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More supply the answer for competitive gas price

The Australian

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The recovery from COVID-19 must now be the key priority of government, industry and the community.

The work of the National COVID-19 Co-ordination Commission headed by Nev Power has a potentially important role to play in this context. The key roles the NCCC has set for itself, to help minimise and mitigate the impact of COVID-19 on jobs and businesses, and to facilitate the fastest possible recovery of lives and livelihoods, are laudable goals. Increasing local supply remains the single most important and economically sensible way to deliver competitively priced gas to consumers and industry on the east coast.

Measures that stop development altogether, or work against further investment in existing projects, distorting or failing to recognise the cost structure of gas delivery in Australia, must be rejected.

So, comparisons if they are to be made must compare apples with apples.

False and exaggerated claims have undermined the search for achievable outcomes in Australia's energy debate for too long. The debate about gas supply and gas prices must be based on facts, and be anchored in commercial reality.

There are a number of myths that must be busted before the search for sensible solutions can begin.

First is the claim that our domestic gas prices are uncompetitive.

On average across the economy, according to the International Gas Union's most recent wholesale gas price survey, Australia's average gas prices are among the lowest in Asia. Globally, Australia's average wholesale price ranked 27th in a survey of 54 nations. The major manufacturing powerhouses of Asia all face higher gas prices than Australia.

Suggestions of a US-type gas market being replicated in Australia fail to acknowledge differences in geography, geology, infrastructure and the size and structure of the US economy. Such suggestions risk throwing good money after bad.

Average prices are lower in the US. There are a number of reasons for this: most importantly, shale developments in the US are rich in liquids, which is more lucrative and underpins the economics of developments there. The US regulatory regime has also been more supportive, with none of the bans and moratoriums that have so affected east coast gas developments in Australia.

We should also not ignore that US gas prices were significantly higher than Australia before shale gas developments. It was the ability of the industry to respond to these prices by innovating and bringing on more supply that was key to prices falling — not market intervention.

The second notion to debunk is that any industry can survive selling its product lower than its cost of production.

Manufacturers of course understand this, but some of their representatives, including Jeanne Johns and NCCC member Andrew Liveris, seem to forget this, with loose talk of $4 gas prices. The wholesale price of gas in eastern Australia has not been below $4 per gigajoule since 2006, years before LNG exports from Queensland began.

The at-scale development of Queensland's coal-seam gas resources — underpinned by the Gladstone-based export projects — has boosted east coast gas supply over the past decade. It should be remembered that just a few years before those projects started, with traditional gas supply from the Cooper Basin and Bass Strait diminishing, there was a serious proposal to build a gas pipeline from PNG to address looming east coast shortages.

These new sources of principally coal-seam gas have been more expensive to develop and transport to larger population centres in the southeast of the continent than the easy-to-access gas that had supplied the local market in southeast Australia in previous decades.

Work for the ACCC by Core Energy in 2018 independently established that it costs more than $6 to produce gas from existing fields in eastern Australia and up to $8.25 per gigajoule in new projects, before transport, distribution and other commercial costs.

It is the case, as has been documented by the ACCC, that prices on the east coast rose briefly before falling but remain higher than their historical average. While prices will not return to the levels of 2006, the demand contraction and COVID-19 disruption, combined with sustained supply, have sent prices back to their lowest level since 2016.

Keeping them in that zone will require governments, producers and customers working together to enable new supplies to be developed.

It ought to be self-evident that gas produced close to market will

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be cheaper than supply piped or shipped large distances. The ACCC has concluded that customers in Victoria and NSW pay a premium to cover the cost of importing gas south from Queensland.

Importing gas from other states is an unnecessary impost on those states' homes and business when both jurisdictions boast significant undeveloped natural gas resources — kept in the ground by governments with a distaste for development.

In more supportive jurisdictions like Queensland, South Australia and recently the Northern Territory, there are gas resources much closer to eastern markets than the west, with pipelines already in place.

In retooling our economy, it may make sense to build manufacturing close to gas sources, rather than pipelines to deliver gas to existing manufacturing hubs. And we must ensure that markets are allowed to work delivering long-term sustainable supply, at long-term sustainable prices for all market participants — both buyers and sellers.

Andrew McConville is chief executive of the Australian Petroleum Production & Exploration Association.