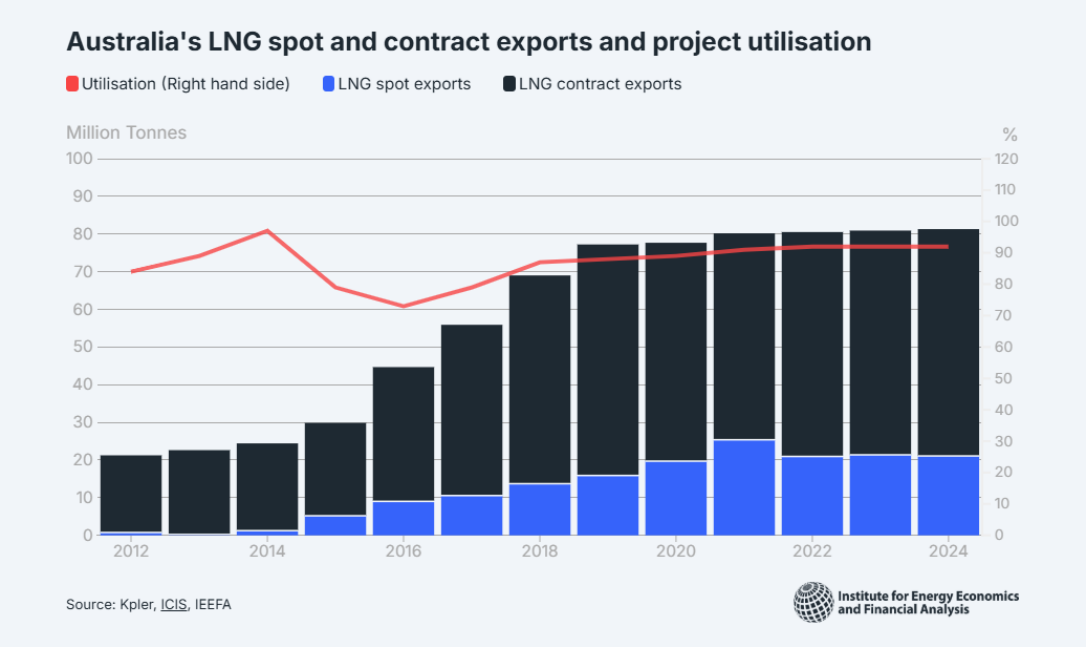
(noting the Australian Competition and Consumer Commission (ACCC) treats QCLNG's purchases from Arrow Energy, in which it holds a 50% stake, as a third-party purchase).

LNG exporters across Australia also continue to export more gas than required to meet long-term LNG sale and purchase agreements (SPAs), with discretionary spot LNG exports accounting for about 25% of Australia's total LNG exports in 2024 – equivalent to about 1,100 petajoules (PJ). In eastern Australia, spot LNG exports from Queensland were 89.6PJ in 2023 and 122PJ in 2024, periods in which both the Australian Energy Market Operator (AEMO) and ACCC forecasted supply gaps before the end of this decade.

Nationally, LNG plant utilisation has grown since 2016 and remained above 90% since 2021. This is despite GLNG and Prelude FLNG being well below capacity, with utilisation effectively propped up through continued large LNG spot exports (Figure 1). Notably, LNG spot exports were close to 20 million tonnes in 2020, a period when LNG spot prices reached record lows. In eastern Australia, LNG spot sales in 2020 were remarkably high, accounting for 114PJ of gas production.

Figure 1: LNG spot exports prop up high LNG plant utilisation



A looming LNG supply glut provides an opportunity to divert some spot LNG to the domestic market in the coming years

It is becoming increasingly clear that addressing the risks of gas shortages and ensuring energy security in eastern Australia will require greater domestic gas supply from LNG exporters. The ACCC, in its June 2025 report, found that Queensland gas controlled by the LNG exporters is crucial to energy security, and that "the [Queensland] LNG producers should be incentivised to fully develop their reserves to meet existing contractual requirements and free up additional gas for domestic supply."

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In part, this reflects the lack of competition in the east coast gas market, with LNG exporters effectively controlling 90% of 2P [proven and probable] reserves, as well as their ability to access export markets. The ACCC notes that production from LNG exporter reserves are "typically earmarked for exports".

In WA, the existing Domestic Gas Policy has not been effective in compelling sufficient gas supply when it is needed. Specifically, the WA Parliamentary Inquiry found that "… the terms of existing domestic gas agreements are not robust enough to guarantee that producers will always meet their commitments to the domestic market in a timely manner." This is likely because LNG exporters have financial incentives to delay domestic supply to later periods because this will reduce the net present cost of domestic supply (given LNG export prices have historically been higher than those in the domestic market). It may also reflect that increasing domestic supply is likely to require at least some WA LNG exporters to expand the capacity of their domestic gas plants, noting that the Domestic Gas Policy creates an expectation that LNG exporters will develop or seek access to sufficient infrastructure to meet their obligation.

The WA Parliamentary Inquiry subsequently recommended that the WA government renegotiate existing domestic gas agreements with LNG exporters to ensure timely domestic gas supply. However, the Gas Market Review provides an opportunity to assess whether policy settings applying to WA exporters are broadly appropriate, and whether additional policy instruments would help WA avoid repeating the experience of the east coast gas market.

Meanwhile, LNG markets are heading towards a supply glut due to the largest ever increase in LNG capacity, with close to 300 billion cubic metres of new LNG capacity (approximately 11,000PJ) set to come online by 2030. This new capacity will come online during a period where LNG demand in established markets will be falling, with demand set to shift to more price sensitive markets.

The scale of new LNG capacity is also likely to outweigh LNG demand growth well into the future. The International Energy Agency (IEA), for instance, forecasts that existing and under-construction LNG capacity will be sufficient to meet LNG demand until 2040 even under its slowest transition scenario. Under more ambitious scenarios, there will be no need for any new LNG capacity at all.

Further, the high cost of LNG is likely to limit demand upside in electricity generation in Asia. IEEFA has previously found that LNG is not displacing coal in China's electricity mix, reflecting that LNG generation is about US$40/megawatt-hour more expensive than coal generation. Similarly, the share of gas in India's electricity mix has fallen over the past decade, while coal has increased, but IEEFA found that this is due to the high cost of LNG and falling availability of cheaper, domestically produced gas. The IEA found that LNG prices would need to be US$3-5/MMBtu (million British thermal units) to drive additional coal to gas switching, well below the US$8/MMBtu average cost of new LNG supply.

Meanwhile, major LNG buyers are increasingly becoming LNG traders, either due to LNG market dynamics, falling or weak domestic demand, or as part of broader commercial LNG trading strategies. For instance, Japanese LNG buyers, once the largest consumers of Australian LNG,

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are now selling large volumes into other markets and investing in downstream gas infrastructure across Asia. IEEFA's analysis, using reliable ship-tracking data, shows that Japanese LNG traders resold at least 627PJ, and possibly as much as 812PJ, of Australian LNG into other markets in 2024. The majority of this LNG was sold into the premium markets of Taiwan and South Korea.

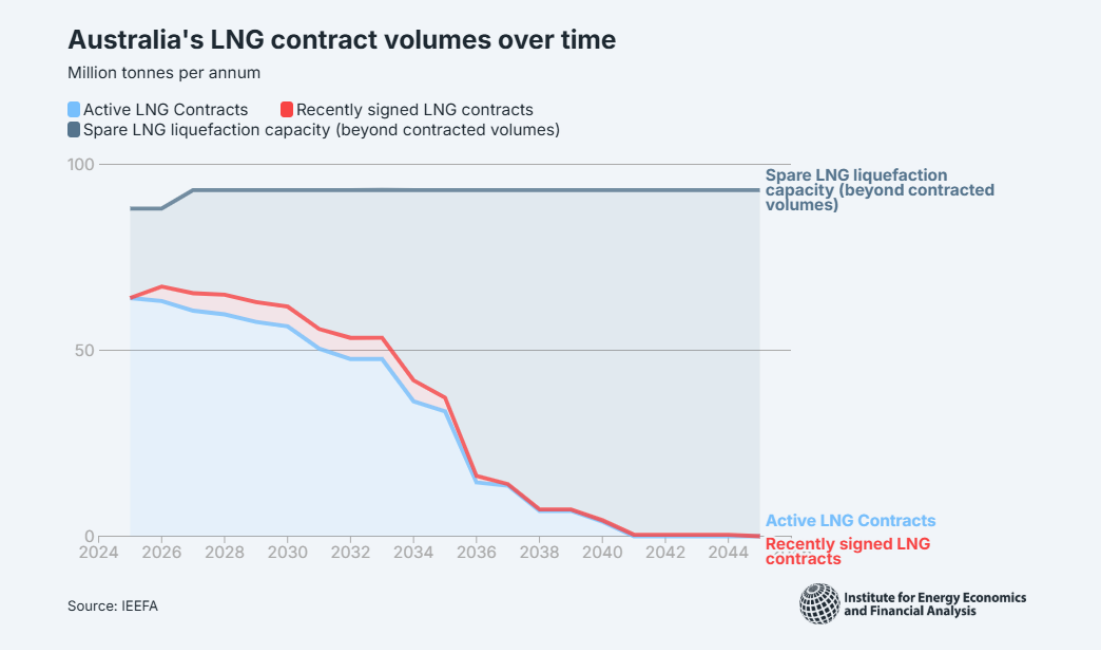
Given Australia's material spot LNG exports, challenging domestic market conditions, and a looming LNG supply glut, there is a strong argument for policy measures to incentivise greater supply to the domestic market of gas that would otherwise be exported as spot LNG.

Expiry of long-term LNG contracts provides an opportunity to ensure sufficient domestic supply for the coming decades

The Gas Market Review Consultation Paper acknowledges that any additional policy measures would effectively need to 'carve out' the existing long-term LNG SPAs. IEEFA agrees with this view on the basis on minimising investor perceptions of sovereign risk.

The expiry of existing LNG SPAs provides an important opportunity for governments to ensure domestic gas supply is prioritised over the longer term. IEEFA's analysis of existing LNG SPAs shows that contracted LNG volumes by Australian projects are set to peak in 2026, before declining to zero by 2041 (Figure 2).

Figure 2: Australia's LNG contract volumes



The ACCC similarly identified that the expiry of the foundation LNG contracts of Queensland LNG exporters could facilitate extra domestic supply, provided the right policy instruments are implemented.

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The earliest opportunity comes from the expiry of GLNG's 3.5 million tonnes per annum foundation contract with Kogas in 2031 (although GLNG has an option, under the conditions of the SPA, to extend for an additional five years). It appears that GLNG may be considering extending this contract, given its anticipated LNG feedgas demands are stable until 2035, which would clearly impact on the quantity of gas otherwise available for domestic supply. Expiry of this contract would likely reduce GLNG's feedgas demand for exports by around 200PJ per annum.

The remainder of this submission details IEEFA's response to the questions in the Gas Market Review Consultation Paper.

Consultation questions on supply, security, and trade:

1. How effective are the existing instruments in ensuring sufficient supply of natural gas for Australia's domestic market, including impacts on the exploration and development of new gas resources and infrastructure? Please provide detail.

In IEEFA's view, the existing instruments have not been sufficiently effective in ensuring sufficient supply of gas for the domestic market.

In its June 2025 report, the ACCC:

- Forecasts shortfalls in Q4 2025 and 2026 if the LNG producers export all their excess gas.
- Clearly outlines that gas from the Queensland LNG producers is vital for energy security, and that net gas supply from the Queensland LNG exporters has been trending downwards (in part due to falling production).
- Notes that gas prices in eastern Australia remain elevated relative to prices prior to the Ukraine war.
- Confirms that LNG exporters continue to export material volumes of uncontracted gas as spot LNG – gas that could otherwise be reserved and supplied domestically.
- Outlines concerns from commercial and industrial gas users about the availability and pricing of gas, and their bargaining power in negotiations for gas supply.

It is clear that while existing instruments may have increased gas supply and helped avoid shortages, they haven't addressed the underlying issues in the east coast gas market: insufficient domestic gas supply due to higher than required LNG exports and/or insufficient production from LNG exporters (who collectively control 90% of 2P reserves in the east coast gas market); and a lack of competition in upstream production and wholesale gas supply.

The instruments are intended to address this by creating incentives for domestic gas production and supply primarily by the Queensland LNG producers. However, the instruments have a

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number of fundamental shortcomings that are likely to limit their effectiveness and the assessment of their effectiveness:

- The Heads of Agreement (HoA) between the Australian government and the Queensland LNG exporters requires uncontracted gas first be offered to the domestic market, but does not require any actual domestic supply. For instance, ACCC reporting shows that in the six months to December 2024, Queensland LNG exporters offered 103.5PJ to the domestic market, but sold only 22.4PJ. In that same period, 75.7PJ of gas was exported as spot LNG.
    - Assessing compliance with the HoA is also practically difficult in instances where gas buyers do not accept offered volumes, as the same 'parcel' of gas can be offered multiple times. This also has implications for actual domestic supply – a parcel of gas can be offered domestically at a time when LNG prices are high, meaning buyers are less likely to accept the offer, which would then allow greater exports at a later time while maintaining compliance with the HoA.
- The Gas Code of Conduct (Code) similarly does not require or otherwise create any obligation for domestic gas supply. For LNG exporters who intend to supply domestically, the Code's exemption framework can incentivise greater levels of supply through reciprocal exemption from the reasonable price provisions, but the financial benefits of an exemption will be low in periods when domestic prices are close to the reasonable price (as they are now). Further, when LNG prices are high, it may still be financially more attractive to sell excess gas as spot LNG even if that means any domestic sales are subject to the price provisions of the Code.
    - A fundamental issue in assessing the effect of the Code is identifying and quantifying how much gas LNG exporters would have supplied domestically in the absence of the Code (i.e. the counterfactual). For instance, an LNG exporter or gas producer may agree to supply a specified volume of gas domestically to be granted an exemption, but this volume may be equivalent to what would have been supplied without the Code being in effect. In other words, it may not be possible to determine whether domestic supply commitments under the Code are greater than what would have been supplied in the ordinary course of events.
    - Nonetheless, IEEFA considers it likely the case that the Code has resulted in new domestic gas supply. However, its limitations in terms of creating a firm domestic supply obligation and the issues with monitoring its effectiveness mean it is unlikely to be the most appropriate policy instrument for incentivising domestic supply.
- The Australian Domestic Gas Security Mechanism (ADGSM) provides a 'backstop' to effectively compel domestic supply, but only in instances where the Minister for Resources determines there will be a shortfall. There are, however, several issues with the mechanism:
    - First, enacting the ADGSM would likely require GLNG to break export contracts. Given legitimate concerns over sovereign risk, the government is likely to enact

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the ADGSM only as an absolute last resort, minimising its credibility as a policy measure.

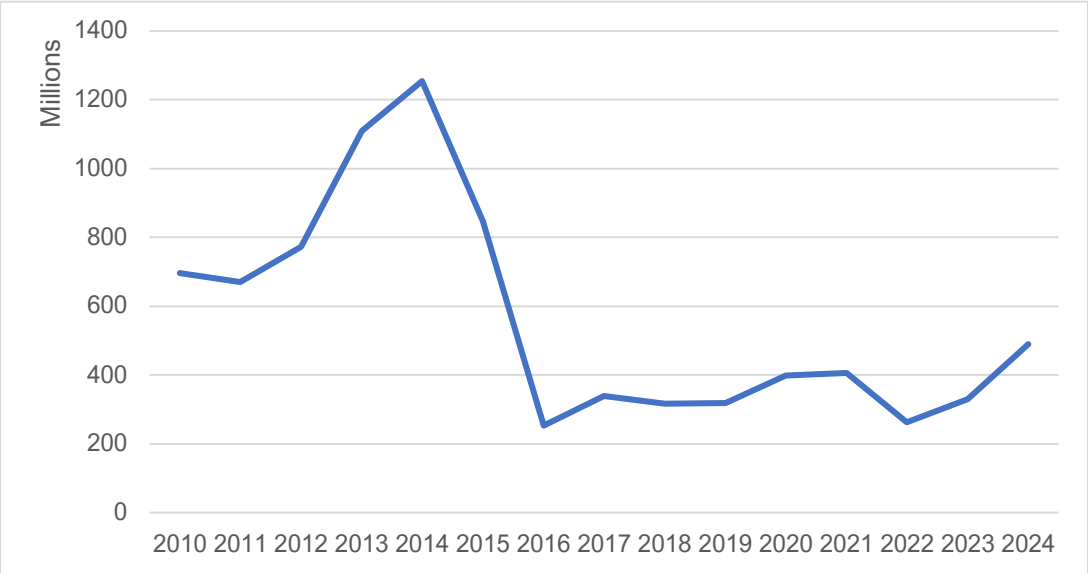
- Second, recent reforms to the ADGSM removed consideration of the net contribution of individual LNG exporters in determining their supply obligations in the event of a shortfall. While this was deemed necessary to ensure that a shortfall could actually be addressed, it nonetheless weakened incentives for domestic supply and has likely exacerbated the risks of shortages (as noted by the ACCC).

- Finally, the mechanism can only be enacted when there is anticipated to be a shortfall, but not in situations where high LNG prices cause economic harm, such as dampened industrial demand and higher electricity prices during prolonged periods of high LNG prices.

IEEFA's view is that effective policy instruments are needed to create strong incentives for domestic supply, and that such instruments will only be effective if they: sufficiently alter the financial incentives for domestic supply relative to export; and present a credible threat to future LNG exports.

It does not appear that these instruments have stimulated gas exploration in eastern Australia (Figure 3). While expenditure has increased since 2022, this likely reflects a rebound in business as usual expenditure following a fall in expenditure in 2022 (which likely reflects the impact of investment uncertainty from gas market reforms).

Figure 3: Annual petroleum exploration expenditure, eastern Australia (excluding NT)



Source: ABS. Australian Bureau of Statistics (ABS). Mineral and Petroleum Exploration March 2025. Published 3 June 2025.

In IEEFA's view, the fall in exploration expenditure in 2022 highlights the crucial importance of stable policy settings that provide the industry with investment certainty. With this in mind, it is

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vital that any policy instruments are viewed by industry as effective in order to provide certainty that further reform will not be required. To the extent that existing policy instruments are not effective, there is likely to be an adverse impact on investment in new upstream gas.

2. Have the instruments affected the competitiveness of Australia's LNG export industry, investment reputation or international reputation for quality and reliability? If yes, please provide detail.

Australia's LNG exporters are generally price takers in international markets, particularly in spot LNG markets, and recent reforms are unlikely to impact on the industry's competitiveness with respect to spot LNG.

More generally, IEEFA is not aware of any evidence that the instruments have impacted the competitiveness of Australia's LNG export industry. Recent investments, and proposed future investments, would suggest broader confidence in in Australia's gas and LNG sector. This includes: ADNOC's recent bid for Santos; and investment by a number of international companies in Woodside's Scarborough and Pluto 2 project.

3. How might the instruments be improved to better achieve the Review's objective?

Noting the limitations of the existing instruments, IEEFA supports development of a new framework to ensure sufficient domestic supply, as outlined in the Gas Market Review Consultation Paper.

4. Are there alternative policies that would secure gas for Australian consumers while maintaining a strong LNG export industry? If so, please provide detail regarding anticipated effect these policies would have, how they should be applied, and how they should interact with existing instruments and policies?

IEEFA supports the fundamental reform option outlined in the Consultation Paper, and recommends development of an export cap/licensing framework supplemented with an export tax on all LNG spot sales.

In IEEFA's view, implementing such a framework should increase both domestic supply and competition, provided it creates sufficient domestic supply incentives, thereby addressing many of the issues present in the east coast gas market (including an imbalance of bargaining power between gas sellers and buyers). This framework, alongside an export cap for exception circumstances, could then replace the existing mechanisms and reduce the associated regulatory burden and risk to industry.

Export licensing for new LNG sale and purchase agreements and short-term LNG contracts

A key contributing factor to gas supply insecurity in eastern Australia is the volume of LNG required to be supplied under existing long-term LNG SPAs. Specifically, Santos's GLNG committed to LNG contracts that it could not meet without securing gas supplies from third parties in the east coast, contributing to tight market conditions and higher prices.

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The implementation of policy instruments that impact on existing contractual obligations raises obvious issues with sovereign risk, which could adversely affect investment. For this reason, IEEFA supports carving out existing LNG contracts from any new instruments.

Nonetheless, the expiry of existing contracts represents an opportunity to secure greater supply, by either reducing contracted volumes or preventing signing new LNG SPAs, without sovereign risk implications. For this reason, IEEFA supports implementation of a licensing framework for all new Australian LNG contracts to ensure sufficient domestic supply.

Government consideration of new export licence requests could be informed by:

- AEMO and ACCC long-term supply adequacy forecasts in the relevant market (i.e. east coast gas market or WA).
- Prevailing forecasts around fuel supply adequacy in the AEMO-operated electricity grids.
- The exporter's anticipated production over the life of the new contract, relative to the volumes of feedgas they expect to require to fulfil all contractual commitments and existing domestic supply commitments (with a higher forecast production increasing the volume of LNG permitted to be supplied under a new contract).
- The exporter's net gas supply to the domestic market over a specified preceding period (with larger net supply in preceding periods increasing the volume of LNG permitted to be supplied under a new contract, all other things equal), with net withdrawals from the domestic market automatically preventing new LNG contracting or extensions to existing contracts.
- Past contracting/selling practices, including provision of longer-term GSAs (with practices deemed to be in the interests of domestic market energy security increasing the volume of LNG permitted to be supplied under a new contract, all other things equal).
- Prevailing domestic market gas prices in the AEMO-facilitated markets and in recently signed GSAs (by all suppliers).
- Any firm, enforceable commitments for future domestic gas supply over the life of the new contract (with timing of domestic supply clearly specified).
- Compliance with any domestic reservation obligations.
- Compliance with decommissioning obligations (where new contracts would require new gas infrastructure).

In eastern Australia, this type of licensing framework could free up additional gas for domestic supply as soon as 2031, when Santos's 3.5 million tonnes (approximately 200PJ) per annum LNG SPA with Kogas is due to expire.

In WA, expiry of existing LNG contracts could free up additional gas for domestic supply before the end of this decade, though IEEFA notes that domestic plants would likely need to be

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upgraded to supply more gas into the domestic market. However, under WA's reservation policy, LNG exporters have effectively made commitments to either seek access to or develop sufficient infrastructure to meet their reservation obligations, which most exporters are currently behind on meeting.

Export tax and limited restrictions for discretionary LNG spot sales

IEEFA agrees, in principle, that all LNG exports be subject to government approval. However, applying a licence framework to LNG spot exports is likely to problematic, as it will be impractical and impose a significant burden on LNG exporters if government approval is required for every single LNG spot export. LNG exports are typically made on a very short-term basis, meaning delays in approval may also impact on the prices achieved for such sales, to the detriment of LNG exporters.

Consideration might also be given to an export licence approach that allows a specific volume of spot exports for each producer each year based on domestic supply commitments (i.e. export one petajoule for every petajoule of domestic supply). However, IEEFA notes that this approach may similarly impact on the flexibility of LNG exporters to take advantage of short-lived spikes in LNG prices, while also weakening domestic supply incentives in periods where LNG prices are anticipated to be low (such as in the next few years). This type of approach is not likely to address domestic energy security concerns.

Instead, IEEFA proposes the introduction of an LNG export tax for all LNG exports beyond those required to satisfy long-term contracts (i.e. LNG spot exports). This would still allow LNG exporters to take advantage of periods of high LNG spot prices while creating stronger financial incentives for domestic supply over spot exports, provided the tax rate is sufficiently high. It would also not lead to domestic prices being 'artificially low', which would impact on investment and longer-term supply.

Given the prospects of shortages in WA and issues with gas supply in the Northern Territory (NT) over the longer term, IEEFA proposes that this be implemented nationally. IEEFA notes, however, that this may require new gas processing infrastructure and new pipeline connections in the NT (if NT LNG exporters are to direct small volumes of supply in the NT).

In eastern Australia, tight market conditions and perennial forecasts of gas shortages, alongside continued material LNG spot exports, would suggest that an export tax be applied to all LNG spot exports.

However, in WA and the NT, which have less pressing supply concerns and higher LNG spot sales, there may be a need to divert lower volumes of gas intended for spot exports to the domestic market. With this in mind, government could consider measures such as:

- Implementing an 'allowable' export volume (not subject to an export tax) for each LNG exporter in each year (determined with reference to supply adequacy forecasts from AEMO and the ACCC).

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- Truncating tax revenue to domestic gas demand reduction initiatives to reduce the domestic reliance on gas from LNG exporters over time, and therefore the volumes of LNG needing to be diverted (which would allow for larger allowable export volumes).

- Truncating tax revenue to support the gas and LNG industry to implement methane emission reduction measures and/or to electrify LNG plants (thereby freeing up additional gas for export or domestic markets).

Further, given the potential for market conditions to change, particularly as long-term LNG SPAs expire, IEEFA recommends periodic reviews to assess whether tax settings remain optimal.

Crucially, while an export tax would create a wedge between international and domestic prices, it would still allow domestic prices to reflect domestic market conditions, including accounting for the costs of new gas supply. This would help to maintain investment incentives across the market generally.

While an export tax, alongside an export licence framework, would create strong financial incentives for domestic supply, they nonetheless would not compel domestic supply. For this reason, and to ensure domestic energy security, IEEFA recommends development of a framework to allow for governments to impose broader caps on spot LNG exports when required, including in situations where:

- The ACCC or AEMO forecast seasonal or annual gas shortages.

- LNG exporter conduct creates unacceptable risks to domestic energy security (for example, a situation where LNG exporters refuse to negotiate with buyers in a way likely to result in new GSAs [i.e. by offering gas contracts at very short notice and with short acceptance periods], or where they sell only via the thinly traded AEMO-facilitated markets).

- International prices rise to well above normal levels due to international events, leading to a spike in domestic prices.

In addition, to maintain supply incentives over time, IEEFA recommends that governments prohibit or cap LNG spot exports at zero for exporters who:

- Have been net ‘withdrawers’ of gas from domestic markets over a specified preceding period; and/or

- Are not in compliance with domestic reservation obligations.

To provide greater certainty to industry, the government should publish guidance on situations that may trigger spot LNG export caps.

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Consultation questions on contracting and bargaining conduct:

1. Has the Expression of Interest (EOI) and offer process in the Code and HoA respectively been effective?
a. To what extent have these instruments helped address bargaining power imbalances?

The ACCC's June 2025 report includes a detailed assessment of the impacts of the EOI process, identifying a number of key issues:

- Short timeframes through the EOI process for gas buyers, which are "insufficient for large industrial customers to effectively plan and make investment decisions".
- EOI processes being overly rigid and taking too long
- Gas sellers are now unwilling to negotiate GSAs on a bilateral basis due to concerns about non-compliance with the Code, which impacts on buyers but also creates regulatory uncertainty for gas sellers.

Feedback from gas buyers to the ACCC also suggests that there has been little change in the relative bargaining power of gas sellers and buyers, which in IEEFA's view is likely to reflect tight supply conditions and a lack of upstream competition. Put simply, it appears that the EOI processes have not been sufficient to address the underlying causes of bargaining power imbalances.

b. Have these instruments produced any unintended consequences?

The implementation of EOI processes has clearly introduced regulatory risk for gas sellers, impacting on their selling practices and limiting the use of bilateral negotiation processes (as noted earlier).

2. Have existing instruments impacted your ability, either positively and/or negatively, to secure long-term contracts?

IEEFA has no comments on this question.

3. How might the HoA and Code EOIs and offer processes be improved? Potential improvements could include price guidance and feedback being required from producers or exempting buyer-led EOIs from the Code. a. How might this impact EOI processes? Please provide detail.

IEEFA supports development of new instruments to replace the HoA and Code.

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4. Do you consider buyer negotiating positions would improve with a standard Gas Supply Agreement (GSA) template that provides guidance or optionality on non-price terms as a reference for negotiations? Please provide detail.
a. What non-price terms would benefit from standardising?
b. What are the benefits of standardising terms and conditions?
c. What are the barriers in adopting a standardised GSA?

IEEFA has no comment on this question.

Consultation questions on gas market transparency:

1. What are your key sources of supply and pricing information (both from market bodies or elsewhere)?

IEEFA sources gas market information from a wide range of sources, including:

- Market bodies and government departments, including AEMO, the ACCC, the Australian Energy Regulator (AER) and the Department of Climate Change, Energy, the Environment and Water (DCCEEW).
- Data providers, including Kpler and ICIS.
- Company reporting, including annual reports and financial disclosures.

2. What impact would more transparent or more timely information have on the supply of gas to the domestic market? How does this impact LNG operations?

More transparent and timely information would likely improve the price discovery process, enabling gas users in particular to better understand contemporary market pricing. It would also help to ameliorate a persistent information asymmetry between gas sellers and buyers, which arises as sellers typically partake in more price negotiations more often. In addition, improved transparency about off-market trades in the Gas Supply Hub (GSH) would further help inform price discovery given that off-market trades account for a large portion of trades through the GSH.

Greater transparency about longer-term supply from LNG exporters could help to guide gas investment decisions by other suppliers, while providing major gas users with greater certainty to underpin investment in their own operations. IEEFA acknowledges that AEMO's Gas Statement of Opportunities is intended to provide this transparency, which would be enhanced if LNG exporters provided greater clarity and certainty over their domestic supply intentions.

3. How transparent are shortfall determination processes under the instruments, and in particular under the ADGSM?

IEEFA has no comment on this question.

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4. Are you aware of uncontracted gas information and EOIs hosted on gas producer websites? If yes, please provide detail.

IEEFA has no comment on this question.

5. What changes are required to ensure you have sufficient access to market information (e.g., more real time price information, available supply, contract terms etc) to make informed procurement decisions?

As highlighted in the Gas Market Review Consultation Paper, there is a delay in the ACCC's reporting of gas price offers and contract prices. In practice, this is likely to limit the utility to gas market participants of this reporting. The ACCC's reporting is also not consistent in the time periods covered by each report.

More timely reporting on gas prices, volumes and terms would undoubtedly improve the price discovery process for gas market participants, especially buyers. It would also help to ameliorate the existing information asymmetry between gas sellers and buyers.

More transparent and timely data could also improve the quality and timeliness of market analysis by other parties, such as consulting firms and think tanks (including IEEFA). This would likely be to the benefit of the broader market.

6. What are the tradeoffs that come with closer to real time price transparency to the market?

IEEFA has no comment on this question.

7. Would consumers and/or producers support an information sharing arrangement whereby GSAs are reported in close-to-real-time to the AER (rather than waiting for an information order)? Please provide detail.

IEEFA has no comment on this question.

Consultation questions on wholesale gas prices:

1. Has the Code's reasonable price mechanism been effective at reducing gas prices? Please provide your observations.
a. Does the current reasonable price (set at $12/GJ excluding transport costs) reflect actual supply and demand conditions? Please provide detail.

Assessing the impact of the reasonable price mechanism in reducing gas prices is difficult. While the reasonable price mechanism is intended to incentivise new domestic supply, thereby putting downward pressure on prices, it is practically difficult to determine how much gas is being supplied in response to the Code beyond what would have been supplied anyway. In other words, it is likely not possible to quantify the broader impact of the reasonable price mechanism in pushing down prices via additional domestic supply.

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Further, as noted by the ACCC, the majority of gas producers are exempt from the reasonable price mechanism, thereby removing any firm obligation to offer gas at the reasonable price. In practice, this will materially limit the ability of the reasonable price mechanism to reduce gas prices.

The ACCC, for instance, notes "the reasonable price provisions in the Gas Code appear to have had limited direct impact on prices … because most producers are currently exempt from these provisions."

b. Has price volatility reduced or increased under the instruments? Please provide detail.

IEEFA has no comment on this question.

c. Does the reasonable price support competition in Australia's gas markets? Please provide detail.

The lack of competition in the east coast gas market largely reflects the high degree of upstream concentration, with LNG exporters effectively controlling about 90% of 2P reserves.

To the extent that the reasonable price mechanism actually incentivises new gas supply, from a range of gas suppliers, it may also have an impact on the level of competition in the market (particularly if supply is sufficient to remove perceptions of gas scarcity among gas buyers).

However, as noted earlier, there are fundamental issues in assessing the impact of the Code and the reasonable price mechanism on new gas supply. Further, the ACCC recently noted that material increases in gas supply are not expected until 2026 (again noting that this gas may have been supplied in the ordinary course of events), meaning it is unlikely that the reasonable price mechanism has impacted on competition.

More broadly, the ACCC found that a shift to shorter-term gas contracting by suppliers has actually reduced competition to supply the market under longer-term GSAs.

2. Is the mechanism in the Code for setting a reasonable price appropriate or should an alternative mechanism set the reasonable price?

IEEFA supports replacement of the Code and reasonable price mechanism with a new export licensing framework and export tax (as outlined earlier).

3. What changes to the existing instruments are needed to ensure gas is affordable and reliable for your operations?

N/A.

4. How might future market conditions or potential new supply sources (e.g. LNG regasification terminals) impact wholesale gas prices?

Gas prices in the east coast gas market have historically been influenced by LNG netback prices and by domestic market conditions. This dynamic is likely to continue while:

- Domestic supply conditions remain tightly balanced;

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- The east coast remains exposed to LNG markets; and
- The LNG exporters remain the marginal suppliers to the east coast gas market.

Conditions in LNG markets are therefore likely to have implications for domestic market conditions. As noted earlier, LNG markets are widely expected to face a supply glut in coming years, which will put downward pressure on both LNG spot prices and prices under new LNG SPAs. Lower prices will likely flow through, to some extent, to domestic market prices, provided LNG exporters continue to extract and supply gas to the domestic market.

There also remains significant quantities of uncontracted LNG available due to new LNG supply projects and the expiry of legacy LNG SPAs from a range of suppliers. Australian LNG exporters are likely to face increasing competition to sign new LNG SPAs as their existing contracts expire, which could also incentivise greater domestic supply (though IEEFA notes that most Australian LNG projects have maintained high plant utilisation even in periods where LNG prices have been low).

Development of new LNG import terminals would strengthen the influence of LNG prices on a 'net plus' basis (that is, LNG spot prices plus regasification costs). Prices would remain linked to LNG spot prices, but at a higher level than currently.

In the longer term, the costs of new gas developments may also influence domestic prices, particularly where the costs of delivered gas exceeds production costs in existing fields. These costs may also reflect transportation where new developments are located long distances from demand centres (as is the Beetaloo Basin in the NT). As noted in the Future Gas Strategy Analytical Report, "the estimated costs of production and delivery to Melbourne from [new gas developments in] the Surat, Narrabri and Beetaloo are estimated at around $9 to $13/GJ."

Greater supply of gas from existing Queensland gas fields would, in contrast, likely put downward pressure on prices given the relatively low production costs of this gas.

Consultation questions on efficient wholesale markets:

1. What benefits do bilaterial gas trades offer compared to use of AEMO's facilitated markets. What barriers exist to greater use of AEMO's facilitated markets?

IEEFA has no response to this question.

2. Does bilateral gas contracting limit competition, transparency, and a more efficient price formation process?

IEEFA has no response to this question.

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3. Views on the performance and efficiency of the wholesale gas market, including supporting evidence, are welcomed. Stakeholders may wish to consider specific market aspects, such as the following voluntary market (Gas Supply Hub) features:
1. Bid/Ask spread: Do relatively low participant numbers and trade volumes lead to wide spreads? Please provide detail.

IEEFA has no response to this question.

2. Trading volumes: Given the 5-fold increase in off-screen trades via the GSH since 2018, is there sufficient volume being transacted on screen to support reliable and efficient price discovery? Please provide detail.

IEEFA has no response to this question.

3. Order book depth: Does the market have enough depth to support meaningful trades without excessive price impact? Please provide detail.

IEEFA has no response to this question.

4. Execution times: Can participants reliably execute trades quickly at known prices, or are there delays and uncertainty? Please provide detail.

IEEFA has no response to this question.

5. Price volatility: Is observed volatility a function of supply/demand fundamentals, or a symptom of low market liquidity? Please provide detail.

IEEFA has no response to this question.

6. Market confidence: To what extent would more structured supply of gas to market, including for example a market making regime, encourage greater levels of confidence amongst smaller participants around the availability and price of gas at the GSH? Please provide detail.

IEEFA has no response to this question.

Consultation questions on governance of gas market regulations:

1. Are the current roles and responsibilities of the AER, AEMO and ACCC in gas market regulation and reporting clear and appropriate? Please provide detail. If not, are there gaps or overlaps that could be addressed?

IEEFA has no response to this question.

2. What has been your experience in relation to the reports and forecasts produced by these regulatory bodies?

IEEFA has no response to this question.

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Consultation questions on the reform options presented:

1. Do the issues you have raised in your submission warrant significant change to the current system?

As outlined earlier, IEEFA is of the view that the existing instruments have not addressed the underlying issues in the east coast gas market. For this reason, IEEFA supports the fundamental reform option (Supply, security and trade) outlined in the Gas Market Review Consultation Paper.

2. If yes, do any of options presented above offer better alternatives to the existing system and why?

As outlined above, the development of a licensing framework for new export contracts, alongside an export cap framework and export tax on spot sales, would create stronger incentives for domestic supply over the longer term, while also streamlining the regulatory framework and reducing compliance burden and risk for gas suppliers.

3. If there are options not presented here that should be considered, please outline and explain how they would improve the current system.

IEEFA has no response to this question.