

**GAMAA Technical meeting will be held on Wednesday 18 October 2017.**

Where: Ai Group - L2, 441 St Kilda Road Melbourne

Time: 10am to 2pm

RSVP: Email [associations@aigroup.com.au](mailto:associations@aigroup.com.au)

**Gas shortfall trigger decision needed to maintain gas pressure**

Ai Group media release – Monday 25 Sep 2017

"New projections of serious gas supply inadequacy from the Australian Energy Market Operator (AEMO) and an ACCC report showing gas users face unfair contractual terms, poor availability and sky-high prices are deeply concerning. They add to the pile of evidence supporting the need to declare 2018 a gas shortfall year to create the option for a diversion of Eastern Australian gas from export to domestic use," Ai Group Chief Executive Innes Willox said today.

"For many months now Ai Group has broadcast the dismaying news from gas users that gas contracts are scarce and that contract prices are surging far above parity with Liquefied Natural Gas exports. While there are many problems with this deeply non-transparent market, the best explanation for the situation is that gas supply has not expanded as fast as the producers expected, and there is simply not enough secure contractible gas available to meet all pre-existing domestic demand as well as the vast new requirements of LNG export.

"The new AEMO assessment corroborates the direct experience of gas users that we face a large supply shortfall in 2018 and over coming years. Projections should of course be treated with care. AEMO's figures reflect the increased demand for gas in an electricity system where old coal generators are closing and major new renewables generators are not yet on line. They also wisely make allowance for the many risks and uncertainties – from a hot summer to a major generator outage – that could drive demand higher yet.

"The ACCC report gathers sworn evidence and confidential data to paint the clearest picture yet of the real state of the gas market – and it is not pretty. The gas crisis warnings coming from industrial gas users, from small metal bashers to medium food processors to huge chemicals businesses, have been confirmed in every respect. Gas contract offers are scarce and at \$10-16 per gigajoule they are far above the ACCC's export parity benchmarks of \$5.87/GJ in Queensland and \$7.77/GJ in the southern states.

"Together with the clear testimony from individual businesses across Eastern Australia, the top-down AEMO modelling and the bottom-up ACCC investigation make it clear we are facing an emergency and that there will be a need to divert gas from export into the domestic market.

"The gas industry can and should make commercial arrangements to divert that gas itself. Recent announcements from Santos, Shell and others are positive, though their net impact on the market will take time to understand. This action has come about because of the credible threat of Commonwealth export controls, however, and that pressure needs to be maintained".

"A Government decision to declare 2018 a gas shortfall year will keep the pressure up, allowing further decisions to impose and vary quantitative export limits on all Eastern Australian gas export projects. Those limits can and should be relaxed when it becomes clear that commercial action is sufficient to rebalance the market and avoid scarcity pricing.

"The Government's gas security mechanism only envisages cutting the exports of projects that are not net contributors to the domestic market. However, it also clearly allows and logically requires limits on all other exporters active in Eastern Australia, even if those limits are simply set at the previously expected level of exports. This would ensure that gas redirected by one exporter into the domestic market could not then be sold on to another and exported after all.

"The decision to intervene in Australia's energy exports is a big one, and Ai Group has not advocated for it lightly. Any intervention should be temporary, giving breathing space for measures to deliver demand-side efficiencies and more supply. But the fate of large swathes of industry hangs in the balance, as does the security of our gas-dependent electricity system. The Government should follow through on the Australian Domestic Gas Security Mechanism for as long as it takes to resolve the crisis," Mr Willox said.



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