

## DEPARTMENT OF CLIMATE CHANGE, ENERGY, THE ENVIRONMENT AND WATER

MB23-002293

**To:** Minister for Climate Change and Energy**EXXONMOBIL AUSTRALIA****Timing:** For meeting on Monday 3 April 2023 (9am) at CPO Sydney**Meeting with:** ExxonMobil Australia – Dr Dylan Pugh (Chair)

S. 47G(1)

**Proposed note taker:** Simon Duggan, Deputy Secretary, DCCEEW**What we want:** To understand the impacts of future domestic gas production from the Gippsland Basin on energy security.**What they want:** To provide an update on future east coast domestic gas production from the Gippsland Basin and the projects required to sustain that production. It is likely Dr Pugh will raise the Government's energy price relief measures and specifically the proposed Mandatory Code of Conduct.**Issues and Sensitivities:**

1. ExxonMobil and Woodside announced that forward investment decisions would be made on a forward 6-month basis while uncertainty about the Mandatory Code and what constitutes a reasonable price framework is settled. They have been constructive in negotiations with the Department and ACCC on supply commitment options.
2. ExxonMobil's South East Australia Carbon Capture and Storage (SEA CCS) Hub project is critical to future gas extraction from the Gippsland Basin due to remaining fields being relatively high in reservoir CO<sub>2</sub>. ExxonMobil is seeking the award of a greenhouse gas assessment permit under the *Offshore Petroleum and Greenhouse Gas Storage Act 2006*. The Minister for Resources, the Hon Madeleine King, is currently considering nominated areas to progress to public consultation prior to the next acreage release.

**Consultation:** YES – Adaption and New Industries Division, Energy Division**Attachments:**

- A:** Key Points  
**B:** Background  
**C:** Biographies

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Date cleared:	30/03/2023	Date sent to MO:	30/03/2023

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## DEPARTMENT OF CLIMATE CHANGE, ENERGY, THE ENVIRONMENT AND WATER

## Attachment A

## Key Points

**East Coast Gas Market**

- Exxon's gas production plant at Longford is the largest gas production facility in southern Australia and supplies around 50 percent of the east coast domestic gas market from the Gippsland Basin fields in Bass Strait.
  - Gas production in 2022 from the Gippsland Basin was just over 300 PJ (the east coast domestic market was around 580 PJ) with last year achieving the highest production level since 2017, and well above AEMO forecasts in the 2022 GSOO.
  - Gas production from Gippsland Basin fields is forecast to fall sharply in the coming years, which will increase reliance on gas from other sources (such as Queensland, supported by expanded pipeline and storage capacity, and potentially LNG imports) to supply the domestic east coast gas market.
  - In a speech at the 2023 Australian Domestic Gas Outlook Conference on 22 March 2023 ExxonMobil Australia's Commercial Director noted *"the Gippsland Basin Joint Venture will no longer have the capacity to step in as it has in the past to provide whole of market solutions when planned or unplanned maintenance events occur, or when additional gas is required to support the electricity market"*.
- While AEMO has revised up its forecast of production from the Gippsland Basin for 2023, compared with its forecasts in 2022, AEMO has highlighted the potential for gas supply shortfalls on peak demand days in 2023 under extreme winter conditions where large demand for gas powered generation coincides with high domestic gas consumption.
- Concerns about gas supply adequacy in the east coast market have underpinned a range of measures initiated by the Government since last winter including reform of the Australian Domestic Gas Security Mechanism (ADGSM) and renegotiation of the Heads of Agreement, introduction of an emergency price cap and development of a Mandatory Gas Code of Conduct and gas market reforms being progressed by Energy Ministers.

**Gas Mandatory Code of Conduct and Gas Price Cap**

- On 15 December 2022, the Commonwealth Parliament passed legislation to enable introduction of a mandatory code of conduct for gas producers and users and give powers to the Treasurer to regulate the price of gas.
- The instrument to establish the temporary \$12 wholesale gas price cap came into effect on 23 December 2022 and will be in place for 12 months.
  - The ACCC considers \$12/GJ to be a reasonable price allowing for the key costs of domestic supply, including a reasonable return on capital, for gas sourced from currently operational fields.
- The gas price cap, together with state government measures on coal prices, is expected to dampen increases in national retail electricity retail prices and gas prices.
- Public consultation on the price cap was conducted from 9 to 15 December 2022. During this period, Treasury received 70 substantive submissions from 58 individual organisations. The limited consultation period was appropriate as the measure deals with emergency circumstances.

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- In its submission to public consultation on the gas price cap ExxonMobil noted that, the approach to consultation was “*unreasonable and rushed*” and the consultation period was “*unrealistic*”. Additionally, ExxonMobil noted “*without reasonable and meaningful consultation across all stakeholders, the unintended consequences of the Bill will be significant and have a long-lasting and negative impact on Eastern Australia’s energy security.*”
- A Gas Mandatory Code of Conduct is currently under development and is aimed at addressing systemic issues within the wholesale gas market by setting minimum standards for dealings between gas producers and customers in the negotiation of gas supply agreements, building off the existing Voluntary Code of Conduct.
- A consultation paper released on 9 December 2022 proposed the Code would include a reasonable pricing mechanism and arbitration framework to ensure the affordability of domestic gas once the price cap expires, while allowing for a reasonable return on investment for gas producers.
- More than 60 submissions on the design of the Code were received and are currently under consideration by the Department.

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- A second round of consultation on the Code is expected to take place in April when more specific information on the code’s design has been developed taking into account stakeholder views provided on the first phase of consultation including the need to retain investment incentives.

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## Attachment B

## Background

**East Coast Gas Market**

- AEMO's 2023 Gas Statement of Opportunities (GSOO) reports a risk of peak day shortfalls under very high demand conditions in the southern states from winter 2023.
- AEMO's forecasts are consistent with the ACCC's latest Gas Inquiry report projecting a 33 PJ shortfall in 2023 if LNG producers export all their uncontracted gas production.
- Beyond 2023, the supply outlook remains tight with forecast production insufficient to meet total domestic and LNG export demand from 2027.
- To address southern supply issues, AEMO recommends expanding southern supply or increased transportation capacity to access northern supply to avoid domestic supply gaps. AEMO further notes that while currently subject to investment uncertainty, LNG import terminal developments, if they proceed, could delay the incidence of supply gaps.

**The Gippsland Basin Joint Venture (GBJV)**

- Exxon and Woodside Energy are 50:50 joint venture partners in the GBJV, which has operated in the Gippsland Basin in Southeast Victoria since 1964. The GBJV supplied about 50 per cent of the gas in the east Australian domestic market in 2022.
- While gas production is expected to commence a decline, there is still up to 15 years of gas supply available. This supply will help meet southern market needs, but new sources of gas are required as production levels will sharply decline in the near-term.
- Future gas developments in the Gippsland Basin are expected to be more challenging – deeper, smaller, and with higher CO<sub>2</sub> content, alongside investment uncertainty and the need to meet climate goals. The primary constraint to more immediate production of gas is infrastructure-related – to 'condition' lower quality remaining gas prior to processing.
- Several committed, anticipated and potential projects in the Gippsland Basin may provide additional supply to southern markets.
  - **s. 47G(1)**
  - The Golden Beach production and storage project (currently being supported by a Commonwealth loan of up to \$32 million) is considered a potential project in the 2023 Victorian Gas Planning Report (VGPR).
  - There are also several other projects classified as Potential projects at various stages of development including from the Gippsland Basin Joint Venture.

**Proposed Gippsland CCS Project**

- Exxon has publicly stated its intention to use the depleted Bream field and associated infrastructure in the development of the South East Australia Carbon Capture and Storage (SEA CCS) Hub. This project is expected to require approximately \$430 million of capital investment and has the potential to provide up to 2 Mtpa of CO<sub>2</sub> initial injection capacity, which would support its own plans for the Gippsland Basin, and also include additional capacity for storage of CO<sub>2</sub> from third party sources which could conceptually include from hard-to-abate sectors in Victoria, **s. 47G(1)**

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- ExxonMobil is a member of the CO2CRC Regulatory Affairs Committee. CO2CRC has reached out to the department seeking engagement in a series of regulatory approvals roundtables, aiming to improve the application of key CCS project regulatory approval processes.

#### ***Carbon Capture and Storage (CCS) Hubs and Technologies Program***

- Esso Australia was a successful applicant under the previous Government's Carbon Capture Use and Storage Hubs and Technologies (CHAT) program.
  - There were two recommended grants, totalling \$40 million (\$25 million in the CCUS Hubs stream, and \$15 million in the CCUS Technologies stream).
  - Both of the recommended projects were associated to the SEA CCS Hub.
  - In the 2022-23 October Budget, the current Government decided not to proceed with the CHAT program, and as a result, both recommended grants were not able to proceed.

#### ***Transboundary movement of CO<sub>2</sub>/ export of international CO<sub>2</sub> to Australia for permanent geological storage in Commonwealth waters***

- The Government has not made a decision on transboundary movement CO<sub>2</sub>, but we are open to having preliminary discussions with stakeholders to hear their views on the matter.
  - We have established a multi-lateral working group with Singapore, Republic of Korea and Japan to explore the issues around policy, legal, technical and regulatory to help inform our policy development and decisions.
- There are significant legal, policy and techno-economic barriers that need to be addressed before any export of CO<sub>2</sub> to Australia can occur.
  - This includes the ratification of a 2009 amendment to the London Protocol to allow for the export of CO<sub>2</sub> across international borders for the purposes of sub-seabed geological formations.
  - Australia is currently progressing ratification of the 2009 amendment which is led by DCCEE, but we are unable to provide a timeframe at this point in time.
- There is a current Parliamentary inquiry into the 2009 Amendment, by the House of Representatives Climate Change and Environment committee. Submissions closed on Friday 10 March.
  - The committee hasn't determined when they will finalise a report or if they will undertake public hearings.

#### ***Potential Disruptions at the Longford Gas Plant***

- On 16 June 2022 AEMO issued a Notice of a Threat to System Security, due to an unplanned offshore outage at the Longford Gas Plant.
- In October 2022 protected industrial action at Qenos (a plastics company using ethane from Longford) created concerns of a potential disruption to gas supply from the Longford gas production plant.
  - The Fair Work Commission suspended the industrial action limiting impact at the time. The issue remains unresolved.

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- In its Victorian Gas Planning Report, AEMO noted that full day outages at Longford projected in 2023 have been delayed.
  - The report notes that the completion of the Western Outer Ring Main project will increase the operability and resilience of the Victorian Declared Transmission System if the Longford gas plant experiences a full plant outage.

#### **Minimum Stockholding Obligation (MSO)**

- The Minimum Stockholding Obligation (MSO) is established by the *Fuel Security Act 2021*.
- On 8 November 2022 the *Fuel Security (Minimum Stockholding Rules) 2022* came into force and set out that the scheme would commence from 1 July 2023.
- The MSO will require fuel importers and refiners to hold a minimum amount of petrol, diesel and jet fuel.
- Exxon will be a regulated entity and subject to an MSO for all three fuel types as a result of their 2022 import activities.
- Exxon were provided with a notice of intent to trigger the MSO for petrol, jet fuel, and diesel in January. s. 47G(1)

s. 47G(1)

#### **Australian Domestic Gas Security Mechanism (ADGSM) and Heads of Agreement**

- The Minister for Resources negotiated a new Heads of Agreement (HoA) with Australia's east coast LNG exporters in 2022.
- The commitments made through the HoA were intended to provide assurance that sufficient gas is supplied to the east coast market in 2023 to prevent a shortfall and avoid the need for the ADGSM to be activated.
- The Government has brought forward reforms to the ADGSM from 1 July 2023 to 1 April 2023 to address potential supply shortfall risks.

s. 47G(1)

#### **East Coast Gas Market Reforms**

- On 12 August 2022 Energy Ministers agreed to the quick progression of measures to ensure AEMO can manage security and reliability risks across east coast gas markets in the lead up to and during winter.
- Urgent reforms to the National Gas Law have since been passed through SA Parliament to help reduce the risk of gas supply shortfalls in 2023.
  - Regulations and rules to support implementation of this framework are expected to be made in the coming weeks.
- These powers will improve AEMO's ability to forecast and signal emerging security concerns to the market.
  - If the market fails to respond, AEMO will be able to issue directions to market participants or trade in gas and related services to address the threat.
- ExxonMobil did not provide a submission to the consultation on these reforms.

***The Gippsland Basin Joint Venture (GBJV) CO2 Supply Agreements***

- In March 2021, the GBJV (a 50-50 joint venture between Esso Australia Resources Pty Ltd [Esso] and Woodside Energy Pty Ltd.) entered into a long-term CO2 supply agreement with Air Liquide Australia.
- In August 2022, the GBJV entered a long-term CO2 supply agreement with leading gas and engineering company BOC.
- Under these agreements, Esso will capture and send excess CO2 from its Gippsland gas production to Air Liquide and BOC, who will process and supply the gas in various forms to Australian businesses.
- These agreements significantly reduce CO2 waste, leading to reduced emissions and increased long-term CO2 reliability and supply for Australian industries.

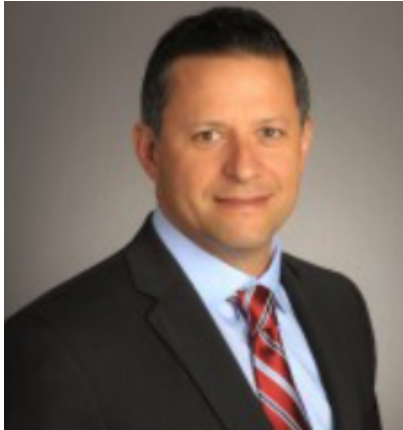
In a March 2022 press release, Dr Pugh stated *“Esso Australia is actively pursuing opportunities to provide CO2 from our operations to customers for beneficial use, supporting our own emissions reduction goals while maintaining our supply of essential energy to Australia.”*



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## Attachment C

## Biographies

**Dr. Dylan Pugh**  
**Chair of ExxonMobil Australia**

Dr Pugh was appointed Chairman of ExxonMobil Australia Group of Companies in April 2021. Prior to this appointment, Dr Pugh was the General Manager of ExxonMobil's U.S. Upstream Conventional operations, overseeing operations in Alaska, California, Wyoming and the U.S. Gulf of Mexico.

Dr Pugh joined ExxonMobil Upstream Research Company in 2003 and has held a variety of senior executive positions in the corporation's upstream operations, research and commercial organisations, with assignments in Canada, Kazakhstan and the United States.

Dr Pugh holds a Bachelor of Science in Physics and Doctor of Philosophy in Materials Science from the Virginia Polytechnic Institute and State University.

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