

# Shock as Vic gas prices hit record highs

By Angela Macdonald-Smith

## AFR Weekend

Saturday 10th July 2021

756 words

Page 19 | Section:

330cm on the page



# Shock as Vic gas prices hit record highs

## Energy

Angela Macdonald-Smith

Gas prices in Victoria have taken another huge leap to about 10 times average levels, fuelling calls for the federal government to pull the trigger on its domestic gas security mechanism.

Wholesale prices surged to an unheard-of \$58.44 a gigajoule in Victoria for a four-hour period on Friday, shocking manufacturers and raising the likelihood of plant shutdowns among those exposed to spot prices.

The spike extended big price increases earlier this week driven by a combination of cold weather, reduced production at the eastern states' largest domestic supply plant and rapidly diminishing stores of reserve gas.

Prices were slightly lower at the same time in Sydney at almost \$30/GJ and about \$20 in Brisbane and Adelaide. Earlier this year, prices in most states were in the \$5-\$6/GJ range.

"This is an absolute disaster," said one manufacturer and gas wholesaler.

"People will have to shut plants. This has never happened before."

While Victorian prices softened to \$22/GJ for the following four hours between 2pm and 6pm, they remain much higher than Asian spot LNG prices, one of the key factors that drove the federal government to introduce its Domestic Gas Security Mechanism.

The mechanism, which gives Canberra the power to divert gas being exported as LNG from Queensland by Shell, Origin Energy and Santos into the domestic market, has never been used, with the government relying on an agreement with the three Queens-

land exporters to keep the domestic market well supplied.

But some manufacturers started calling for the mechanism to be triggered earlier this week when east coast prices rocketed higher, a demand that was backed by Labor MP Joel Fitzgibbon and independent MP Bob Katter. On Friday, the Australian Workers' Union joined that push.

"It's time for Scott Morrison to pull the Australian Domestic Gas Security Mechanism trigger," said AWU national secretary Daniel Walton.

"It is unacceptable for Australian factories to be driven out of business by high gas prices when our country has more natural gas than anywhere else in the world."

The federal government's so-called gas-led recovery "is looking more and more like spin than strategy", Mr Fitzgibbon told *AFR Weekend*.

A spokeswoman for federal Energy Minister Angus Taylor would not comment on whether the government would consider triggering the ADGSM, only reiterating a statement that it was taking action on gas by unlocking supply, improving pipeline efficiency and empowering gas customers.

The Victorian government said the surge in prices was expected to be temporary and was due to a unique set of circumstances.

As most gas was traded through longer-term contracts, the high spot prices "will not translate to higher prices for the majority of users", a spokeswoman said.

Earlier this week, the petroleum industry association rebuffed the complaints of gas users, describing their calls for government intervention as

"whingeing". Australian Petroleum Production & Exploration Association CEO Andrew McConville said spot prices were "mostly irrelevant" given most manufacturers are supplied on long-term contracts.

However, one manufacturing source said almost a third of industrial gas users – predominantly smaller users – were exposed to spot prices.

Industrial buyers that have chosen to take exposure to wholesale prices would have had the option last year to lock in prices of \$6-\$8/GJ, another source noted.

AEMO said it was "closely monitoring" the situation, noting that the reduction in production at Esso/BHP's Longford gas plant was temporary and should return to normal after offshore maintenance was completed late next week. That will reduce the rate of draw-down from the Iona gas storage plant.

"Despite these high prices, we are not currently forecasting any shortages or disruption to supply across south-eastern Australia including Victoria for the winter," an AEMO spokesman said.

Lochard Energy, which owns Iona, said the plant had run at record levels this winter due to outages at major coal generators and periods of low wind production, which had coincided with reduced capacity at other gas plants and lower flows from Queensland.

Josh Stabler at adviser Energy Edge noted that the complex rules of the Victorian market mean that the highest price of \$58.44/GJ would apply to only about a tenth of the market. He said about 90 per cent of the market would be exposed to the \$34.84/GJ price that applied in the 6am-10am period.



Gas prices on the east coast have hit record levels, leaving industrial users in shock. PHOTO: BLOOMBERG



#### **Key points**

**Wholesale prices surged to 10 times normal levels for four hours on Friday.**

**Manufacturers want the domestic gas security mechanism activated.**