THE AUSTRALIAN

Gas export curbs loom as shortage set to worsen

The AEMO expects the shortfall in east coast gas supplies to worsen next year.

PAUL GARVEY,**DAVID UREN** THE AUSTRALIAN 12:00AM September 25, 2017

A new forecast of a massive shortfall in east coast gas supplies will intensify pressure on the federal government to introduce dramatic restrictions on liquefied natural gas exports, amid growing expectations that the pain will be spread across the whole Queensland LNG sector.

A critical gas forecasting report from the Australian Energy Market Operator, which will be submitted to the government today, will show that the group expects the shortfall in east coast gas supplies to worsen to as much as 107 petajoules next year.

Prime Minister Malcolm Turnbull, Deputy PM and Resources Minister Barnaby Joyce, Treasurer Scott Morrison and Energy Minister Josh Frydenberg will meet today with Australian Competition & Consumer Commission chief Rod Sims in a key step towards a final government decision on how to enforce retroactive powers designed to tackle the east coast energy crisis.

The ACCC is expected to finalise its own report into the situation in the next 24 hours.

The 107 petajoule shortfall forecast by AEMO compares with the annual east coast gas demand of around 650PJ, and is up dramatically from AEMO's own previous forecasts. AEMO's previous assessment in March had no gas shortfall in 2018 while the shortages it predicted from 2019 to 2024 were between 10PJ and 54PJ a year. The AEMO report will draw attention both to the demands from the Queensland LNG industry as well as the constraints on expanding domestic supply, partly due to state government restrictions on gas exploration.

The government's energy committee has just weeks to make a final decision on whether to enforce the powers created earlier this year under the Australian Domestic Gas Security Mechanism. This mechanism allows the government to introduce export restrictions on LNG producers that are not net contributors of gas to the domestic market, which has left the Santos-led Gladstone LNG project — which relies heavily on third-party gas suppliers to keep its output at capacity — most at risk.

But the AEMO forecast and the meeting with Mr Sims will stoke industry expectations that the government may tweak the gas security mechanism rules in order to spread the domestic gas supply obligations across not only GLNG but also Royal Dutch Shell's Queensland Curtis LNG project and the Australia Pacific LNG plant of Origin Energy and ConocoPhillips.

Mr Sims used a public address last week to criticise the role of Queensland's gas exporters in creating the east coast energy crisis, and indicated he was unhappy that uncontracted gas was being sold on to international spot markets by Australia Pacific LNG and Queensland Curtis LNG rather than to domestic buyers.

He also warned that the government was faced with a choice of "pulling the trigger on the (gas security) mechanism or seeing factories close and jobs lost".

While compelling the likes of the two major LNG exporters to help meet any forecast shortfall would mean going against the very rules the government itself designed only a few months ago, it could help minimise the financial and reputational damage to the industry than if Santos and GLNG were forced to wear the full burden.

Australia Pacific LNG in particular has already said it has around 65PJ of gas — or around 10 per cent of annual east coast gas demand — that is uncontracted and which could be made available for the domestic market next year.

Shell, which expects to supply 75PJ of gas from Queensland into the domestic market this year, has set up a new business in Melbourne to sell more Australian gas locally.

GLNG has already taken steps to free up more gas for domestic markets but has less flexibility than its rivals and would be forced to break lucrative international supply contracts if it was compelled to tackle any sizeable shortfall on its own.

Malcolm Roberts, chief executive of the Australian Petroleum Production and Exploration Association, told *The Australian* that he hoped the government would see that industry could supply additional gas into the domestic market without having to enact powers under the Australian Domestic Gas Security Mechanism that would hurt Australia's international reputation.

"The best solution for everyone is a co-operative industry solution that doesn't deter investors and that doesn't see this regulation invoked," Mr Roberts said.

The federal government's energy committee needs to make a final decision on the shortfall by November 1.

The industry will then have 30 days to respond to any findings, ahead to a start of restrictions on January 1.

Wood Mackenzie analyst Saul Kavonic said the government's hard line against the industry would hurt Queensland government revenues and jeopardise long-term gas supply security and costs.

"While GLNG was originally solely targeted by the government due to its reliance on third party gas, GLNG also has the least flexibility of the three projects to divert gas away from exports to the domestic market due to its contract position," Mr Kavonic said.

"Any move toward applying export restrictions across all three projects presents an additional last-minute rule change, penalising those projects that have been delivering gas to the domestic market, and further compromising Australia's reputation for investment stability."