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The Australian Domestic Gas Market: A Tale of Two Coasts

AEMO's December 2018 Western Australian Gas Statement of Opportunities and the March 2019 Gas Statement of Opportunities for Eastern and South-Eastern Australia provide a stark comparison. The west coast market is adequately supplied, but greater planning and coordination is required in the east coast market to avoid supply shortfalls from 2024.

West Coast

Supply/demand balance:

- Domestic gas supply exceeds demand over the 2019-2028 forecast period

On the supply side:

- Supply is forecast to decline from 2019-2021 in line with reserve depletion at existing facilities. Shortfalls may arise if new sources of supply do not enter the market
- Shortfalls will be avoided if Wheatstone LNG and Pluto LNG domestic gas supplies come on stream as anticipated in 2019 and if domestic gas supplies commence from four projects currently in the planning phase (the tolling of Browse reserves through the Karratha Gas Plant, the Equus project, the Scarborough project, and/or Waitsia Stage Two)

On the demand side:

- Demand is underpinned by growth in the mining sector and gas powered generation (GPG)
- Beyond 2022, and not withstanding an increase in large-scale renewable generation, an increase in gas demand for GPG is expected as older coal-fired generation is retired from the SWIS

Although gas sales are contracted on very similar terms in both markets, there is no doubt that gas pricing pressures are much more evident on the east coast and this naturally makes for more difficult contract negotiations. How this changes over the coming years will depend on the regulatory and market responses to the forthcoming shortfalls.

East Coast

Supply/demand balance:

- Adequate supply exists to meet demand until 2023, although peak-day demand could result in shortages during this period. Supply shortfalls emerge from 2024

On the supply side:

- Production in the northern states (QLD and NT) continues to increase, but production is declining in the southern states (VIC, NSW, SA and the QLD part of the Cooper Eromanga Basin)
- The southern states will not be able to meet their own gas demand by 2022, thereby increasing their reliance on gas from the north which will itself be constrained by pipeline capacity
- New sources of supply are therefore required from a combination of:
  - LNG import terminals (though not likely to ease gas pricing pressures)
  - The development of New gas transmission pipelines from QLD to NSW and/or the development of the Narrabri project
  - The development of reserves in the NT or Galillee Basin (with expansion of the Northern Gas Pipeline and /or the Carpentaria and South West Queensland Pipelines)

On the demand side:

- In the short term:
  - LNG exports will increase slightly to capitalise on opportunities on global spot markets
  - Industrial consumption remains flat
  - Residential and commercial consumption shows stronger growth, influenced by increases in population and consumption trends
  - GPG declines due to the growth of renewables and distributed energy in the National Electricity Market (NEM)
- In the medium term (2025-29) to longer term (2030-38), there is a slight reduction in total demand relative to 2018 as a result of slowing international demand for LNG and vulnerability of industrial loads caused by increased domestic gas prices. Demand for GPG increases as it assumes a reliability and security role to support renewable generation when coal-fired generation is retired from the NEM.