

A gas shortage next year is unlikely, but that's the only good news

Written by David Blowers, Energy Fellow, Grattan Institute

It's official: Australia's gas market is still a mess. This week, the Australian Competition and Consumer Commission (ACCC) released its [latest report into the gas market](#). It was a case of "rinse and repeat" following their

[2016 inquiry](#)

and

[September 2017 report](#)

: although government intervention may have caused some slight improvements, high prices persist and the risk remains that gas-dependent companies could go out of business.

This week's publication is the latest reporting step in the ACCC's Gas Inquiry, which is due to run until 2020. The Commonwealth government ordered the [inquiry](#) this year, after some gas users reported

[increasing by 500%](#)

[prices](#)

and the

[Australian Energy Market Operator \(AEMO\) warned of imminent gas shortages](#)

Read more: [To avoid crisis, the gas market needs a steady steer, not an emergency swerve](#)

As well as launching the inquiry, the government has spent a lot of time talking, and making deals with, the perceived culprit: the three big gas exporters. Opening up Australia's gas market may have delivered export dollars, but it has linked Australian prices to historically higher international ones. Gas exporters are also accused of [buying up "domestic" gas for export](#), leaving Australian consumers short and having to pay even higher prices.

After [AEMO's September warning](#) that there might be a gas shortage during the 2017-18 summer, the government dragged the gas exporters to the negotiating table. The exporters agreed to provide " [secure and affordable](#) " gas to make up the potential shortfall. So has the deal worked?

Mixed news

It has probably delivered all that could realistically have been expected. It now looks highly unlikely – although not impossible – that there will be a gas shortage in 2018. And prices appear to have come down from the ridiculous highs of earlier this year. But that's pretty much all the good news that can be gleaned from this week's report.

The problem is that although prices have fallen, they are still pretty high – averaging about A\$10 a gigajoule in Victoria and South Australia. As far as the ACCC is concerned, this is still higher than they should be, and certainly a lot higher than the historical A\$3 to A\$4 per GJ. Any business that had got used to paying those prices is going to struggle.

Nor is the market working in the way it should. Some business customers can only get offers from one or two retailers, and some claim that retailers are telling them they have no gas to supply. As the ACCC says, this puts those businesses in “a difficult position in respect of their ongoing operations into 2018, potentially creating significant effects in local economies and beyond”.

There are also problems with transporting the gas, via the pipelines that run from Queensland to South Australia. Southern states can't currently get enough gas from local sources, so they have to get it from Queensland. But it is becoming harder to get access to the pipelines. And when customers can get access, the transportation costs can be high: between A\$2 and A\$4 per GJ.

It is understandable that the Australian gas market is facing some difficulties. It is in transition, with producers, pipeline operators and consumers having to get used to Australia now being linked to the international market. Many commentators – [myself included](#) – concluded that, although prices would go up when gas exports began from the east coast, efficient outcomes would be achieved. We were wrong.

Read more: [Gas crisis? Or glut? Why Japan pays less for Australian LNG than Australians do](#)

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Instead, the transition has exposed some underlying failings in the gas market: it is opaque, there is market concentration, and access to pipelines can be difficult and expensive.

These have always been issues with Australia's gas market. But the existence of plentiful, cheap gas that was geographically close to the market effectively kept these problems hidden. Now those resources are being depleted and the failings of the market can be plainly seen.

To be fair to the ACCC, it tried to deal with many of these issues back in 2016. But progress has been painfully slow, with some of its recommendations – such as the creation of a transparent gas price index – disappearing into the ether.

The government's handshake with the exporters has bought time and prevented an immediate plunge off the cliff. But market reforms need to be pushed through more urgently.

Finding a feasible, political solution to the gas bans imposed by the Victoria and NSW state governments will be tricky, but it has to be done. Anything that can release more gas for domestic users would be welcome, whether that means gauging the true extent of [gas under Gippsland](#) or further developing Victoria's [offshore reserves](#).

Read more: [Memo to COAG: Australia is already awash with gas](#)

Here's the rub: these reforms will take time. A drastic reversal in the gas market is highly unlikely. Gas prices may ease, but not in a hurry. And until they do, Australians will have to hope that all those gas-dependent businesses can keep clinging on to the top of that cliff.

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David Blowers does not work for, consult, own shares in or receive funding from any company or organisation that would benefit from this article, and has disclosed no relevant affiliations beyond their academic appointment.

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