



An open letter to Prime Minister Albanese

We are writing to express our concerns that the national Domestic Gas Reservation Scheme (DGRS) will have potentially serious impacts to the medium to long term production and supply of domestic gas in WA and in particular the viability of “Perth Basin” domestic gas projects which have the potential to meet up to 20% of the State’s domestic gas demand by the end of the decade.

Natural gas is essential for WA’s energy security and industrial economic development. It is also an important source of energy for homes in the State and jobs for regional WA. This has been recognised by successive WA State Governments which have had in place a state based domestic gas reservation policy (WA State Policy) for over two decades.

The WA State Policy sets out clear conditions that have allowed long term investment planning for LNG exporters, domestic gas producers, infrastructure providers and customers. The policy has played a key role in ensuring the Western Australian domestic gas market remains well supplied, supporting greater diversity of gas producers and delivering stable gas prices that have remained significantly below those experienced in Australia's east coast domestic gas market.

The WA State Policy has also encouraged the continued exploration for new gas supply to replace mature producing fields.

The WA State Policy has already demonstrated the effectiveness of a market framework designed to achieve the same objectives sought by the Commonwealth Government's gas market reforms, namely securing reliable long-term domestic gas supply while maintaining affordable prices for households and industry.

The DGRS is not needed in WA.

Gas exploration and production is a highly capital-intensive industry that requires long term regulatory stability and investment certainty to underpin project development.

The Bill introduced to implement the DGRS is not required in WA, where the WA State Policy has already demonstrated its effectiveness in securing reliable gas supply at competitive prices.

The Bill also creates significant uncertainty in the WA gas market and in turn challenges for industrial economic development in the State. That uncertainty is best demonstrated by:

- The calculation of domestic supply obligations based on 110% of forecast annual gas demand, with no explicit regard to price. This has the potential to lead to a short-term flooding of the market, in turn acting as a disincentive to new exploration and production.
- The potential for the annual intervention in a functioning market by multiple Ministers and multiple regulatory bodies.
- The significant discretion afforded to Ministers in making these interventions and the lack of transparency in decision making.

The WA State Policy currently requires new onshore gas developments to reserve 80% of production for the domestic market, increasing to 100% from 2031. So, these producers are vulnerable to an oversupplied domestic market.

The uncertainty created by the proposed DGRS is already undermining the confidence needed to justify decisions to invest in additional gas production and supply. Projects in Western Australia including Belisama and West Erregulla require substantial long term capital commitments, and investors must be confident that the regulatory framework will remain stable over the life of those investments. Hancock Energy has already publicly stated that the investment required for the Belisama project is approximately \$1.5 billion.

AEMO's latest WA gas market forecasts indicate these investments will be needed to keep the market functioning and adequately supplied, and to provide certainty to gas users in the State.

Diverting LNG exports into a domestic gas market does not create additional gas supplies. While this may place downward pressure on gas prices in the short term, a DGRS that discourages or delays investment in new gas supply risks undermining the long term supply response required to meet forecast future demand. Over time, reduced investment in domestic gas exploration and development projects is likely to result in tighter supply conditions and increased prices as existing fields mature and decline.

And with investment in new gas exploration and production at risk, so too are jobs in regional WA and the sustainability of the WA economy.

In order to provide a window of certainty for investment in new domestic exploration and production, we ask that the Government reconsiders the final form of this legislation. In particular, we ask that the DGRS Bill provides that, at the outset:

- **While there is a functioning WA gas market under the existing WA State Policy, the WA domestic gas market be exempt from the application of the DGRS.**
- **If that is not constitutionally possible, the Domestic Supply Obligation (DSO) for the WA market be set at 0% for a period of 15 years and that it can only be changed if there is a significant failure of the WA domestic gas market or if the WA State Policy no longer applies.**

This approach would preserve the policy settings that have successfully delivered reliable domestic gas supply, competitive pricing and investment certainty in Western Australia, while providing investors with the confidence required to commit capital to the next generation of gas supply projects.



Stuart Johnston

CEO

Hancock Energy



Shelley Robertson

Managing Director & CEO

Strike Energy Limited