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# We are going to fix the gas problem

LNG exports from Gladstone – a government determined to act. **Ashley Roach**



by **Josh Frydenberg**

This week's reports by the Australian Energy Market Operator (AEMO) and the Australian Competition and Consumer Commission (ACCC) into Australia's gas market makes for pretty grim reading. Stories of short supply, high prices and unfavourable contractual terms litter the pages. For a country so rich in energy resources, how did we get here and what is the way through?

It is clear is that there has been a major political and bureaucratic failure to predict and prepare for the current crisis. Despite being warned back in 2012 by AEMO and in the then government's own energy white paper that the surge in gas exports from Queensland would create supply and price issues for the domestic market, the then Gillard government did nothing. Over $60 billion of LNG related construction at Curtis Island was given the go ahead with little understanding of the repercussions. It is little comfort that Labor now admits its mistakes.

Coming at a time of state moratoriums and bans on gas development, new production has been less than expected, creating a tight supply-demand balance. As the state with the largest number of manufacturers in the country and households dependent on gas, one would expect Victoria to lead the way. However, the Andrews government have been the nation's biggest economic vandals, locking up 40 years' worth of gas resource with bans on unconventional and moratoriums on conventional onshore gas development.

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In fact, the only gas production coming from Victoria is offshore in Commonwealth waters, but even these fields in the Gippsland and Otway Basins are in significant decline with no equivalent sized resource coming in its place.

This leaves Victoria in the invidious situation of looking to import more expensive gas from international markets such as from the Middle East or alternatively from domestic suppliers in Western Australia and Queensland. The transport costs alone are likely to be more than $2 a gigajoule which the ACCC has indicated is equivalent to about 11 per cent of an average Victorian household gas bill.

Other jurisdictions like the Northern Territory and New South Wales also share responsibility with the former failing to develop 200 years' worth of supply and the latter currently importing more than 95 per cent of the gas it uses.

Confronted with this situation, the Turnbull government was left with no option but to put in place the Australian Domestic Gas Security Mechanism (ADGSM) which was announced in April. While it has already had an impact with the companies adding around 50 petajoules to the domestic market in recent months, more is needed.

A key reason for the growing gas demand is due to gas-fired power generation which has substantially increased by 61 petajoules or more than 50 per cent for 2018 since AEMO's forecast in March. The closure of Hazelwood and the subsequent coming online of previously mothballed gas-fired power plants in South Australia and Queensland have heightened the need for this type of gas demand.

As the energy mix changes and renewables become more prevalent, gas as a reliable dispatchable source of power has a greater role to play.

In this world of less supply and more demand, it is consumers who pay the price. I've talked with paper product manufacturers from South Australia, tomato processors from Victoria and linen companies in regional New South Wales who have faced up to 100 per cent increases in their gas bills, while at the same time being quoted less favourable terms such as take or pay, shorter duration contracts and the removal of suppliers liability for failing to deliver.

While the ACCC has found that wholesale gas prices based on the international spot price, less the cost of transport (netback price), should be $5.87 in Queensland and $7.77 in the south of the country, this is clearly far from the reality. So much so that the ACCC has said that some of the big industrial consumers that they talk to are having to make market exit decisions over the coming years as gas prices offered 'being unsustainable for long term operations'.

For the government, this is an untenable situation and one we are determined to resolve. The LNG suppliers do have significant gas available which they could redirect from sending to the international spot market to domestic consumers and the government expects them to do so.

The Prime Minister has made it clear that we are looking to the companies to make available for domestic use around an additional 110 PJ which accords with the shortfall identified by AEMO and the ACCC. To put it in context, 110PJ is enough gas to supply nearly all the residential needs of Victoria. One petajoule is enough to supply for a year a regional centre like Warrnambool or Wollongong or a large industrial user.

It's no point Australia becoming a large LNG exporter if the local community energy needs are left short. Jobs, investment and growth depends on accessible, reliable and affordable power, something which is not being delivered by the sellers' market in gas we have today. With the reports from AEMO and the ACCC underlining what needs to be done, government is working urgently with industry to determine that in 2018 no shortfall occurs and that an effectively functioning domestic market is restored.

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