GRATTAN Institute

Gas Market Review

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Overview

Natural gas has played an important role in Australia's domestic economy for more than 50 years and contributed to our exports for more than 30 years. For most of that time the east coast market has been domestically focused, with supply and demand in balance.

Two developments upset this balance. In 2015, liquefied natural gas (LNG) exports began from Gladstone, Queensland. By 2024, export volumes of more than 1,400 petajoules (PJ) were 75 per cent of total east coast demand. At the same time, production from the traditional south-eastern gas fields has been declining.

In 2017, worried about potential domestic gas shortfalls, the Turnbull Government introduced the Australian Domestic Gas Security Mechanism (ADGSM) and a voluntary supply agreement with the major gas exporters. In 2021 the Morrison Government subsequently codified this voluntary agreement into a Heads of Agreement (HoA). When Russia's invasion of Ukraine caused a spike in gas prices in 2022, the Albanese Government imposed a temporary $12/GJ price cap. It also revised the HoA, and introduced a mandatory Gas Market Code to facilitate the operation of the market. Central to the new agreement was that the domestic gas market should be supplied at prices no greater than what international customers pay.

The current framework – particularly the threat of ADGSM activation and HoA obligations – has helped avert shortfalls since 2017.

These instruments were developed individually over several years. Their operation requires continual regulator and government intervention, and the domestic contract market lacks transparency and predictability. The current review aims to provide predictable and stable policy to guide gas supply and affordability in an economy committed to net-zero emissions.

Integrating the existing instruments to operate continuously without continual need for government intervention would provide producers and big consumers with confidence to invest and contract. LNG exporters should be subject to an ongoing obligation, embedded in export licences, to supply the domestic market.

The ACCC's gas market monitoring role should be transferred to the Australian Energy Regulator (AER), informed by the Australian Energy Market Operator (AEMO), so that all monitoring is done within the energy market. And the AER should make the market more transparent, including by aggregating and publishing price and contract terms and market imbalances more frequently.

With a sufficiently predictable, consistent, and transparent market, price intervention may be unnecessary. Otherwise, the government could benchmark to an external reference price such as export netback parity, linked to a stable measure such as the international oil price.

The south-east of Australia faces a more structural, longer-term gas shortfall than this framework can solve. South-east Australia is at risk of seasonal shortfalls by 2027, and structural shortfalls after 2028. Unless substantial new supply is identified or demand falls dramatically, new supply, storage, and transport will be needed.

Without a clear plan for the role of gas in the transition to a net-zero economy, gas suppliers, investors, and large gas users will not have the confidence they need to invest in the right technologies and infrastructure in the right places and at the right time. Australia's current Future Gas Strategy should be revised to include clarity over demand and supply outlooks over the next 25 years, consistent with reasonable industry and community demands and Australia's climate commitments.

Recommendations

1. Integrate the ADGSM, Heads of Agreement, and Gas Market Code into a single supply framework that operates on a continuous basis and includes, via export licences, an ongoing obligation to supply the domestic market.
2. Facilitate greater market transparency by empowering the AER to take on the ACCC's current role in monitoring the market and enforcing compliance; integrate the publication of price and contract terms and domestic market imbalances, building on AEMO's existing projections of demand, supply, and possible shortfalls.
3. Consider the need for a stable reference price to replace the current reasonable price, if the first recommendations do not provide market confidence for contracting. This reference price should be indexed to a stable international marker such as the Brent crude oil price. It could be based on export parity, possibly with a domestic discount.
4. Federal and state jurisdictions should review existing use-it-or-lose-it obligations on holders of exploration permits or licences who fail to meet their obligations from acreage release programs.
5. Take further action to address the looming gas shortfalls in south-east Australia, if the Energy and Climate Change Ministerial Council's actions are not effective.
6. Assess the above recommendations in the context of the future expiry of the long-term export contracts, when further adjustments may be appropriate.
7. Review and revise the Future Gas Strategy to include a deeper consideration of future demand across subsectors and consistent with Australia's climate change policies. Such a strategy must include policies to reduce gas use across the jurisdictions and should provide producers and big users of gas and electricity with the predictability they need for investment.

1 Introduction

This submission is by Alison Reeve, Tony Wood, and Ben Jefferson of Grattan Institute, an independent think tank focused on Australian domestic public policy. Grattan aims to improve policy by engaging with decision makers and the broader community. Grattan has advocated for gas market reforms for well over a decade.

The federal government has announced a review of the policy instruments that work to ensure Australian consumers have sufficient supplies of natural gas, while minimising disruption to the operation of Australia's Liquefied Natural Gas (LNG) industry.

The Consultation Paper covers issues of volume management (supply, security, and trade), price setting (wholesale gas prices), market operations (contracting and bargaining conduct; efficient wholesale markets), and system governance (governance of gas market regulations and reporting). The proposed changes range from minimal to fundamental.

This submission responds to the Consultation Paper on the Gas Market Review, released jointly by the Department of Climate Change, Energy, the Environment, and Water and the Department of Industry, Science, and Resources, in July 2025. It draws on our previous reports and other published material.

This submission address the themes raised in the Consultation Paper, as well as some issues that are of material importance to the future role of gas in Australia but are not addressed in the Review.

Some of the questions raised in the consultation are best answered by market participants. We have focused our submission on the topics we feel most qualified to speak on.

We would welcome the opportunity to engage further with the departments on any of the matters raised in this submission.

2 Background to the instruments

Natural gas has been a major energy source for Australian homes and businesses since the 1960s. For most of that time, the east coast domestic gas market has been internally focused, with demand and supply in balance.

Two developments have upset this balance. First, in 2015, liquefied natural gas (LNG) exports began from Gladstone, Queensland. By 2024, export volumes of more than 1,400 petajoules (PJ) were 75 per cent of total east coast demand. And second, production from the traditional south-eastern gas fields has started to decline.

The Victorian Government's introduction of a moratorium on new onshore gas exploration from 2012 to 2020 deterred one potential source of additional supply.

In 2017, worried about potential domestic gas shortfalls, the Turnbull Government introduced the Australian Domestic Gas Security Mechanism (ADGSM) to ensure the supply to the domestic market. The threat that a likely supply failure would lead to direct government intervention in export contracts was enough to ensure the ADGSM has never been triggered.[1]

In 2017, the ACCC was commissioned to support the ADGSM by conducting a wide-ranging inquiry into market conditions for gas supply and demand. It is required to report no less than every six months, and its advice of potential supply shortfalls is used by the Resources Minister to work with the LNG exporters on a quarterly basis, to ensure the shortfall is avoided.

In addition, the east coast LNG exporters established an "industry-led, voluntary, and non-binding agreement" with the Australian Government committing them to first offer uncontracted gas to the domestic market in the event of a shortfall.[2]

In January 2021, the Morrison Government formalised a voluntary Heads of Agreement (HoA) with the three LNG exporters, committing them to offer uncontracted gas to the domestic market before exporting it overseas (even when there is no shortfall), and to do so with regard to the ACCC's LNG netback price.[3] The current version of the HoA amended by the Albanese Government was signed by the Resources Minister in late 2022.

When gas prices spiked to more than $30/gigajoule in 2022 at the start of the Russia-Ukraine war, the Albanese Government introduced a Gas Market Code to facilitate the operation of the market on reasonable terms and prices and no more than overseas customers would pay. A price cap was set at $12/gigajoule for 12 months, and this was subsequently turned into an enduring $12/gigajoule 'reasonable price' for wholesale contracts.

The intention of these somewhat convoluted processes has been to ensure that the domestic market is supplied on reasonable terms and at reasonable prices. If that is not done, the Minister has the power to direct supply from export contracts to the domestic market.[4]

Included in the Code is a system of Conditional Ministerial Exemptions, where gas producers can be exempted from the reasonable price condition in exchange for committing to supply certain volumes of gas. This exemption has been exercised such that "almost all gas expected to be produced in 2025-26 is either committed to export or held by

1. OIA (2017).
2. Ferris (2022).
3. Ibid.
4. DCCEEW (2023).

producers that hold conditional Ministerial exemptions from the Gas Code's reasonable price provisions".[5]

The three policy instruments – the ADGSM, HoA, and Code – were introduced over several years and are now being reviewed as a package, along with the reasonable price provision. The current model requires continual intervention by the ACCC and the government, and responses by the industry. Consumers and suppliers would both prefer a more stable and predictable model, where government action is no longer routinely necessary.

5. ACCC (2025a).

3 Supply, security, and trade

The preferred outcome of the review is a stable and predictable market without the continual risk of short-term supply shortfalls and government intervention. The current instruments have helped avert shortfalls in the past, and they should be restructured to help avert shortfalls in the future. Together with greater market transparency, this could end the need for mandated price control.

Some form of an east coast gas reservation policy similar to the policy in place in Western Australia would be a less attractive solution.

3.1 Issues with supply, security, and trade

The east coast LNG export industry began with the opening of the export terminals in Gladstone, Queensland, in 2015. Volumes exported have grown by more than 20 per cent per year on average since then, with exports now 75 per cent of total east coast demand.[6]

At the same time, production volumes from legacy gas fields are declining (Figure 3.1 on the following page). Producers from Gippsland, Victoria – historically one of the most productive gas regions in Australia – have advised that maximum peak day production capacity will reduce by 58 per cent over four years, from 767 TJ per day in 2024 to 325 TJ per day in 2028.[7]

The Victorian Government's patchy response to concerns about climate change and carbon emissions may have also reduced gas supply. In 2020, permits were granted for exploration within Victorian state waters. The government had introduced a moratorium on onshore gas exploration in 2012, and an additional ban on fracking in 2017. The moratorium was lifted in 2020, but no new onshore exploration licences have been awarded since 2014.[8] The focus has been on restarting the existing onshore conventional gas industry under strict regulations. [9]

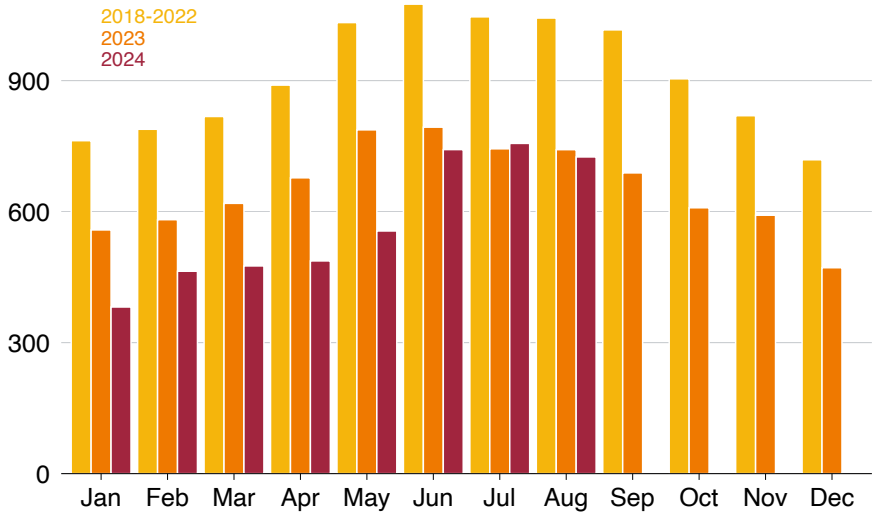
On 12th August, the Victorian Government announced a proposal to invite applications for two petroleum exploration permits [10]. The permits would allow companies to search for gas within areas of the offshore Otway and onshore Gippsland basins.

The combination of the above constraints on domestic supply has led to a steadily tightening east coast market and regular threats of intervention via the current policy instruments to avert shortfalls. This position creates the urgency for the current review.

Alongside this position, south-east Australia faces an additional problem: it is becoming increasingly difficult to get sufficient gas from Queensland to that market even if the overall supply is available. This presents as a seasonal risk for the next three-to-four years, and a structural risk after that (Figure 3.2 on the next page)[11]. This problem is separately discussed in Chapter 5.

6. AER (2024).
7. Ibid.
8. Parliament of Victoria (2024).
9. https://resources.vic.gov.au/geology-exploration/oil-gas/oil-and-gas-acreage-releases
10. https://engage.vic.gov.au/petroleum-exploration-permit-tender
11. AEMO (2025a).

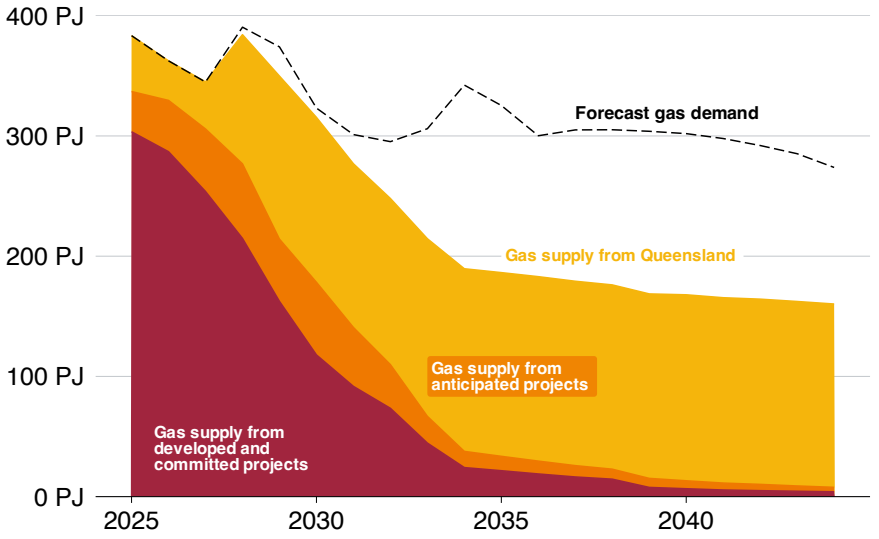
Figure 3.1: Production from the Longford facility in Gippsland has declined from its peak in 2018-to-2022
Longford production, terajoules / day



Note: Data from 2024 only run to September.

Source: Grattan analysis of AER (2024).

Figure 3.2: In Australia's south-east, demand is forecast to outstrip supply by 2028
NSW, VIC, QLD, TAS, and SA gas demand and supply in petajoules



Source: Grattan analysis of AEMO (2025b).

3.2 The instruments have secured supply consistently, but with some drawbacks

The current framework – particularly the threat of ADGSM activation and HoA obligations – has helped to avert shortfalls since 2017.

In 2023, the HoA was used to avoid a shortfall of 56 petajoules of gas, avoiding the activation of the ADGSM.[12] Over a longer period, seasonal and annual shortfalls have been pushed back – for example, shortfalls forecast for 2024 and 2025 under the neutral scenario in the 2019 Gas Statement of Opportunities have been pushed back to 2027 and 2028 in more recent reports.[13]

Negotiations over the Gas Market Code have also facilitated commitments to supply gas in exchange for exemptions from the $12/GJ reasonable price condition. Forecasts show a total of 644 PJ is to be supplied to the market over different forward timelines under the conditional ministerial exemption framework in the Code.[14]

Historically, the domestic gas market has been characterised by bilateral three-to-five-year contracts between gas producers and retailers, and gas producers and large industrial consumers. Day-to-day imbalances have been traded through a spot market.

The LNG export contracts have terms of around 20 years between three consortia and overseas consumers, some of whom are partners in one or other of the consortia. Not long after the contracts were signed, concern arose that gas would be sacrificed from the domestic market to meet these export contracts. Specifically, the GLNG consortium (including Santos) has consistently been a net purchaser of gas from the domestic market to supply its export commitments.[15]

12. AER (2024).
13. AEMO (2019) and AEMO (2025b).
14. ACCC (2025b).
15. Ibid.

The mechanisms used under the current instruments seeks to allocate any obligation to avoid a projected shortfall equally to the three LNG producers, despite their very different positions on being in surplus or deficit to the domestic market. This allocation has therefore attracted strong disagreement between the producers and equity challenges for the government.

Even though the market instruments have ensured supply, the persistent uncertainty created by this situation has led to a position where domestic contracts cover much shorter time periods; the volume of gas sold under short-term agreements increased from 28 PJ in 2021 to 79 PJ in 2024 (Figure 3.3 on the following page).[16] This shift towards short-term contracts, which may be driven by perceptions of increased price and volume risk from both buyers and sellers, has created considerable frustration on both sides.

In some cases, gas producers may be shortening their contracts in response to incentives created by the uncertainty of the HoA. Producers may hope to cash in on additional incentives or benefit from higher prices in the future, should shortfalls eventuate. And in some cases, buyers may prefer shorter contracts because they think prices may fall in the near future.

3.3 A market-based solution is needed

The outcome of the above history is that we have continual risks of supply shortfalls and of market intervention, tension between governments and LNG producers, and frustrated buyers and sellers. A solution is required that secures domestic supply at reasonable prices and is fair to the market participants.

We have identified two models for consideration, the first of which we prefer.

16. Ibid.

3.3.1 Preferred model: retain and reform the current instruments

Most of the concerns described above could be resolved by integrating the policy instruments and operating them on a long-term and continuous basis.

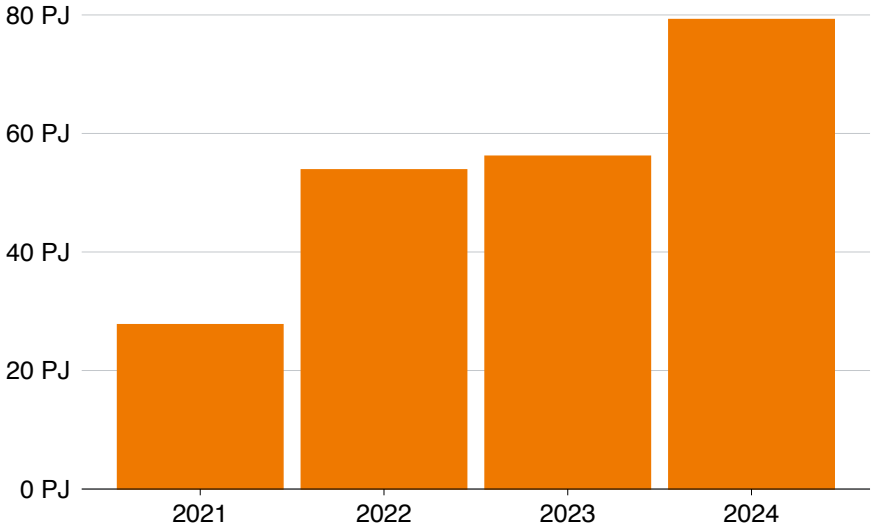
This approach could provide the supply predictability needed by producers and consumers. Combined with greater market transparency, it could avoid the need for a price cap.

The ADGSM, HoA, and Gas Market Code could be integrated into a single ongoing process of shortfall analysis, review, and supply requirement. Currently, a quarterly assessment of potential shortfall has the potential to trigger the mechanism, allowing the Resources Minister to restrict or limit exports. The ultimate threat, never used to date, would be to direct gas from the existing long-term contracts.

Instead, a process of continuous monitoring and publication of market data should be operated by AEMO and the AER. If a potential domestic shortfall is identified, the volume of gas required to meet the shortfall should be required to be supplied by the exporters in equal shares as a matter of course. The exporters would then need to enter into traded positions of physical capacity to meet this obligation. This mechanism would be best implemented through export licences that include a commitment to the above process, whereby exporters would be free to export uncontracted gas, provided they meet their obligation to supply the domestic market.

Supply adequacy data should be based on the Australian Energy Market Operator forecasting as part of the Gas Statement of Opportunities. These data should be regularly published by the AER alongside contract data to maximise transparency. This approach has some common features with the Reliability and Reserve Trader mechanism used in the electricity market. The effect of these changes

Figure 3.3: The volume of gas contracted under short-term agreements has grown substantially since 2021
Petajoules of gas contracted under contracts of less than 12 months



Source: Grattan analysis of ACCC (2025b).

would be that AEMO retains responsibility for long-term forecasting with AER responsible for short-term forecasting and market transparency.

3.3.2 An east coast reservation policy could be considered

As a more persistent approach to ensuring supply, some kind of volume-based reservation policy is intuitively attractive.

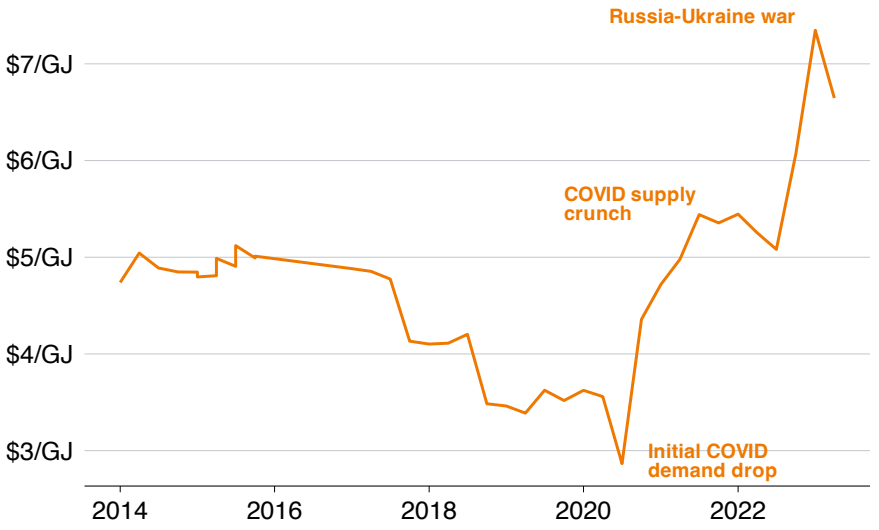
Since 2006, Western Australia has had a reservation policy that mandates LNG producers reserve 15 per cent of their exports for the state's domestic market.[17] The reserved volume has been enough to keep prices low. The policy was highly contentious at the outset but suppliers and consumers generally learned to work with it, although recent price increases suggest tensions are re-emerging.[18]

Reservation brings two problems. First, determining a target volume seems arbitrary and static in a rapidly changing market. While the Consultation Paper says national gas demand is expected to remain steady across the next 20 years, that is debatable. Climate change policy, including the quest for net-zero emissions, will have substantial consequences for gas demand that will vary across gas usage sectors and lead to a more seasonably volatile demand.

Second, reserving enough gas on the east coast to drive down the price significantly would require volumes of production well beyond what is currently available or envisioned. Simply copying the WA policy will not give eastern Australia WA-level gas prices.

Even if the east coast were to try and copy the policy, in Western Australia the volume of gas reserved is 15 per cent of total exports, which is about 65 per cent of the gas used in WA itself. In the eastern

Figure 3.4: Despite a reservation policy, WA gas prices have been influenced by international events
WA average domestic contract gas price, $/gigajoule



Source: AEMO (2024a).

17. The reservation was designed to replace government offtake contracts and reduce WA gas prices (which at the time were higher than on the east coast) by over-supplying the market.
18. AEMO (2024a).

markets (NSW, Victoria, South Australia, Tasmania, and the ACT), reserving 15 per cent of exports would cover only 25 per cent of the gas used locally. To have a similar effect on prices as WA's reservation policy, the eastern markets would need to increase their production by at least one-and-a-half times,[19] increasing Australia's total gas production by 20 per cent. Less available reserves on the east coast would make this gas more expensive than it is in WA to start with.

If a volume-based reservation was to be pursued, a critical design question would be when its coverage would begin, i.e. only for new gas developments, or for new contracts covering existing fields.

A reservation scheme does not necessarily insulate the domestic market from international events, as evidenced by recent price rises in WA (Figure 3.4 on the previous page).

3.3.3 Market transparency should be provided by regulated monitoring

A blended view of the key terms and prices of bilateral gas contracts between domestic consumers and producers, as well as data on market imbalances, should be collected and published by the AER on a Gas Market Bulletin Board.[20]

3.3.4 We need a robust use-it-or-lose-it obligation

For many years, there have been concerns that companies who acquire an exploration licence under an acreage release tender can sit on this acreage without meeting their obligations to develop the resource.

Anecdotal evidence suggests this behaviour continues. It should be addressed with an obligation on exploration and production companies to meet the agreed terms of the licence. The responsibility for this obligation sits with the relevant federal or state jurisdiction for offshore or onshore programs respectively.

A Commonwealth obligation to use exploration licences already exists, and is loosely enforced through the granting of retention leases where reserves are not currently commercially viable.[21] In the Future Gas Strategy the government said it would consider new policy options, and enforce current obligations more strictly.[22] It should do so.

19. Assuming all new production goes directly into exports, and none of it is consumed domestically; if the same ratio of domestic consumption to exports were maintained, production would have to increase by two-and-a-half times to have the same price effect
20. We discuss pricing in more detail in Chapter 4.
21. DISR (2025).
22. AEMO (2024b).

4 The wholesale gas market

4.1 The competitiveness and efficiency of Australia's wholesale gas market

Australia's gas market operates across three time frames: long-term (10-20+ years) bilateral contracts in the export market; medium-term (6 months-5 years) bilateral contracts in the domestic market; and the remainder in day-to-day spot-market trading of imbalances.

Between 70 per cent and 90 per cent of gas traded in Australia is contracted through bilateral contracts between gas producers and customers, with the remainder traded on spot markets facilitated by AEMO.[23]

In theory, spot markets give more efficient short-term price signals than bilateral contracted markets. But in practice, they often don't work as well in smaller markets such as Australia's east coast. Where the number of suppliers and buyers is small, or where the market needs longer-term certainty for major infrastructure investment, bilateral contracts give producers the revenue certainty they need to invest, and give buyers stable prices and secure supply.

The downside of a market composed mostly of bilateral contracts is its lower transparency, making price discovery within the market difficult. Where producers have market power, this can lead to prices being higher, and those prices being passed onto consumers. Market participants report some issues with bargaining power as an artifact of the way sale and purchase processes currently operate in the market.[24]

Gas shippers and customers have been frustrated for many years by the lack of transparency and competition in the wholesale and pipeline sub-sectors. Grattan Institute has previously advocated for the development of public and transparent pricing information.[25] In a 2012 Energy White Paper, the federal Department of Energy, Resources, and Tourism recommended increasing transparency through the publication of a gas price index and mandated reporting of price and contract terms.[26]

In particular, the publication of a benchmark contract price together with key contract terms, and data on potential market imbalances would increase competitiveness and transparency by giving timely and accurate information to market participants. The specific governance arrangements associated with this are discussed further in Section 4.3.

4.2 Wholesale gas prices

The reasonable price condition outlined in the Gas Market Code may have helped anchor prices lower after the price spikes caused by the Russia-Ukraine war. But market participants report it is now hard to find any gas at or below the 'reasonable price' of $12/gigajoule (GJ).[27]

The main reason for this is that the Code facilitates Ministerial Exemption from the reasonable price condition in exchange for commitments of volume supply. The Albanese Government has chosen to secure volume commitments of up to 644 PJ of gas in return for exemptions, most of which will only come online from 2026, and therefore have no impact on current prices.[28]

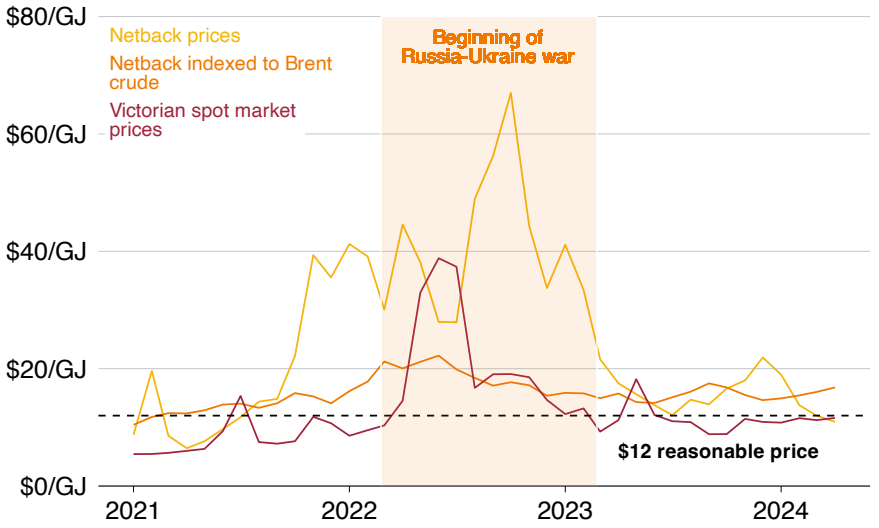
23. AER (2024).
24. DCCEEW (2025).
25. Wood et al (2022).
26. DRET (2012).
27. ACCC (2025a).
28. Ibid.

Establishing a consistent and predictable market policy framework may make price interventions unnecessary. If the market has sufficient confidence in the trajectory of supply and demand, prices may stabilise to a reasonable level without further government intervention. In particular, if offshore exploration in Victoria is successful, new sources of supply may put downward pressure on future prices.

If offshore exploration is not successful or if price interventions are otherwise considered necessary, an alternative to the externally administrated reasonable price is a market-determined external reference price. A reference price should give market participants a relatively predictable signal that is not dependent on government behaviour or potential exemptions. In particular, export netback parity – the price paid by export customers, less costs of transport – could be used to make domestic and overseas supply more economically comparable.

The reference price could be a discount on export parity. It should be indexed to a more stable metric, such as the Brent crude oil price (Figure 4.1).

Figure 4.1: A reference price indexed to Brent crude oil prices would be less volatile than LNG netback
Gas prices ($/GJ)



Note: All indices based on January 2021 = 1.

Source: Grattan analysis of ACCC (2025c), Federal Reserve of St Louis (2025),AEMO (2024b).

4.3 Gas market governance

The current division of responsibilities – where the ACCC leads on price monitoring and compliance with the Gas Code and Heads of Agreement, while the AER enforces broader energy market rules – creates duplication and confusion. To effectively implement the recommendations in this submission the AER would need to be granted some of the ACCC's powers over gas markets, such as the power of price discovery.

Giving the AER contract price discovery powers, along with the ability to compel real-time publication of offer prices and terms, would streamline enforcement and improve transparency for market participants. It would also align with the AER's role as the standing

regulator for electricity and gas infrastructure, enabling more consistent oversight and faster responses to emerging risks in the gas market.

Locating the ACCC's powers of contract discovery in the AER would also reduce the current duplication in analysis and forecasting taking place between the ACCC's quarterly interim gas inquiry reports and the annual GSOO processes.

5 Other gas market issues

There are two important issues in the gas market that need to be addressed by governments but are not covered in the current review. They are the looming gas shortfalls in Australia's south-east, and the Future Gas Strategy.

5.1 The south-east Australian gas market shortfall

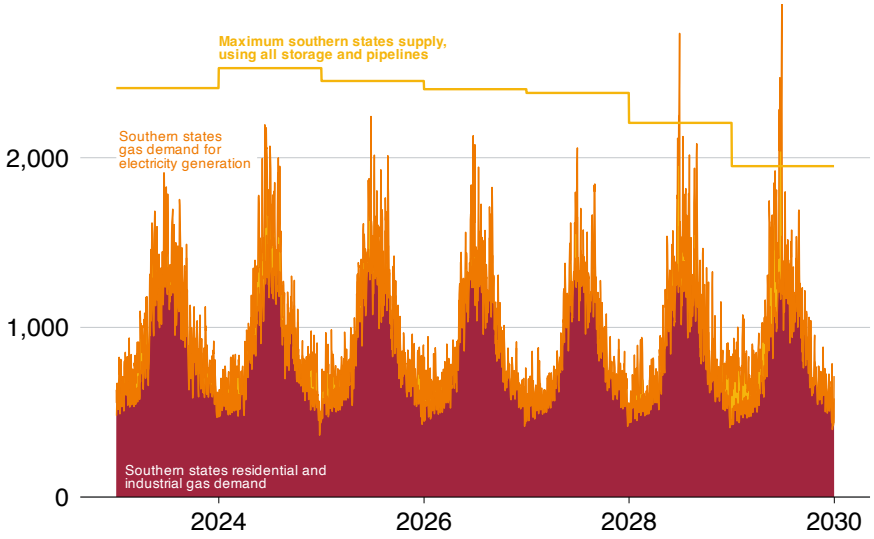
Short-term potential supply shortfalls are able to be managed a few quarters ahead, but Australia is also facing more structural shortfalls over the coming years.

The ACCC's June 2025 Gas Interim Inquiry report forecast there to be sufficient production to meet projected domestic demand and foundational LNG export commitments until 2027; but that an east coast supply gap of 55 PJ is possible for 2028 (about 3 per cent of total demand). On current projections, that gap increases each year to a peak of 543 PJ in 2034 (about 30 per cent of total demand).[29]

The south-east shortfall is a structural problem different to the shortfalls addressed by the ADGSM, HoA, and the Code. because it is caused by a location mismatch. There is sufficient gas produced in Queensland and WA to supply Victoria's needs, but there is currently no effective way to deliver gas from WA to other states, and the north-south pipeline from Queensland to Victoria reaches capacity during winter.

In the next three-to-four years, seasonal shortfalls are likely to arise in Victoria and possibly NSW, due to a combination of cold weather, low renewable electricity supply, and the unavailability of coal power plants. Potential shortages are likely to become more frequent and last longer. Pre-winter filling of available storage and expansion of such storage will play a key role in avoiding these shortages.

Figure 5.1: On current projections, increased gas-powered generation will cause seasonal peaks and shortages by 2029
Gas supply and demand, TJ/day



Source: Grattan analysis of AEMO (2025b).

29. ACCC (2025b).

Resolving the south-east gas shortfalls will require some combination of investments in:

- New supply of gas in south-east Australia
- New pipeline capacity from Queensland to south-east Australia
- New storage capacity in south-east Australia
- Regasification terminals to turn LNG (from WA, Queensland, or overseas) into natural gas in south-east Australia
- Better management of gas demand at critical times
- Permanent reduction in demand.

Decisions in these areas will be influenced by the expected move away from widespread gas use required to meet state and federal climate targets. At present, nether state or federal government policies provide sufficient guidance to allow these investments to be made with any certainty.

It is expected that the Energy and Climate Change Ministerial Council will consider solving this problem, most likely by giving greater powers of intervention to AEMO. If an effective solution does not emerge from that meeting, then alternatives will need to be found.

5.2 The Future Gas Strategy should be revised

The federal government's current Future Gas Strategy has a strong focus on supply. Yet in an economy focused on achieving net-zero emissions within 25 years, demand must feature more strongly in understanding the future of gas.

The major determinant of future demand for gas will be climate change policy and how it affects the various subsectors where gas is used today and may be for some time in the future. Policies are likely to include the current Safeguard Mechanism covering large emitters, and degasification policies such as already being pursued by the Victorian and ACT governments.

A comprehensive review of the Future Gas Strategy should cover these and more issues and will be the subject of a future Grattan Institute report.

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