Companies Energy Gas crisis

Gas price cap rhetoric 'worsening risk of shortage'

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The Albanese government's threats to cap the price of natural gas are increasing – rather than reducing – the risk of a shortage of supplies next winter because they are causing buyers to hold off on negotiating and agreeing new supply deals, industry sources say.

They say the talk by Treasurer Jim Chalmers and Industry Minister Ed Husic [https://www.afr.com/politics/federal/chalmers-open-to-gas-price-cap-as-political-pressure-builds-20221026-p5bszr] of intervention to make gas less expensive on the east coast through price caps or other regulation has led to some buyers – both manufacturers and retailers – dialling down efforts to source new supply deals as they hold out for lower prices.

Industry Minister Ed Husic has threatened gas producers with intervention. **Dominic Lorrimer**

One industry source said buyers had come to the table to negotiate after Resources Minister Madeleine King's earlier comments [https://www.afr.com/policy/energy-and-climate/labor-strikes-gas-deal-avoids-export-threat-20220929-p5blyp] that focused on ensuring additional supply into the market, rather than on any moves to control price.

But they backed off after more recent, aggressively pro-intervention rhetoric from Mr Husic and Dr Chalmers, as well as from former competition watchdog chairman Rod Sims.

"That will just lead to the same thing as this year: we will end up with a market that is short," said one producer.

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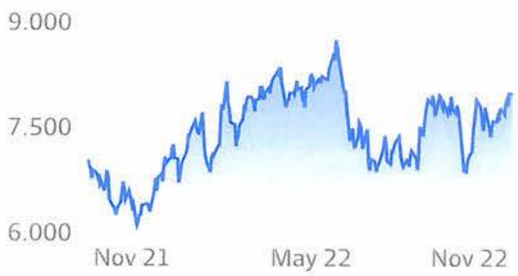

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But Andrew Richards, who runs the Energy Users Association of Australia, representing energy-intensive industry, said that if some buyers were holding back, it was because of extremely high prices being offered by producers.

He pointed to public expressions of interest in gas supply from producers that make reference to $45 a gigajoule prices, well above even the current elevated spot prices for gas on the east coast. That compares with prices of below $10/GJ early this year.

A recent offer of gas from Shell's QGC in November-December says the price will be based on "current JKM [Japan Korea Marker] market pricing", and notes the Australian Competition and Consumer Commission's LNG netback price series gives an indication of that price. The LNG netback price quoted by the ACCC for November is $44.32/GJ.

A similar offer from Origin Energy's APLNG venture for supply in January-April 2023 also refers to the ACCC's LNG netback prices or to fixed dollars per gigajoule prices.

"That makes them pretty nervous about trying to negotiate something," Mr Richards said, accusing producers of "drip-feeding" supply into the market to create an "artificial scarcity" that would make buyers nervous and persuade them to sign up.

"The only reason you're doing that [holding off from contracting new supply] is you're facing a $45/GJ price. Of course, you're doing that because the alternative is pretty devastating."

One gas buyer agreed that if customers were not signing up to new contracts it was because the prices and terms on offer were "quite horrible".

"It's not a matter of holding out – they can't afford to pay $30. You sign a contract and you go broke," the buyer said.

They said that a price offered of $25/GJ then had additional administration and take-or-pay penalties that could increase it to $35/GJ, with transportation fees to come on top of that.

The source accused gas producers of "lying and misleading" and making "bullshit offers".

Still, some gas supply deals are still being struck, with building products company CSR last week signing up to a deal with Shell Energy Australia for supply out to 2027 that is thought to be priced at less than $20/GJ.

Other shorter-term deals have been done at higher prices of about $35/GJ for 18 months supply, with another about $28.50/GJ, according to sources.

Credit Suisse energy analyst Saul Kavonic said the federal government threats looked to be having a counterproductive response that could damage supply security in 2023.

"It is possible federal government interventions could now cause, rather than avert, a serious gas and power crunch next year." he said in a note to clients.

"The prospect of intervention lowering prices in 2023 is seeing some retailers withdraw from securing supply next year, which should raise hedging costs for end users. And there may be early signs that market participants are holding back from filling storage given heightened risk of policy-driven lower prices in 2023."

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