

Australia's gas supply shortage

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Several regions of Australia are suffering blackouts due to a domestic gas supply shortage. Given the numerous and very large LNG projects being developed in the country, the shortage seems extraordinary.

Just last week, Australia's consumer watchdog was instructed to investigate Australia's LNG market. The Australian Competition and Consumer Commission's investigation follows Prime Minister Malcolm Turnbull's meeting with major gas companies to find a way to solve the gas supply crisis.

The supply squeeze has led to the spot price of wholesale gas in Australia tripling in the last two years, and has also resulted in restricted LNG exports to Asia.

Gas fuels about 22% of Australia's electricity production, and around 45% in South Australia. A recent increase in LNG exports from Queensland has provoked fears of further impending price hikes.

Igor Bogdanich, an oil and gas partner for Allens, based in Australia, told *IJGlobal* that existing LNG projects are structured around long-term export contracts, and so can't adequately supply the local market. Meanwhile there are been a drop in other domestic gas production, leading to a shortage and higher prices.

"There are various moratoriums on onshore gas exploration which upstream producers are calling to have removed or softened. Industrial customers of gas are complaining about increasing prices and some of them are calling for a domestic gas reservation policy so that a project has to reserve a percentage of its gas reserves for the domestic Australian market," said Bogdanich.

Contributory factors

Australia's renewable energy policy has also contributed to the problem, according to sources working directly on major LNG deals in the country. Australia's attempted move away from conventional power source towards renewables, especially solar and wind, has led to a lack of power supply in some regions when renewable power plants are disrupted by external factors.

In South Australia storms have cut off solar and wind power, leading to wide-spread blackouts after delays in starting up substitute gas generation. In October 2016 a storm swept through the region and created a tornado that knocked down 23 transmission towers.

New South Wales and Victoria's bans on onshore gas exploration and production have left those regions short of gas and more reliant on other types of generation.

Andrew Smith, a partner for Jones day, who focuses on energy and resources law, does not expect a speedy resolution to these problems: "Even if all exploration/production bans were lifted tomorrow, it would be some time, perhaps years, before gas producers had replaced their reserves to a sufficient level," said Jones.

"Blackouts have already occurred in South Australia and Victoria and it is estimated that without urgent action residents of New South Wales, Victoria and South Australia have a 75% chance of blackouts next summer. These blackouts will cost the nation billions of dollars in the food, medicine and processing industries".

Woodside Petroleum CEO, Peter Coleman recently told *The Australian* that the problem will become worse before it improves. He highlighted the fact that the east coast gas crisis risks hurting the reputation of the entire Australian LNG sector in the view of investors and clients. Government officials in Australia have said that Eastern Australia could face natural gas shortages starting in 2018 as Queensland LNG exports move into full swing

Possible solutions

There are several solutions to Australia's gas shortage, including building new pipelines, facilitating onshore gas projects, enacting domestic gas reservation policies, and importing LNG. And the federal government seems keen to address the problem.

The Prime Minister has met with the heads of all LNG exporters, demanding that they ear-mark a portion of their reserves for domestic consumption. Smith told *IJGlobal* that whether a particular exporter can do that depends on their reserves and their contractual position – any attempt to go back on signed long-term contracts would reflect badly on Australia.

Smith doesn't think that new production developed for the domestic market is an immediate solution, despite the potential onshore and offshore reserves in NSW and Victoria. "Even if such a development did proceed, it would be five to seven years before there could be any importation, said Smith.

Nicholas Molan, a counsel for Dechert, told *IJGlobal* said that the current problem can either be resolved by increasing the supply of natural gas into the east coast market or by prioritizing the access rights of some users (for example, power generators and certain industries) over the access rights of other users (for example, LNG producers and certain other industries).

"The short to medium-term solution will likely be a combination of both these approaches. Into the longer term, a broader and more integrated energy natural resources policy should be developed by the relevant state and federal governments," said Molan.

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