The ‘golden age of gas’ not in Oz yet

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By 2017 east coast gas, added to growing Western Australian supplies, could create the world’s biggest gas export industry, worth $53 billion a year. Australia has many decades of gas, even without including the potential for shale gas. But, if this is true, how can we be looking at big gas price increases and possibly supply shortfalls within a few years? A new report by Grattan Institute, ***Getting gas right: Australia’s energy challenge***, explains why.

Strong Asian demand and high prices are inducing Australian producers to export their gas. That means local consumers will have to pay higher prices. Within the next couple of years, gas prices for households on the east coast, particularly in Victoria, will rise by as much as $170 a year. Large industrial users of gas will come under pressure from equally significant price increases.

Gas presents other challenges, too. Infrastructure constraints plus commercial battles over prices mean there may be difficulties in getting gas to where it is needed on the east coast, especially in New South Wales. And the long-anticipated “dash for gas”, in which it acts as a transition fuel while electricity generation shifts over time from coal to low-carbon technologies, is not happening in Australia. Falling demand, rising gas prices and a renewable energy target that largely supports new wind energy mean new gas-fired electricity generation is unlikely to be required for at least the next decade.

With more than $160 billion forecast to be invested in LNG production, the export industry is good for the economy. Governments should therefore resist self-interested calls from some industries to reserve gas or cap prices for the domestic market. One reason that reserving gas is a bad idea is that there is no shortage of gas. The challenge is to ensure that the gas gets delivered to where it is required, and this means commercial buyers and sellers need to reach commercial terms on new arrangements. At present, the negotiations are made difficult by the immediate challenges on price, but deals are being done.

Capping prices for the domestic gas market is a very bad idea. It amounts to a tax on producers and a subsidy for domestic gas users. Protectionism of this sort may provide some short-term price relief for targeted industries, but it tends to mean inefficient businesses and less investment. Ultimately it leads to higher prices and damages the economy for us all.

In all this noise, government and industry both have vital roles in ensuring the market works efficiently. Governments must:

- Resolve the coal seam gas impasse in New South Wales, one way or another. Industry, environmentalists and the community need real clarity.
- Create a more transparent gas market that includes new trading hubs such as Wallumbilla in Queensland and a gas price index that provides clear information to all players.
- Remove barriers to efficient supply by freeing up trading of pipeline capacity, and moving towards elimination of joint marketing arrangements as the market matures.

Industry, for its part, must ensure supply can flow. There is no shortage of gas, but infrastructure may be physically unable to meet growing demand in the short term. Gas producers must respond to the needs of their customers or political pressure will push governments to intervene.

With global gas resources likely to last at least 200 years, the International Energy Agency has described the next decade as the “golden age of gas”. Australia is well placed to reap the commercial benefits, but has further to go to create an affordable, reliable and sustainable energy sector.

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