ANU Energy Update: Eastern domestic gas market – still transitioning?

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Is the eastern market still transitioning or is this the “brave new world”? 

The eastern gas market is at an important juncture

Source: AEMO (2016) 2016 National Gas Forecasting Report; DoEE modelling
Continuing concern over tight supply conditions

Spot prices double over 2016, then decline...

Daily spot price Wallumbilla gas hub

And contracts are difficult to obtain

Unfulfilled contract offers for commodity gas ($2018/GJ)

Source: AEMO Wallumbilla gas trading hub

Source: ACCC Gas Inquiry 2017
In the current transition, the market has found it difficult to adjust to changing supply conditions.

Factors disrupting the current transition to a well-functioning market:

- Inadequate gas reserves available to the domestic market
- Abandonment of CSG projects in NSW
- Supply crunch caused by rapid start-up of LNG exports

**Annual gas production by basin**

![Graph showing annual gas production by basin]

*Source: Energy Quest, SKM, DoEE analysis*
Insufficient production capacity a major cause of market tightness

**Total CSG production expands five times**

![Eastern gas production (Quarterly annualised)](chart)

- **Source:** Energy Quest; DoEE analysis
- **Note:** Annualised production is quarterly data times four

**But net contribution from LNG consortia (after LNG exports) shows three phases**

![Eastern gas production (Quarterly annualised)](chart)

- **Phase 1**
- **Phase 2**
- **Phase 3**

- **Source:** Energy Quest; DoEE analysis
- **Note:** Annualised production is quarterly data times four
Will we see a well-functioning market in the “brave new world”?

Substantial 2P gas reserves in Queensland could cover demand for 20 years

There are also other options for supply...

Eastern 2P reserves versus cumulative demand 2018-2037

Source: Energy Quest, DoEE analysis
The domestic market has transitioned - the future is different from the past

• The eastern market has transitioned through significant market disruption due to the ramp up of LNG exports

• We should expect prices will be higher and more volatile
  ▪ LNG netbacks – linkage to global prices
  ▪ Higher costs of production

• We should also expect the market to return to ‘normal’ functioning once the supply issue is addressed

• With conventional reserves declining new supply capacity needs to be developed