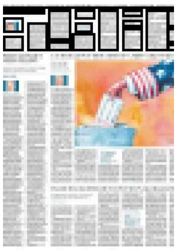
12 Jan 2017
The Australian, Australia

Author: Josh Frydenberg • Section: General News • Article type : News Item
Audience : 97,419 • Page: 10 • Printed Size: 357.00cm² • Market: National
Country: Australia • ASR: AUD 7,214 • Words: 831 • Item ID: 711799371



STATES MUST UNLOCK RESERVES TO HELP LOWER GAS PRICES

Bans on extraction damage the economy and undermine our energy security

JOSH FRYDENBERG

Just before Christmas I met a delegation of food manufacturers who had operations across regional Australia.

Between them, they employed almost 10,000 workers and they included some of the biggest names from the dairy, vegetable and fruit processing sectors.

Their concerns were the same. Rising electricity and gas prices were placing severe pressures on their cost structures while negatively influencing future decisions about further investment and employment. In the case of Kagome, Australia's largest tomato processing company, its gas bill was increasing by about 50 per cent within a 12-month period.

This is not an isolated case, with households and businesses alike now exposed to a tight gas market and higher prices.

The cause can be found on both the demand and supply sides.

On the demand side, while we have rightly welcomed billions of dollars of investment and established thousands of new construction jobs through our liquefied natural gas industry, this has tied our domestic markets to international prices. This is the new reality for consumers and producers.

On the supply side, the logical market response to increased demand would be to unlock additional reserves. However, in practice there have been unhelpful constraints, most significantly the rising tide of moratoriums and bans on gas extraction imposed at the state and territory level.

Victoria has a moratorium on conventional onshore gas exploration to 2020 and a permanent ban on unconventional gas exploration. NSW has reduced its footprint for gas exploration licences from 60 per cent to about 8.5 per cent of the state's total, with most licences bought back by the state.

The Northern Territory has a moratorium while an inquiry takes place, and Tasmania has a moratorium on shale gas and petroleum until 2020. This has led to a remarkable situation in which Queensland, with its successful coal-seam gas industry, is the source of 99 per cent of unconventional gas production across our country, while in contrast NSW imports from other states 95 per cent of the gas it consumes.

This is not good enough. The answer must be for the states to adopt a more sensible and nuanced approach by assessing the environmental and economic merits of each particular gas exploration proposal rather than pursuing blanket statewide moratoriums and bans.

Indeed, when it came to unconventional gas, this was the recommendation of the Australian Competition & Consumer Commission in its extensive report last year into Australia's east coast gas market.

Such an approach by the states would bring more gas into the market, helping to address supply issues as well as to strengthen the security of the system.

In 2014-15, gas accounted for 21 per cent of total electricity generation in Australia, at the same time bringing to the grid the key characteristics of reliability and dispatchability. This is because it can be brought online quickly to meet changes in demand.

With gas having about half the emissions profile of coal, it also plays an important role as a transition fuel as we move to a lower emissions economy.

Another significant way to bring down the cost of gas is through reforms the government is pursuing to ensure its efficient delivery from the producer through the pipeline to the end consumer.

These are the most significant changes to the system in decades and recently have been agreed to by the Council of Australian Governments Energy Council.

Historically, gas contracts in Australia have been secret, long-term and bilateral.

For the first time, wholesale prices will be transparent when they are published on an electronic billboard.

There also will be two major trading hubs — in Queensland and Victoria — that will enable more gas to be traded on the open market.

Both sets of reforms will create more options, competition and lower prices for customers.

Under the existing system, major retailers and industrial users of gas have raised concerns about what they consider monopoly pricing and the unequal bargaining position they have had vis-a-vis the pipeline operators.

In effect, they claimed, they were being presented with a stark choice: take it or leave it.

COAG energy ministers commissioned a report into the issue and, as a result, just weeks ago agreed to introduce a new compulsory arbitration procedure to resolve disputes between pipeline operators and customers where a commercial agreement cannot be reached.

This outcome has been well received by industry, as it will help improve prices in the gas pipeline market.

Our energy markets in all their forms are undergoing a significant transformation.

12 Jan 2017
The Australian, Australia

Author: Josh Frydenberg • Section: General News • Article type : News Item
Audience : 97,419 • Page: 10 • Printed Size: 357.00cm² • Market: National
Country: Australia • ASR: AUD 7,214 • Words: 831 • Item ID: 711799371

One of the big challenges we face is the tight gas market and rising prices.

The answer lies in a truly national approach that involves the states and territories unlocking their abundant gas reserves as a means of driving down prices and creating jobs while enhancing energy security.

Josh Frydenberg is the federal Environment and Energy Minister.

Gas also plays a role as a transition fuel as we move to a lower emissions economy