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Labor refuses to face up to its gas problem



JOSH FRYDENBERG

VICTORIANS rely on gas more than any other state. It provides energy for heating and cooking in more than 80 per cent of Victorian households, underpins many of the 300,000 jobs in Victoria's manufacturing sector and is increasingly being used to set the price of electricity as more renewables enter the grid.

In other words, the energy security and energy affordability for six million Victorians depends on the ready supply of gas.

That is why the Andrews Government's recent decision to legislate a ban on onshore unconventional gas extraction and a moratorium until 2020 on onshore conventional gas extraction is so baffling.

Maybe it's because it is not aware of the facts. So here they are.

First, in less than four years Victoria will face a shortage of gas.

In a report released last week that sent shockwaves through the system, the Australian Energy Market Operator said for Victoria, "unless gas production increases, domestic gas shortfalls are forecast". That in turn "will increase reliance on gas storage to

meet winter demand".

The AEMO warned that refilling Victoria's main underground storage facility at Iona near Port Campbell is "uncertain" due to the falling production levels and limitations on pipeline capacity.

That is "a threat to system security" and "may result in winter gas shortfalls for Victoria".

That's a situation that "is expected to worsen" following the closure of Hazelwood as demand for gas-fired power increases.

The problem we face is that nearly all of Victoria's gas comes from the offshore reserves in the Gippsland, Otway and Bass basins but production is forecast to decline dramatically by 38 per cent from 404 petajoules today to 249 petajoules in 2021.

In fact, last year the ACCC, in a major report into the east coast gas market, said that since 2013, production in the Otway basin has declined by 14 per cent year on year. This growing gap between gas supply and demand in Victoria needs to be met urgently.

Second, Victorians are paying more for their gas. In 2010, the gas price was nearly a third of what it is today and those increases have hurt consumers.

So why is this happening?

Well, the answer is a combination of the exploration and development restrictions in place in Victoria, but also in Tasmania, the Northern Territory and NSW, as well as our transition to international pricing in our gas market as we export ever-



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increasing amounts of LNG.

In Victoria, there are now so few different gas suppliers they can increase their price knowing that their only competition is production in Queensland, which can cost up to an additional

30 per cent to transport to Victoria. That is why lifting the moratoriums in Victoria is so important because it increases the amount of gas sold into the market while also increasing the competition among suppliers — which the ACCC said could decrease the gas price by up to a third.

Third, Victoria has an abundant supply of gas. Geoscience Australia's latest data indicates there are enough reserves in Victoria to supply the whole east coast domestic gas market for 40 years. That is an authoritative expert assessment.

So what can be done to lower gas prices and strengthen energy security in Victoria?

The first priority, as the ACCC has indicated, is to get more gas and more gas suppliers into the market by abandoning the blanket moratoriums and using a "case-by-case basis" to assess the merits of each development project. One per cent of what the state government has locked up from development would meet the state's entire gas needs for a full year.

Second, the federal and state governments need to work closely to speed up approvals and to incentivise landowners to encourage gas developments, as

the Prime Minister and my colleague, Minister for Resources Matt Canavan, have recently pointed out.

IT'S one of the big differences between Australia and the United States, where the shale gas revolution has taken place.

In the United States, the landowner owns the resource under the ground, whereas in Australia it is the state, so the material benefits for the landowner to develop the reserves on their land are not as great.

If the Victorian Government doesn't work fast to fix its gas problems, the cost pressures on households and businesses will continue to grow.

Energy policy in Victoria is bad enough with the Andrews Government's 40 per cent Renewable Energy Target and the tripling of royalties on coal generators in the Latrobe Valley without having to add the gas moratoriums and bans to this list.

It's time Labor saw the light and recognised that more gas in Victoria will reduce the cost of living, create jobs and encourage investment.

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