

Operational policy

Complying with the Australian Market Supply Condition

MIN/2019/5131

09 November 2022

Version 2.03

1. Purpose

This policy clarifies how a holder of a petroleum tenure for Prospective Gas Production Land Reserve (PGPLR) land and its customers are able to satisfy the Australian market supply condition (AMSC) and comply with section 175C(1) of the *Petroleum and Gas (Production and Safety) Act 2004* (P&G Act).

The information contained in this policy reflects current departmental practices and does not limit the exercise of discretion or override legislative requirements. These practices may change from time to time with changes to be published through a revised version of this policy.

2. Background

Chapter 2, Part 2A of the P&G Act contains the provisions governing the operation of the PGPLR. The AMSC requires that gas produced from the PGPLR be sold or supplied only to the Australian market and that any contract or other arrangement for the sale or supply of gas, must include a condition that further sale or supply of the gas may only be to the Australian market.

In some circumstances, the Minister has included an additional condition on producers subject to the AMSC. This additional condition requires that any gas produced from the PGPLR land must only be supplied to an Australian manufacturer. This policy will also clarify how the AMSC can be met for producers with this additional condition.

This policy recognises that once AMSC gas enters a pipeline, it is indistinguishable from other gas in the same pipeline. For that reason, compliance with the AMSC will be based on whether the producers and consumers of the gas can demonstrate the volumes they have sold or consumed in the Australian market are equal to or greater than the volume of AMSC gas produced from PGPLR land.

Gas swaps, where gas is traded between producers or with other entities or within a portfolio of gas producers, will also meet the AMSC if the policy requirements are met.

Gas producers can sell AMSC gas directly to large industrial consumers, or to retailers, who then on-sell the gas to their domestic customers. The sale of gas necessarily involves

interaction with the Short Term Trading Market (STTM) and/or the Victorian Declared Wholesale Gas Market (DWGM), and the Gas Supply Hub.

The STTM and DWGM are required by many large industrial consumers to deliver gas at their sites and enable the balancing of gas usage on days when their gas requirements do not exactly match the amount of gas they have contracted from a supplier. For example, on some days a consumer may sell excess gas into the STTM or DWGM, while on other days it may purchase additional gas from the STTM or DWGM. This policy clarifies how the department will treat compliance with the AMSC when consumers need to sell excess gas into the STTM or DWGM.

Retailers and portfolio gas customers sell gas to thousands of customers, typically using reticulated gas distribution networks within the STTM and DWGM. Most (but not all) of their customers will be domestic gas users. This policy clarifies how the department will treat compliance with the AMSC for retailers that obtain only a small portion of their gas from AMSC producers.

Finally, this policy details how sales of gas into the Gas Supply Hub, e.g. at Wallumbilla, will be treated. The GSH is an exchange for the wholesale trading of gas, which was introduced to improve wholesale trading for the east coast gas market by enabling generators, users, producers, and retailers to manage their daily and future gas requirements.

Through an electronic platform, GSH participants can trade standardised, short-term physical gas products at each of the three foundation pipelines connecting at Wallumbilla. AEMO centrally settles transactions, manages prudential requirements and provides reports to assist participants in managing their portfolio and gas delivery obligations.

3. Policy determination

The department is committed to supporting the purpose of the AMSC policy in ensuring that gas produced from petroleum leases subject to the AMSC is made available only to the Australian market and that entities who purchase or are supplied such gas are made aware of how compliance will be assessed.

3.1 Meeting the AMSC – selling into the STTM or DWGM

Customers that purchase AMSC gas directly from a PGPLR producer will meet the AMSC by using that gas inside Australia. It is common for consumers to not require the exact same amount of gas each day due to operational reasons, e.g. lower plant usage, nominating down on firm Gas Supply Agreements to manage take or pay obligations, shutdowns due to maintenance etc.

In these cases, industrial consumers that have STTM or DWGM registration and do not have the capacity to store excess gas will seek to sell gas surplus to their daily requirements into these markets. There are three STTMs – Brisbane, Adelaide and Sydney. The DWGM is based in Victoria.

The STTM and DWGM rules are set and regulated by the Australian Energy Market Operator (AEMO). These markets work as daily balancing markets for gas – sellers bid gas into the market in return for a price. It is not possible for the sellers to place an AMSC on gas sold within the STTM or DWGM.

Notwithstanding this, surplus gas sold into these markets is contained in the relevant pipeline infrastructure for consumption by other customers off the transmission pipeline or from the

distribution networks connected to that transmission pipeline. Typically, 99% of all gas bought on the STTM is used domestically.

For these reasons, the department will accept AMSC gas supplied into the STTM or DWGM as meeting the AMSC for the purposes of compliance with section 175C of the P&G Act.

Example 1: *Consumer A, a domestic manufacturer purchases all of its gas from a PGPLR producer¹ – 10 petajoules for the year. Due to a market slow down, Consumer A only consumes 9 petajoules of the AMSC gas it purchased. As it is unable to store the remaining one petajoule, it sells it into the STTM.*

Consumer A has met the AMSC. It has consumed 9 petajoules and sold the remaining one petajoule into the STTM, which is considered to meet the AMSC.

The PGPLR producer has also met the AMSC for the 10 petajoules of gas it sold to Consumer A, as long as its contract with Consumer A included a condition that further sale or supply of the gas can only be to the Australian market (which includes the STTM/DWGM).

3.2 Meeting the AMSC – portfolio gas customers including retailers

Retailers, market aggregators and larger commercial and industrial customers (collectively referred to as 'portfolio gas customers' for the purposes of this operational policy) often manage a broad and dynamic portfolio, purchasing gas from different sources. This may be for their own end use and/or for on supply to other Australian customers. This includes market aggregators, which are like retailers acting in an intermediary sense purchasing from producers and on supplying to Australian customers.

Selling AMSC gas to retailers will allow PGPLR producers (who are not themselves retailers) access to many more, usually smaller, domestic customers. By their very nature, retailers supply gas to Australian consumers, who do not have the capacity to contract directly with wholesale gas producers. In this way, producers selling gas to a retailer is akin to selling into the STTM, DWGM or Gas Supply Hub.

As retailers supply thousands of customers, they access gas from many producers and wholesalers. Gas subject to an AMSC will only make up a very small percentage of the gas a retailer sells in one year. For example, a retailer may sell 200PJ of gas in one year, and only 10PJ will be subject to the AMSC.

Market participants that aggregate gas quantities from several producers and on sell that gas to a customer base perform a similar function to retailers.

Larger commercial and industrial customers will generally consume all gas purchased in their various facilities but may, on occasion, have excess gas that they do not require and will seek to sell this gas to third parties, sometimes at very short notice.

The P&G Act requires entities on-selling AMSC gas to include a condition in their contracts that any further sale of AMSC gas by consumers must be to the Australian domestic market. However, for portfolio gas customers who maintain a portfolio of supply to be applied to their own end use and/or for on sale to third parties, it would be impractical to include this condition

¹ This example equally applies if Consumer A buys AMSC gas from a retailer.

into these contracts where supply and consumption is on a portfolio basis and not all of their supply will be from PGPLR Land. This would otherwise limit the scope of customers that would be able to access the AMSC gas and reduce the attractiveness for larger commercial and industrial customers to contract for AMSC gas (in the context of where those customers have excess gas to their operational requirements).

In recognition of the impossibility of determining where a particular quantity of gas was produced once it is in a pipeline, references to the further sale or supply of gas by an entity is taken to mean a volume of gas equivalent to that purchased by or otherwise supplied to the entity from the PGPLR land.

To meet the AMSC, a portfolio gas customer (that is not a large industrial customer that takes all of the gas they purchase into an STTM or the DWGM) will need to show that they have sold or consumed a volume of gas equivalent to that supplied to them from PGPLR land over the course of a year in the Australian market. The department will accept a statutory declaration annually outlining that this requirement has been met, together with any evidence the portfolio gas customer considers is appropriate. Evidence could take the form of a copy of relevant gas sales contracts with PGPLR land producers, STTM/DWGM schedule data, pipeline allocation data or another document the portfolio gas customer considers appropriate.

***Example 2:** Retailer A buys 10 PJ of AMSC gas from a PGPLR producer. The retailer adds this to a portfolio of 100 PJ (making a total of 110 PJ). In the first year of accessing AMSC gas, the retailer sells 105 PJ to domestic customers, and a further 5 PJ to the GSH.*

In order to show compliance with the AMSC, the retailer will need to provide the department with a statutory declaration that states that 10 PJ was supplied to the Australian market.

The PGPLR producer has also met the AMSC by selling the gas to an Australian retailer, as long as its contract with the retailer included a condition that further sale or supply of a volume of gas equivalent to that purchased by, or otherwise supplied to the entity, from the PGPLR land may only be to the Australian Market.

The above would apply similarly to other portfolio gas customers.

3.3 Meeting the AMSC – selling excess gas into the Gas Supply Hub

The GSH is another trading market that deals with short-term products and wholesale customers. Participation in the GSH is anonymous between sellers and buyers, this means it could theoretically include gas exporters. Similar to the STTM, the AMSC condition cannot be attached to gas sold through the GSH due to the standard nature of the AEMO Exchange Agreement and trade anonymity.

The GSH enables the efficient balancing of the east coast gas market. Domestic demand drives the volume of domestic gas required and where that demand exists, buyers would have the opportunity to bid for the gas via the GSH. As such, PGPLR gas that is supplied into the GSH has been made available to the domestic market (and also the export market), meaning the gas is available to domestic users, should they want it.

PGPLR producers will need to sell into the GSH in a variety of circumstances. Most commonly, when they are ramping up production and to balance their portfolio, i.e. where their production is more than enough to meet their gas supply contracts and there is limited ability to store gas.

A normal ramp up process may take up to 18 months. In the case of ramping up production, supply of gas into the GSH will be necessary.

Additionally, the nature of CSG production means there is minimal capacity to control production to match contracted demand. In order to manage excess production, producers sell un-contracted gas into the GSH. The only other alternative would be flaring (burning) gas, which is not in the public interest, environmentally or economically.

The department will accept PGPLR gas sold into the GSH as meeting the AMSC where the producer can demonstrate it was not reasonably practicable to sell all of the gas produced from PGPLR land directly to domestic customers under firm gas supply contracts and only within the following limits:

- During the field commissioning phase – up to 100% of gas produced from PGPLR land will be able to be sold into the GSH. The commissioning phase will be no longer than 3 months from first sales specification gas delivered to domestic customers;
- During the life of the field (including ramp up, plateau and field decline phases) – up to 25% of gas produced from PGPLR land will be able to be sold into the GSH.

In order to demonstrate the applicable limits for sales into the GSH have not been exceeded, the department will require the PGPLR producer to provide a statutory declaration outlining (with evidence):

- What phase of production the PGPLR producer has been in for the period of the statutory declaration (e.g. field commissioning phase, ramp up phase, etc) including what dates the relevant phase/s commenced and ended;
- How much gas was produced from PGPLR land,
- How much of this gas was sold on the GSH,
- How much gas was sold directly to domestic customers under firm gas supply contracts,
- How much gas was contracted on a firm basis to be sold to customers
- Where the amount of gas sold to customers is less than the amount contracted, an explanation of why this gas was not sold to that customer and instead sold on the GSH.

For gas sales during the ramp up, plateau and field decline phases, the statutory declaration above should also include information and evidence to demonstrate why it was not reasonably practicable to sell the gas directly to domestic customers under firm gas supply contracts.

To do this the declaration could provide information about:

- the nature of gas production within the relevant period and why this meant firm gas supply contracts were not reasonably practicable. For example, was there an increase in gas production above what was forecast and contracted with parties; and/or
- the efforts the PGPLR producer went to, to try to sell directly to customers using firm gas supply contracts during the relevant period.

The statutory declaration is required to be provided prior to 30 June each year.

3.4 Meeting the AMSC – using gas swaps

In the context of PGPLR gas, a swap will occur where a party (Party A) supplies a quantity of PGPLR gas to another party (Party B) who then intends on supplying an equivalent quantity of gas (not necessarily PGPLR gas) at a different location or at a different time back to Party A.

A swap can also take place across a company's portfolio, for example, one producer with multiple tenures swapping gas between its PGPLR and non-PGPLR tenures. Under a gas swap, PGPLR gas may be supplied but not instantaneously returned with delivery of an equivalent quantity of gas occurring at a future date.

Gas swaps are a substitute for pipeline transport to enable the efficient movement and consumption of gas in the east coast domestic gas market. They avoid unnecessary physical transportation and value loss to pipeline operators by enabling physical gas molecules to be used closer to where they are produced. Gas swaps are also useful in filling a PGPLR producer's production profile gaps and as a substitute for physical storage when needing to manage field production.

It is possible that gas produced from PGPLR land could be swapped with a gas exporter. In keeping with the intent of the AMSC, the PGPLR producer needs to show that a volume equivalent to what they produced from PGPLR land has been sold or consumed by the Australian market, regardless of what entity the gas is swapped with.

The department acknowledges that inclusion of an AMSC in the swap terms is not necessarily required (i.e. in the same way that an AMSC would not be included in a physical gas transportation agreement), unless that is how the PGPLR producer intends demonstrating compliance with this policy. For example, the PGPLR producer may demonstrate compliance with the policy by delivering PGPLR gas to the swap counterparty, which has an AMSC in the contract that is satisfied when the swap counterparty delivers in return to the PGPLR producer an equivalent quantity of gas. The gas returned by the swap counterparty then has an AMSC attached, which the PGPLR producer will have to comply with by supplying it to the Australian market (which will include an AMSC).

Example 3: *A PGPLR producer has a customer in Mount Isa and enters into a swap with a gas exporter that has a position in Mount Isa. Over the course of a year, PGPLR producer supplies 1 PJ of PGPLR gas to the exporter at Wallumbilla (which is then taken to Gladstone for liquification and global export). Over the course of the same year, the gas exporter supplies 1 PJ of gas from its portfolio to the PGPLR producer in Mount Isa.*

The PGPLR producer sells that 1 PJ supplied in Mount Isa to a customer as if that gas were PGPLR gas including an AMSC into the contract with the customer (i.e. a condition that further sale of the gas may only be to the Australian market). The treatment of the gas between the PGPLR producer and gas exporter is irrelevant as long as the quantities balance (or the PGPLR producer ensures that a quantity equivalent to what it sells under the swap) is sold or consumed in the Australian market.

Ultimately, it is the "on supplied" entity (gas user or portfolio gas customer) that has the relevant AMSC.

Example 4: *PGPLR Producer B has a significant unexpected drop in production and needs to temporarily 'borrow' 50 TJ gas from a gas exporter to continue supply to its domestic customers; with later production from PGPLR land to be used to pay back the 50 TJ of gas that was borrowed.*

Alternatively, PGPLR Producer C and a gas exporter arrange for the producer to deliver volumes of gas to the exporter during winter (when Queensland domestic

demand is usually lower) and in return the gas exporter provides the equivalent volume of gas to the producer in summer (when Queensland domestic demand is usually higher).

In example 4, Producers B and C will need to provide evidence that they have entered into a contractual arrangement that requires the exporter to provide an equivalent volume of gas to what was swapped to the PGPLR producer within 12 months of the swap occurring.

In all cases, if the swap occurs within the one producer's portfolio, a formal swap contract is not required to be provided to DNRME, however the producer will need to show an equivalent amount of gas produced from the PGPLR land has been sold or supplied to the Australian Market. This could be shown through a statutory declaration or sales contracts.

Evidence that swapped gas has been sold or consumed in the Australian market will be required within 12 months of the swap occurring, or annually for ongoing swaps.

In all examples above, the obligation to provide evidence that a volume equivalent to the gas swap amount is being sold or consumed by the Australian market is subject to the other parts of this policy (for example, sales through the Gas Supply Hub during ramp up period).

3.5 Meeting the AMSC and Manufacturing Condition

Producers that are subject to the AMSC and Manufacturing Condition have an additional hurdle to meet. They have to show that a volume equivalent to that produced from PGPLR land was supplied not only to the Australian market, but also to an Australian Manufacturer.²

***Example 5:** Producer B is subject to the AMSC and Australian Manufacturer condition. They produce 10 PJ from the PGPLR land in the first year. They will need to provide evidence that 10 PJ was sold to an Australian Manufacturer and that the contract included a condition that the gas may only be sold or supplied to both the Australian Market and to Australian Manufacturers.*

The manufacturers that purchase the PGPLR gas can show they have met the AMSC by providing evidence that they have consumed a volume equivalent to that purchased from the PGPLR producer. Any gas surplus to the manufacturer's requirements can be re-sold to the Australian market; either to industrial consumers, to a retailer, or utilising the STTM or DWGM as outlined in the policy above).

The department will accept a statutory declaration annually outlining that this requirement has been met, together with any evidence the manufacturer considers is appropriate. Evidence could include a sales contract with further purchasers, STTM/DWGM schedule data, or another document the manufacturer considers appropriate.

² Australian manufacturer as defined under Division C of the Australian Bureau of Statistics' Australian and New Zealand Standard Industrial Classification, 2006, that will consume gas within Australia – [https://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/5718D13F2E345B57CA257B9500176C8F/\\$File/12920_2006.pdf](https://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/5718D13F2E345B57CA257B9500176C8F/$File/12920_2006.pdf)

Document information

Availability and location: External – Business Industry Portal

Owner and approver: Deputy Director-General, Georesources Division

Review date: October 2023

Related documents: Nil

Contacts: For help and information about this policy, please contact the Petroleum Assessment Hub on (07) 3199 8118 or email petroleumhub@resources.qld.gov.au.

Disclaimer

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Keywords

MIN/2019/5131; Resources; operational policy; Australian Market Supply Condition; domestic gas policy Queensland; PGPLR