Politics Federal Energy

South Australia warns of 'stupid' gas controls

Phillip Coorey, Jacob Greber and Colin Packham

Nov 30, 2022 – 6.34pm

The Albanese government's plan to put a cap on gas prices faces a new roadblock with the South Australian Labor government joining industry warnings that it could deter investment in new gas supply developments.

A day after the Queensland government flagged [https://www.afr.com/link/follow-20180101-p5c28i] its concerns about plans by the federal government to force down energy prices, South Australia said the state should not contribute to an east coast domestic gas reserve.

South Australia's gas fields are a major supplier to the east coast energy market. **Bloomberg**

The establishment of such a reserve is being considered as part of a broader Albanese government plan to push down prices for businesses and households. It has given itself a deadline of the end of December to resolve the issue.

However, the SA government is arguing internally that Victoria and NSW need to develop their own bountiful gas fields, rather than demanding gas from SA and

Queensland.

The federal government is working on a package of interventionist, temporary measures to cut the price of gas and electricity [https://www.afr.com/link/follow-20180101-p5c28i]. The measures reportedly include a gas price cap of between $11 and $13 a gigajoule for commercial and industrial customers.
It is also examining a price cap on coal, subsidies, a gas reserve and enforceable code of conduct which governs the negotiation of gas contracts.

'Don't do anything stupid'

An SA government source said most of the state's gas was already contracted for the long term at between $8 and $11 a gigajoule, so royalty losses caused by a price cap were not a concern.

But the potential adverse impact in investment for such brazen intervention was of real concern, and the government was appealing to federal Energy Minister Chris Bowen not to "do anything stupid", even on a temporary basis.

"What's temporary? One year? Two years?" asked the source.

Industry is making the same claims.

Korean steel-making giant Posco warned it could switch away from new investments in Australia if it continued to face unwarranted government intervention such as a price cap on gas supplies.

The warning is one of the ever-louder cries of foul from producers over the potential price cap, which they insist would have unintended consequences and could increase the risk of blackouts next year.

Posco last year acquired Australian oil and gas producer Senex Energy for $900 million in a deal the South Korean listed company said was key to its global blue hydrogen plans.

But the managing director of Posco Australia, Ben Kim [https://www.afr.com/link/follow-20180101-p5c2gr], said the prospect of gas intervention and the recent decision by the Queensland government to increase royalties risked the company's outlook on Australia.

"I wouldn't say we are at that point yet, but if policymaking continues to disadvantage us, then I would say that there are alternatives to Australia," Mr Kim said.

"Take for instance hydrogen. There is the Middle East, Australia and maybe Indonesia. There are a few places where renewable energy can be competitive.

"Australia is not *the* destination for that industry, it is one of the destinations. It is very important that Australia shows investors that it is a country for the long-run."

Overseas exploration 'more attractive'

An EnergyQuest report commissioned by gas lobby Australian Petroleum Production and Exploration Association (APPEA) warns that about 19 years of potential gas supply – 39,000 petajoules – would remain "commercially stranded" and in the ground if a price cap held prices around the level they were at last year.

Such limits on the market would also discourage about $800 million a year in drilling and pipeline development across Queensland's coal seam gas fields, which account for 89 per cent of east coast gas and 77 per cent of production last financial year.

"Capping gas prices can only have a negative impact on exploration expenditure with lower expected revenue from a successful find, to higher perceived regulatory risk with government interventions," EnergyQuest said in the report.

"These factors would make exploration in other countries increasingly attractive, further decreasing the addition of Australian gas resources from exploration."

APPEA chief executive Samantha McCulloch said the report demonstrated the risk of intervention and that the government should allow the existing mechanisms of a heads of agreement and code of conduct to work.

"The report shows that gas price controls won't solve the pressures in the national energy system and would lead to even larger problems and higher prices down the track," she said.

"We need to look at the entire energy supply chain for solutions, not isolate only one part of it.

"Gas can play a part in that solution by bringing on new supply to put downward pressure on prices.

"But this can only be done when positive investment policy settings and regulatory certainty encourage new investment. Intervention does the opposite."

EnergyQuest said smaller gas producers were likely to be the hardest hit by any cap because they were less likely to secure long-term contracts.

"Currently, a small producer can sell on the spot market to build cash reserves, and the higher prices encourage more supply," it said.

"A price cap lowers the revenue a smaller gas producer can achieve at a critical stage in the development of gas supply."

Queensland's compensation bid

SA believes a significant contributor to high energy prices now is price gouging by the Queensland government, which owns its generators, and the federal government-owned Snowy-Hydro Ltd, which is relying on gas peakers rather than hydroelectricity because of supersaturation caused by the floods.

Queensland Premier Annastacia Palaszczuk said on Tuesday she would oppose any attempt to force a similar price cap on coal [https://www.afr.com/link/follow-20180101-p5c2im] used by state-owned energy companies, declaring "hands off our generators".

Ms Palaszczuk said "there is no way that Queensland is going to sacrifice the returns that we are able to provide back to Queenslanders" as she demanded compensation for the state if the move went ahead.

She also told NSW and Victoria to develop their own gas fields.

EnergyQuest's research indicated that placing a price cap of $10 per gigajoule would cut into state royalty revenues by about $89 million a year.

The paper also cautioned against European-style interventions, which have managed to address only price volatility and "clear market inefficiencies". Even more dramatic measures such as direct subsidies have caused huge fiscal burdens.

The British government's Energy Price Guarantee was curbed after just six weeks, and its total cost climbed to $55 billion in six months.

"Gas price caps do not address the fundamental drivers of higher prices which are a lack of supply, and demand volatility caused by electricity generation transition issues," EnergyQuest said.

Industry Minister Ed Husic said he was confident state and territory leaders would back a plan to bring down the price of coal.

Before a planned national cabinet meeting next week, Mr Husic said the various governments would "work through those issues".

"I have a lot of faith in the fact that the states recognise with us that we need to get those prices down," he told ABC Radio.

"There's also a recognition by states ... being a sense of unity around the need to lower prices and to find a way through."

Mr Albanese told question time the government would "make some announcements before Christmas".

"That is the timeframe we have said. We stand by it."

RELATED

Gas producers cry foul over price cap as blackout risk rises
https://www.afr.com/companies/energy/credit-suisse-warns-of-blackout-risk-in-gas-price-cap-plan-20221130-p5c2gr

RELATED

Why Labor's gas price cap will just blow up the energy future
https://www.afr.com/policy/energy-and-climate/why-labor-s-gas-price-cap-will-just-blow-up-the-energy-future-20221129-p5c253

Phillip Coorey is the political editor based in Canberra. He is a two-time winner of the Paul Lyneham award for press gallery excellence. *Connect with Phillip on Facebook and Twitter. Email Phillip at pcoorey@afr.com*

Jacob Greber writes about politics, economics and business from Canberra. He has been a Washington correspondent and economics correspondent. *Connect with Jacob on Twitter. Email Jacob at jgreber@afr.com*

Colin Packham is an energy and resources reporter at The Australian Financial Review *Connect with Colin on Twitter.*