Department of Climate Change, Energy,
the Environment and Water
Department of Industry, Science
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AEC Submission to Gas Market Review Consultation Paper

The Australian Energy Council (AEC) welcomes the opportunity to make a submission in response to the Australian Government's Gas Market Review Consultation Paper ("the Paper").

The Australian Energy Council is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. AEC members generate and sell energy to over 10 million homes and businesses and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 per cent emissions reduction target by 2035 and is committed to delivering the energy transition for the benefit of consumers.

A timely review

With a statutory review of the gas code coming up, an opportunity has presented itself to carry out a holistic overview of the wider range of east coast gas market interventions (references to "the gas market" hereafter are to the east coast market unless otherwise specified). The AEC commends the Government for taking this opportunity to take stock of whether these interventions have been and will continue to be effective.

Implications of net zero for the gas market

The natural gas sector is expected to be significantly impacted by net zero trends and policies, and these impacts will in turn have effects on the workings of the east coast gas markets. Among the likely impacts are:

- Declining domestic demand as a result of gas substitution policies. This may affect buyers' willingness to commit to long term firm supply contracts. Users may be uncertain about their own future use and retailers about their customers' future use. Nevertheless, there are several hard-to-replace uses of gas in industrial processes, and so there will be an ongoing requirement for domestic gas supply. We support contracting flexibility to ensure retailers and customers can manage their requirements in an uncertain environment.
- Uncertainty for suppliers. If demand is likely to fall, this may inhibit new sources of supply as the risk of stranded investments is higher than before. Even where producers are committed to new supply projects, approval hurdles may be higher, leading to delays in bringing on new supply. Santos' Narrabri project is an example of this delay. Policy certainty for developers of potential new fields is critical, and we support streamlining the approvals process to ensure that existing supplies can be replaced in a timely and efficient manner to minimise disruption and excess costs for consumers.
- Volatility in demand from gas powered generation (GPG). GPG is recognised as continuing to play an essential role in the reliability and security of the NEM. Peak gas demand for GPG may rise even as

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volumes fall, as GPG fills in gaps in renewables supply. This will require flexibility in the gas markets, likely delivered through gas infrastructure, such as storage and pipeline linepack.

- Growth in renewable gases as part of the supply mix. This could include biomethane, which is chemically identical to natural gas but is likely to be sourced from diverse smaller supply sources. It could also include green hydrogen, noting that this industry has not developed as rapidly as previously hoped. Nevertheless, longer term gas market settings and regulations will need to take account of the possible rise in supply of renewable gas and the extent to which it is covered or not by the various market interventions.

Interventions to support the market must be proportionate and effective

In the light of the above, it may be tempting to think that the Government's interventions are necessary to shepherd the gas market through these challenges. However, interventions can sometimes make matters worse not better, and any intervention needs to be proportionate to the issue at hand. Overlapping and duplicative requirements are best avoided. The review is the best opportunity to consider the largely ad hoc set of interventions and reforms that have occurred in recent years and to re-orient and streamline into a more coherent set of policies.

To the extent that they can be made predictable and effective, there may be merit in the Government retaining some residual powers to ensure exporters do not enter into new contracts that constitute a net withdrawal from domestic supply. Such a framework should provide exporters with long term clarity on their responsibilities towards the domestic market. If a residual mechanism is retained, we recommend the following characteristics:

- an annual trigger, given practical issues around the likely efficacy and risk associated with the current quarterly approach;
- the trigger assessment should be informed by a single supply adequacy reporting process, noting the lack of consistency in current reporting between AEMO and ACCC;
- ensuring prior commitments to the domestic market act to reduce any potential liability should the mechanism be triggered;
- as far as possible, the mechanism should target any obligations on the party causing the supply issue rather than share the obligation, as under the present framework, which only weakens the incentives for compliance; and
- no price controls, which as discussed below are likely to inhibit new supply while providing minimal protection to consumers.

We would note that any form of domestic gas reservation is not a panacea either for price or supply adequacy. At various times, WA gas users have been concerned about the price of gas available under that state's reservation framework, and the WA GSOO forecasts a need for new sources of supply over the forecast horizon.

In practice the existing policy framework has been used at times by the government as a "bargaining chip", offering exemptions from elements of the framework to producers in return for commitments to supply incremental gas into the domestic market. This approach is opaque, ad hoc and inconsistent with the goals of transparency and predictability.

Price controls support buyers in the short term but can inhibit new supply

The AEC's members are primarily net buyers rather than net sellers of gas. As such they prefer lower prices to higher prices. But ultimately, price controls are self-defeating. A price control does not in itself guarantee supply and may inhibit new sources of supply that require a higher price to be viable.

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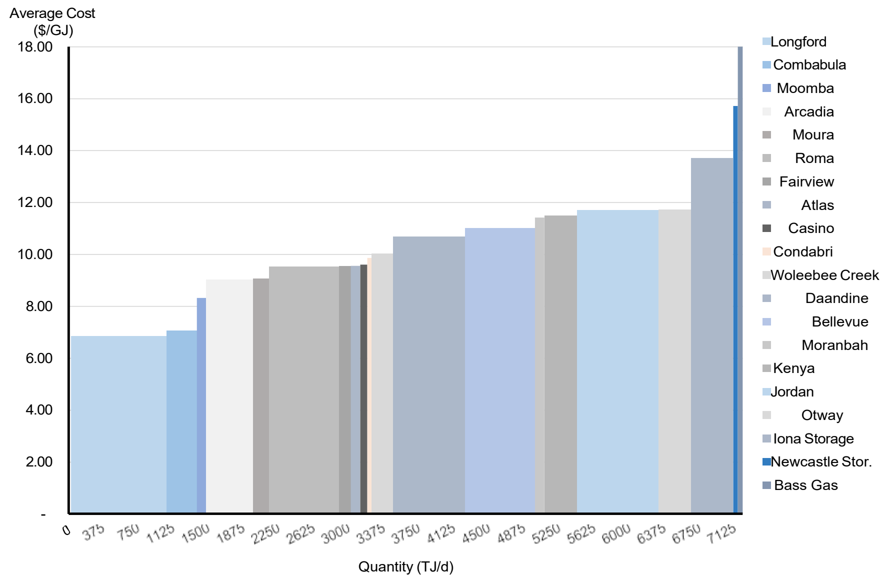
Figure 1: Easten Australian aggregate gas supply



Source: Simshauser & Gilmore (2025)

As Figure 1 above shows, the marginal sources of existing supply exceed the current $12 "reasonable price". While some of these are storage assets, these are precisely the kind of flexible supply source that is likely to be increasingly important. Novel supply sources such as LNG import and renewable gases are also likely to be higher cost than the conventional supply fields against which the "reasonable price" is benchmarked. Accordingly, we do not support an ongoing role for the reasonable price mechanism.

As the Government would be well aware, gas prices spiked globally in 2022 due to geopolitical factors and – based on price trends internationally - Australian gas prices would have come down in any case regardless of interventions. Prices are also likely to stay connected to international price movements, given the marginal molecule of gas supply can go to LNG export or to domestic consumption. For the southern states, though, there is a material difference between a situation where there is adequate supply and the price equilibrium is logically an international netback price less the cost of north-south transportation versus a situation where there is reliance on gas from Queensland, and the price equilibrium is a netback *plus* the cost of north-south transportation. In other words, even with an acceptance that international price exposure is here to stay, new supply can make a meaningful impact on local prices.

The EOI model has not supported more timely and efficient contracting outcomes

Similarly, increasing and more diverse sources of supply are the best way to support buyers in their contract negotiations. The rigidities of the EOI requirements may hinder rather than help contract negotiations. For example, compliance concerns can lead to protracted timeframes and restrict informal bilateral discussions due to the limits on the number of parties a producer can engage with due to the formal timeframes. To the extent the Government resolves to maintain the EOI requirements, we support exemptions for buyer-led EOI processes.

We also advise caution about Government assuming a role in trying to drive greater use of facilitated markets. While these markets have the advantages of transparency and (to a degree) liquidity, they also entail constraints that mean they do not always suit the needs of a buyer or seller. The most liquid exchanges globally, such as the Henry Hub or the UKBP are in markets with far greater volumes than the east coast domestic gas market, and also a greater amount of infrastructure meaning that locational constraints do not play such a big role in clearing markets.

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However, there are some simple reforms that could encourage greater participation in facilitated markets including:

- Prudential reform – in particular consolidating and netting prudential requirements across the various markets and introducing joint settlement.
- Anonymising trades reported on the gas supply hub (GSH).

Market information is useful and can be consolidated

There are a range of reforms to information collection and publication arrangements that we consider would be beneficial:

- Reporting uncontracted gas information and EOIs in a central information repository
- Avoiding duplicative reporting by market bodies which can cause confusion (for example if multiple bodies report different projections of gas adequacy) and increase reporting burdens unnecessarily.

The most straightforward approach would be for AEMO to focus on bulletin board information (including gas supply agreement data) and supply adequacy forecasting, AER to focus on market monitoring and for the ACCC's ongoing activities to be wound up.

The market bodies should also engage with industry to ensure that data is presented in a way that meets the needs of stakeholders. Improving transparency is an important goal but current arrangements for reporting and data availability need to be revisited to ensure that value is being provided by the reporting agencies while at the same time maintaining appropriate anonymity and confidentiality.

Any questions about this submission should be addressed to David.feeney@energycouncil.com.au.

Yours sincerely

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