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**Opinion**

# Stop the cynical, political, lazy mud-slinging at gas

The calls for draconian “price caps” only serve to deter the desperately needed investment in the transition fuel critical to Australia’s energy transformation.

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Russia’s war in Ukraine has upended the global energy market [<https://www.afr.com/topic/gas-crisis-1mq0>] and driven up prices across the globe. Australia is unfortunately not immune.

While gas exports provide billions of dollars in government revenues each year and enable the employment of tens of thousands of Australians, that is of course cold comfort for homes and businesses experiencing rapidly rising energy prices.

The Australian east coast energy markets (both electricity and natural gas) are complex – unnecessarily so. So complex they are likely incomprehensible for most Australians.



Gas exports provide billions of dollars in government revenues each year. **Boiling Cold**

When it comes to electricity generation, gas is the back-up firming fuel when coal and renewables are unable to meet demand. This role, and its increasingly central role in facilitating Australia's energy transformation, should be celebrated and incentivised, not vilified.

Thermal coal, with hydro, sets the electricity price most of the time. Today, reliable domestic thermal coal supply is still required for base load electricity, and gentailers should be required to demonstrate they have adequate and uninterruptable supply contracts in place to keep their plants running. Renewables – such as solar and wind – provide low-cost electricity after they are built and connected to the grid, but they are intermittent and therefore inherently unreliable, and require massive investment in new transmission and large-scale energy storage, which is still being developed.

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## **The key to reducing gas price is to unlock the upstream gas industry's potential to deliver more gas.**

Australia's natural gas is critical to fill the void.

A capacity market for reliable firming – one that includes gas – is a must, or reliable capacity simply won't be there.

In the domestic gas market, three consumer markets exist: large industry (large manufactures and major gas retailers); small industry (manufacturers reliant on gas retailers); and homes and small businesses reliant on the regulated retail gas market.

Large industry includes the behemoths of manufacturing and are large and sophisticated businesses. They have direct access to gas producers in the wholesale market and are responsible for their own risk management.

They have enjoyed many years of low gas prices and have had many opportunities to lock in long-term, low-cost gas contracts. Many chose not to – presumably because they thought a better deal would come, or sought to take their chances in often volatile spot gas markets.

This is their choice in a market-based economy.

Small industry is overwhelmingly reliant on the gas retailers to supply their energy needs. These customers are located in distribution networks generally dominated by an incumbent gas retailer and cannot easily access wholesale gas supply competition, nor are upstream gas suppliers generally able to sell gas directly to these users.

Gas retailers must provide competitively priced gas – charging \$25-plus per gigajoule, as reported, is not acceptable – especially when these retailers have a portfolio of lower-cost gas supply contracts themselves or are vertically integrated businesses taking advantage of their incumbent oligopoly or monopoly position.

Likewise, midstream transmission and distribution service providers need to significantly improve and simplify access to these networks.

Small industry gas competition and gas retail reform should be a priority action for government and the Australian Competition and Consumer Commission.

Homes and small businesses reliant on the major gas retailers similarly deserve the benefits of transparency and reforms required in the retail market to ensure lower-cost gas supply.

If we are to ensure lower – not higher – gas prices into the future, more local gas supply is required. This was the case even before the global market turmoil. It is a fact that prices were increasing even before the Ukraine war as a result of reduced investment.

Competitively priced domestic natural gas supply requires billions of dollars of upfront investment. This investment is not low risk, and is becoming riskier. And this risk requires a commensurate investment return, or the investment is simply not made.

This is the essence of a market-based economy – a system that has seen Australia flourish and earn a proud international reputation through more than three decades of economic growth and prosperity.

The eastern Australian gas market requires continued multibillion-dollar investments to keep supply up and prices down. When investment slows, or is not allowed to progress, such as in Victoria or NSW, gas supplies decrease and prices increase.

The key to reducing the gas price is to unlock the upstream industry's potential to deliver more gas when and where it is needed, to reform the oligopolistic retail gas markets, and to reform the outdated National Electricity Market.

These are difficult and complex reforms but must be done if we are to have a thriving manufacturing sector, and if we are to have a reliable and affordable electricity market transition from a coal dominated system to a system led by renewable generation.

Simply blaming upstream gas suppliers for all of the economy's woes is not only wrong, it is cynical, political and lazy.

The recent discussions about draconian price caps [<https://www.afr.com/companies/energy/gas-price-cap-rhetoric-worsening-risk-of-shortage-20221107-p5bw3h>] only serves to deter the desperately needed private capital investment in Australia's domestic gas supply. Private capital investment is essential, and consistent government policies are also essential for this investment to occur.

We are a sophisticated and wealthy nation with sophisticated and complicated markets. Let's act like it.

Reform is hard. Australians deserve an honest conversation on improving the operation, transparency and fairness of our energy markets, not glib mud-throwing to a gas industry delivering so much.



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