Delivering essential energy for life.

26 March 2024

ADGO 2024 Speech: Senex Energy CEO, Ian Davies

Keynote address: It's crunch time: the gas supply problem must be addressed before it's too late

Please check against delivery

Thank you, Clyde – and thank you to the organisers of this important event that is focused on the critical role of gas in this great country of ours.

Australia's competitive advantage **for decades** has been access to reliable, affordable energy supplied primarily by coal and gas.

Today, renewables supply 37 per cent of electricity on the east coast, with gas supplying 5.5 per cent and coal 57 per cent[1].

But gas does much more than supply electricity, although its role in the electricity grid is far more important than the raw numbers suggest. It is also used for direct heating and feedstock for building materials, fertilisers and chemicals, taking its share of Australia's total energy mix to 27 per cent[2].

Australians need natural gas – and they are going to need gas for a very long time.

That's why I am in the gas business.

That's why Senex is in the gas business.

We're here for our customers – for manufacturers, for households and everyone in between.

When I get fired up about gas and the state of the gas sector in Australia, it's because I care about our customers and I care about our economy, and I care about the future of Australia.

[1] https://www.aemo.com.au/-/media/files/electricity/nem/national-electricity-market-fact-sheet.pdf

[2] Energy consumption | energy.gov.au

It's actually not about us, because the reality is, at the end of the day business can take its investments elsewhere.

However, **our** clear priority is making these investments in Australia – to make a valuable contribution to the Australian economy, to Australian living standards, and of course to make a risk-adjusted return on our capital.

In the 11 years this event has been running, our industry has seen incredible change.

From the CSG boom in Queensland and the start of LNG production on Curtis Island, I don't think many of us could have predicted the world we find ourselves in today.

Eleven years ago, our industry was hailed for bringing a boom in jobs, small business opportunities, revitalisation of towns in Queensland like Chinchilla, Roma and Gladstone and for the replacement of declining domestic gas resources in the Bass Strait and Cooper Basin which had served east coast energy needs since the 1970s[3].

Getting the CSG industry up in Queensland was no mean feat and it was only possible because of **bipartisan support** from the Federal and Queensland Labor governments at the time, and also Liberal and National parties. This was in the face of a strong anti-CSG campaign led by environmental and climate activists – and which also garnered support from a minority of farmers who feared their scaremongering about groundwater and climate change.

The governments of the day put open, competitive markets and reliable, affordable energy ahead of ideology and populism.

The need for action on climate change was recognised, but both sides of politics were focused on technology-neutral solutions. They were focused on reducing emissions but **not at the cost** of competitive markets or Australia's competitive advantage in reliable, affordable energy for both domestic and export markets.

They knew full well that the alternative would cost Australian jobs, drive energy prices up for consumers, make Australian manufacturing uncompetitive – and diminish Australian living standards and prosperity.

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[3] https://www.aer.gov.au/system/files/Part%201%20Essay%202008.pdf

Senex

Fast forward to today, after successive governments of all stripes who have favoured market intervention over technology-neutral competition, and that scenario is exactly what we are seeing play out now.

It has to stop – because Australian taxpayers cannot afford to have their governments prop up the economy with all manner of subsidies to businesses that cannot afford to invest without them, simply because of government policies and practices that have made them uncompetitive.

Governments need to get out of picking technology winners in energy, focus on emissions reduction and not eliminating fossil fuels, and restore competitive market forces. Australia could then afford lower taxes and less subsidies. You may have heard the economic colloquialism: "there is no free lunch" and it has never been truer than today. Somebody always pays for poor economic choices by government, and its usually the taxpayer and those who can least afford to pay.

Our industry does not need subsidies to bring new gas supply to market, but we **do need** policy settings that allow for development and competitive energy markets.

Right now, we're effectively shut out of cornerstone policies like the capacity investment scheme and are the subject of future strategies seemingly focused on deliberate demand destruction.

Yet, if you peel back the veneer, it seems the penny is beginning to drop about just how important gas is as a reliable firming energy and feedstock in Australia's energy transformation.

And – there is a dawning realisation that we're careening **dangerously** towards large supply shortfalls without a safety net.

The Australian Energy Market Operator's latest Gas Statement of Opportunities report puts this clearly into view.

Peak day shortfalls from 2025.

Seasonal shortfalls in '26 and '27.

And **structural**, annual shortfalls from 2028.

Like groundhog day, we are again hearing calls for urgent investment in new supply.

The warning bells continue to toll but no real solutions are forthcoming.

The mere suggestion that generators may soon need to burn diesel to plug energy shortages is gravely concerning – both for emissions and the hip pocket.

There's lots of amazing work that can be done around things like demand-side management, weather derivatives and other instruments, but the only real solution is more supply.

And, to be crystal clear, nothing will kill investment faster than the idea that diverting gas from LNG is the solution for future domestic gas shortfalls.

Australia needs more investment in new gas supply

and the world needs it.

And right now, Australia is **not** developing the new gas supplies needed to meet continued domestic demand. Exploration expenditure is down 80% from its peak in 2014 and we haven't seen an offshore acreage award from the Federal Government since 2021.

And we are failing to take advantage of growing global demand for LNG. Global demand that will fall into the hands of countries like Russia and the Middle East to fill if we don't. Global demand that provides huge revenues for government coffers.

Something needs to change – and quickly – before the warning bells turn to a death knell for industry and lights out for households.

Unrelenting gas market intervention over many years has created this mess, and it's time for effective energy policy to get us out.

Today, I intend to talk about the challenging set of circumstances that have rocked investment confidence here in Australia and call for Governments to work constructively with the industry to address gas supply **before it's too late**.

As a start, we need to see **unambiguous** and **unequivocal support** for natural gas and the industry: for the jobs it sustains, the revenue it creates, the economic growth and living standards it supports and the security it provides for the nation's electricity and energy system.

The time is right to send a clear market signal that Australia is open for business and the federal government recognises the essential role of natural gas in the energy transformation.

The essential role of natural gas – not only in the Australian economy, but for our Asian allies and, indeed, around the world – is undisputed by experts both in Australia and abroad.

Wood Mackenzie estimates that global gas demand will peak in 2040 at over 176 thousand petajoules.[4] Even the most bearish scenarios like the IEA's Net Zero Emissions Scenario (which continues to be mugged by reality) assumes a requirement for over 40 thousand petajoules of natural gas globally in 2050. For context, Australia produces around 6 thousand petajoules today[5].

My view is that the role of natural gas in our system will be far more enduring.

People rightfully **expect** their lights and appliances to switch on at any time of the day or night.

People **expect** to have access to affordable food and not go hungry.

People **expect** to maintain – indeed improve – their living standards.

People **expect** to have access to quality roads, healthcare and schools.

And people **expect** to feel safe in their nation, confident that national and energy security is not compromised.

Natural gas is a key enabler of these things, and the fact is the technologies are not there yet to replace it in many applications. And so **I expect** gas will be around for a long time to come.

Continued demand for gas is undeniable in my view, BUT, demand is just one side of the equation. It's **supply** that's really in question.

Supply that Australia needs and the world needs.

Against the backdrop of forecast gas shortfalls, a cost-of-living crisis, and manufacturers facing significant challenges in securing new gas supply, getting the policy settings right – and quickly – has never been more important.

And, at the moment, we certainly **don't** have them right.

[4] Wood Mackenzie Dec23 Global gas: Global Demand

[5] Gas | Australia's Energy Commodity Resources 2023

For the gas industry alone, in recent years we have been hit with no less than 10 big-stick policy interventions that have rocked investment confidence:

- The institution of price caps
- The Australian Domestic Gas Security Mechanism and Heads of Agreement
- Tightening of the Safeguard Mechanism, targeting gas and LNG
- Changes to the reliability and supply adequacy framework
- The Mandatory Gas Code of Conduct
- Gas market information transparency measures creating thousands of daily tick boxes for market participants which increases costs
- Broader electricity and gas monitoring powers to the Australian Energy Regulator
- Extending AEMO's powers to intervene in the gas market
- Numerous electricity market changes including the Capacity Investment Scheme, disorderly exit of coal generation and transmission access
- The extension on the ACCC East Coast Gas Inquiry
- Tightening of the Environmental Protection and Biodiversity Conservation Act, focused only on gas, not other developments
- And the start of sectoral decarbonisation for the electricity and energy sector.

And that's just at the Federal level.

Together, these interventions have had observable negative consequences for the gas market including delaying much needed investment in new supply, slowing down contracting activity and delaying development of short-term gas markets which provide much needed liquidity and price transparency.

While Australia has traditionally presented itself as a low-risk jurisdiction for energy and resources – recent policy decisions challenge this premise – particularly those made with little to no consultation.

The deck of cards we're playing with has changed so much that it's hard to see which card will be pulled out next.

For long-life gas projects – this makes investing for the future in Australia a tall order.

Capital is mobile and seeks secure investment environments. It will inevitably flow to where the best risk and return ratio exists, and opportunities elsewhere are looking increasingly compelling.

The simple equation here is that reduced investment in Australia equals reduced supply – and that's a major problem for Australian consumers – and a major problem for governments to lean in to solve (and quickly).

A big part of the solution is getting a clear, evidence-based, long-term strategy for gas in place in Australia.

We need a plan for a net-zero future that includes a reliable power grid, a healthy manufacturing industry and the use of Australian resources for national development and security. A clear strategy will help to create certainty and improve confidence – particularly in private investment which is so critical for Australia.

We also need to see **effective energy policy that ensures the right market signals are there** to incentivise the development of Australia's gas resources to deliver new supply to the market when and where it is needed.

Energy policy that demonises gas is not going to get us this outcome. One need only look to Victoria to see this.

And importantly, energy policy needs to do more than count molecules. The Gas Statement of Opportunities Reports and the ACCC's quarterly gas inquiry reports, while informative, do nothing to bring more gas into the system.

Similarly, following the most recent Energy and Climate Change Ministerial Council Meeting, Ministers announced: 'a more robust assessment of gas market conditions and better integration of demand-side opportunities'. I'm not even sure what that means! **No amount** of further assessment and analysis is going to fix the problem. What we **need** is policies that will ensure investment in new supply and result in gas being produced for Australian industry and our trading partners.

For Senex, the lack of fiscal and regulatory certainty has resulted in us putting our more than $1 billion Surat Basin natural gas expansion on hold in December 2022 – **where it remains**.

Over the past 18 months, we have worked tirelessly to advocate for sensible policy and to find a way back to some semblance of normality and restoration of investment confidence.

Despite getting off to a **very** rocky start, we have experienced some meaningful and welcome consultation with government which has moderated the most severe effects of the initial gas market intervention proposal.

In November last year, Senex was awarded a conditional Ministerial exemption from the price cap under the Mandatory Gas Code of Conduct – removing some regulatory uncertainty and taking us one step closer to delivering essential energy for Australians.

But this is not a silver bullet. Our project is **still stalled** waiting for Federal environmental approvals.

It is more than 500 days since we first applied for EPBC approval and while we are making progress, and lately quite good progress actually, we are not there yet.

In the executive summary of AEMO's Gas Statement of Opportunities Report, and I quote, "Senex's Atlas and Roma North expansions have been delayed by approximately one year."

So let's examine the cause of that delay.

It's **not** because of the licence conditions or Queensland approvals.

It's **not** because of subsurface risk.

It's **not** because of commercial risk.

It's **not** because of infrastructure risk.

It's **not** because of market risk. We have long-term contracts with customers in place.

It's **not** because of environmental or groundwater risk. We offered to accept all the conditions that were imposed on the approval that was given for Santos' Towrie development in February 2023, including the industry-negotiated Joint Industry Framework. This was a project with similar risks and impacts in a similar environment where effective management practices are well known, well proven, and agreed.

This delay….It's because of legislative **bureaucracy**.

It is also an irony that the permit we need EPBC approval for already had EPBC approval with the previous owner. But, because the name of the titleholder changed, a new EPBC approval was required.

That is not environmental protection – **it is legislative bureaucracy**.

These approvals would see 151 petajoules of long-term, reliable natural gas supply flow to Australian manufacturers and households from 2025.

We have conditional contracts in place with household names like CSR and OneSteel who make essential goods like plasterboard and steel, and energy retailers like AGL and Energy Australia who deliver essential energy to millions of Australian households.

The natural gas Senex has committed to supply to these and other Australian manufacturers represents almost half of the **total** enforceable commitments announced by the Albanese government for the domestic market to 2027 – a critical shortfall year.

Now, as most of you will know – Senex is **no supermajor**.

So, for a smaller producer like Senex to have such a **material contribution to avert the predicted shortfall** on the East Coast just goes to show the predicament this market is in.

And to be clear – this gas is **not** guaranteed.

Claims that the enforceable supply commitments are a solution to the shortfall problem, either intentionally or otherwise, ignore the hurdle of federal environmental approvals. **You can't supply gas that isn't produced.**

The longer approvals take, the more profound the shortfall risk becomes – not to mention the risk to manufacturing jobs and the energy transition.

And the more expensive the development becomes. To date, approval delays have increased the cost of Senex's project by more than $150 million…and counting.

We remain **unwavering** in our commitment to the domestic market, **but** it's fair to say ongoing approval delays are making it increasingly difficult to deliver the critical gas supply Australian manufacturers and households so desperately need.

The Federal Government has acknowledged there is a need to update Australia's environmental approval processes and flagged its intentions to do so as part of its "Net Nature Positive" plan.

We wholeheartedly agree with the objectives of **streamlining** regulation to better protect the environment, speed up the approvals process and build trust and integrity in our environmental laws.

However, **process matters,** and this is a public policy process that is being conducted behind closed doors with no transparency and only with the government's selected stakeholders.

Transparency matters, and the lack of it in recent public policy processes, including this one, is undermining business confidence and likely, broader community confidence as well.

Political taglines like "better for the environment, better for business and better for our economy" are meaningless.

We need meaningful public consultation with **all** stakeholders on what will be a complex set of environmental reforms.

That means doing more than secret "lock-ups" under punitive non-disclosure agreements with select industry groups and no formal consultation papers or regulatory impact statement.

For perspective, the original EPBC Act took the best part of a **decade** to create. It was formed cooperatively with State Governments and through extensive public consultation.

Fast forward nearly 25 years and the Albanese Government wants to replace it with a new Act in less than **18 months** with secret and **selective** micro-consultation.

Without transparency, it's hard to see an outcome that will truly be better for the environment **or** better for business. **Unintended consequences are inevitable**.

The new Act **must** provide certainty for proponents and a **timely assessment process or investment in Australia will grind to a halt**. The WA Cultural Heritage Act experiment provided an insight to this outcome.

The new Act **must** be a level playing field for all developments and not one where the same risks and impacts are treated differently depending on whether you are a renewables developer, property developer or gas developer.

We must see the **faster yesses** and **faster nos** that Federal Treasurer Jim Chalmers has promised.

The 1,009 days it takes on average to approve a resources project under the EPBC act is killing investment in Australia.

A delay in project approvals by a year or two, combined with additional costs navigating complex regulation, can turn a good investment opportunity into a value destroying one.

In the **immediate-term**, administrative changes should be made to prioritise the assessment of 'shovel ready' energy projects and ensure all legislated assessment timeframes are met. Over the past five years, annual report data shows that the backlog of projects awaiting approval grows by 50 to 70 projects each year.

Prioritising essential energy projects would provide material improvements in approval timeframes and bring gas supply to market sooner while maintaining the high standard of environmental protection that Australians rightly expect and deserve.

The reforms **must also avoid duplication** with State approval processes.

Currently, we are seeing duplication in a range of areas – one of which for example is groundwater assessments. When it comes to the water trigger, gas producers must satisfy the Queensland Office of Groundwater Impact Assessment that their project protects water resources and ecosystems. Then, that **same process** is duplicated through a lengthy and opaque assessment of the **same issues** by the Federal government's Independent Expert Scientific Committee, which ignores the OGIA. Both the OGIA and IESC are staffed by leading hydrogeologists who ensure Australia's precious groundwater resources are protected. So, **why** do we need two bodies to do the **same** job?

There is a gas supply shortage coming and we must improve investment confidence and get new gas supply developments moving.

This requires:

- a Future Gas Strategy that sets a clear, evidence-based, long-term strategy for gas in Australia – one that recognises there are no alternatives in applications such as brick making and fertilisers, and that gas is needed to back up renewables and maintain a reliable electricity system;
- effective energy policies at both Federal and State levels that ensure the right market signals are there to invest in new gas supply when and where it is needed – that includes bringing natural gas into the Capacity Investment Scheme; and
- clear processes and efficient response times for project approvals.

It's crunch time, and these reforms must be a political imperative.

Thank you – I would be happy to take some questions also.