

13 December 2022

Gas Market Consultation  
Labour Market, Environment, Industry and Infrastructure Division  
The Treasury  
Langton Crescent  
Parkes ACT 2600

**Manufacturing Australia Submission**  
**Options to ensure the domestic wholesale gas market delivers for Australians**

Thank-you for the opportunity to comment on the above consultation paper.

Manufacturing Australia (MA) is led by the CEOs of some of Australia's largest manufacturing companies: AdBri, Alumina, BlueScope, Brickworks, Capral, Cement Australia, CSR, DuluxGroup, Incitec Pivot, Orora, Rheem, Sims and Tomago Aluminium. MA's members provide direct and indirect employment to more than 100,000 Australians and operate some 500 plants or smaller facilities around Australia, notably in outer suburban and regional Australia.

Gas is a fundamental input to Australian manufacturing:

1. Gas is an essential and non-substitutable feedstock in plastics and chemical manufacturing.
2. Gas is widely used to produce heat and steam, generate electricity and power manufacturing processes.
3. Gas fired generation is essential to a proper functioning National Electricity Market, in particular as the market transitions to lower emissions technologies. Gas plays a crucial role, alongside other technologies, in "firming" renewable electricity as the share of coal-fired generation in the NEM decreases.

Security of domestic gas supply, at competitive prices, is therefore vital to continued investment in many Australian manufacturing industries, as well as an orderly and well managed transition to lower emissions technology.

**General comments in response to announced measures.**

This short submission responds only to the "price cap" component of the consultation paper. A subsequent submission will respond to the remainder of the consultation paper, as has been requested.

- **Manufacturing Australia welcomes the announcement of an emergency, temporary cap on wholesale gas prices for 12 months.**
- Given the extraordinary disruption to global energy markets arising from Russia's invasion of Ukraine, Manufacturing Australia regards the proposed cap as prudent, carefully designed and sufficiently rigorous given its reliance on independent analysis from the ACCC.
- Further, while the proposed cap is designed for Australian circumstances, it is important to note that intervention in domestic energy markets in some form or other is entirely consistent with the actions taken by many economies around the world to protect the interests of customers and avoid destruction of manufacturing businesses.
- A temporary cap on wholesale gas prices is necessary to avoid closures and job losses in Australian manufacturing businesses without contracts in place for the coming calendar year.
- This measure will also reduce the risk of repeating the severe disruption to electricity markets that was experienced in 2021 as a result of extraordinarily high gas spot prices.
- Failure to enact an emergency measure such as this is untenable, and risks unusually high energy prices hollowing out the domestic economy, forcing the closure of otherwise competitive and viable businesses, with lasting consequences.

**Response to specific consultation questions.**

- *Is \$12 per gigajoule the appropriate level for a cap on wholesale contracts offered by producers, for supply from existing fields?*
  - Manufacturing Australia accepts the ACCC analysis and methodology to determine \$12 as an appropriate level for an emergency, temporary cap on wholesale gas contracts.
  - It is important to note however that, by global standards, \$12 per gigajoule remains a *very high* gas price.
    - In the USA's *Henry Hub* the latest available price of the 12-month strip averaging January 2023 through December 2023 futures contracts is \$5.032USD/MMBtu or ~\$7.74 AUD per GJ.
    - Further, \$12 per gigajoule is more than double the reported price of gas in Western Australia.
    - The Australian Energy Market Operator (AEMO) Gas Statement of Opportunities 2022 found that production costs, including a return on capital, at 2P fields in Eastern Australia ranges from \$4.16 to \$6.60. These production costs suggest all fields would see a return on investment plus a profit at \$7, let alone \$12.
  - If Eastern Australia is to attract new capital investment or substantial re-investment in gas-intensive manufacturing, a gas price substantially lower than \$12 per gigajoule – and more akin to WA gas prices – will be required, and should be considered in the subsequent reasonable price framework consultation.
  - However, MA reiterates that for the purpose of a temporary price cap, \$12 is an appropriate level and has our support.
  
- *Does this need to be expressed as an average to ensure producers are able to offer flexibility over the course of the contract?*
  - No. The ACCC has been sufficiently rigorous in determining \$12 allows for a reasonable return and affords producers such flexibility already.
  
- *In relation to the scope of the price cap:*
  - Manufacturing Australia's contends that all domestic gas sales should be covered to make the price cap effective, regardless of field of origin and including imported gas, should imports commence during the period the cap is in place.
  - On the subject of investment risk, Manufacturing Australia's view is that the risk to investments by gas producers is negligible. This is because:
    - The operation of the cap has been carefully considered and informed by ACCC analysis.
    - The level of the cap is very high, allowing for substantial rate of return at every existing Australian gas field, according to published field cost analysis.
    - Domestic gas consumption is relatively small compared to LNG volumes, which will be unaffected by the cap.

Thank-you for the opportunity to comment on the consultation paper.

Yours Faithfully,

**Ben Eade**  
Chief Executive Officer  
Manufacturing Australia