THE AUSTRALIAN

Gas shortage looms as Victorian output falls

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Fresh gas shortages on Australia's east coast could emerge from mid-2019 — two years sooner than official forecasts — due to a sharp decline in Victorian offshore gas production piling renewed pressure on domestic prices, a private firm fronted by former BHP executives has warned.

Venice Energy, the Mitsubishi-backed venture that aims to import liquefied natural gas into South Australia, says Victoria's gas shortages will start appearing from the middle of next year.

This is in contrast to the Australian Energy Market Operator's surprise June forecast that declared there was not likely to be short or long term gas shortages. That forecast, based on producer estimates on how much unproven gas resources they could convert to reserves, was controversial because it superseded one in March that said a shortage loomed in 2021 due to a faster than expected decline in supply from the state.

Venice sees the shortfall coming two years quicker than the AEMO's original forecast.

The Bass Strait gas fields, owned by BHP and ExxonMobil, have been the mainstay of supply for east coast gas for decades but several of the legacy fields have been drained in the last few years due to high demand after domestic supplies were scooped up for export by Queensland's LNG industry.

"There is a shortage and there are constraints everywhere, particularly on the southeastern corner of Australia next year," said Venice Energy managing director Kym Winter-Dewhirst.

"Those shortages look like increasing from the beginning of next year when the reserves in the Otway Basin start to decline quite rapidly.

"We expect there to be further constraints and that will lead to a tightening of prices."

AEMO, operator of the national electricity market, spooked gas buyers in March when it warned that a sharper than expected decline in gas production in Victoria, as offshore fields run down, will lead to shortfalls in the state on peak demand days from the winter of 2021.

This would have flow-on effects for NSW, Tasmania and South Australia, which draw on gas from Victoria to meet peak demand, the operator said.

The production drop would worsen in the following year, with some deep potential shortfalls in days of peak demand from 2022 onwards, which could see Victoria forced to import gas from other states.

AEMO's June reversal of this forecast, while embraced by Prime Minister Malcolm Turnbull and gas sellers, prompted scepticism from energy buyers and analysts.

The potential shortfall to meet winter peak-day demand will arrive sooner than AEMO's forecasts, according to Mr Winter-Dewhirst, who previously worked as a government relations executive for BHP.

"All the data we have would suggest supplies will start to tighten from the middle of next year," he said. "The analysis we've done suggests the decline starts from the middle of 2019 and then it will accelerate to 2021."

AEMO and Exxon, operator of the Gippsland Basin joint venture with BHP, did not respond to requests for comment yesterday.

The June AEMO report forecast there will be enough gas for domestic users in both the short and long term with predictions of supply growth from Victoria, South Australia and NSW.

South Australia's Beach Energy also said there could be renewed pressure on east coast gas prices due to ongoing supply restrictions.

"The most straightforward of supply sources are already online and the cost of finding and developing gas for the east coast is certainly not going down," chief executive Matt

Kay said.

“The pressure point [on prices] will more likely be upwards rather than downwards and that’s just a function of supply and demand.” Gas on Australia’s east coast, currently being offered at between $8 and $10 a gigajoule, would move substantially higher due to supply shortages and the linkage of Australia’s domestic market with overseas LNG prices, consultancy Wood Mackenzie said earlier this month.

“Domestic gas pricing is now largely at export parity already,” said Mr Winter-Dewhirst. “That’s been very much driven by the LNG projects in Queensland.”

Venice, which aims to start LNG imports by 2020, also floated the prospect of “gas swaps” with AGL Energy’s proposed gas project at Crib Point in Victoria marking the first sign of possible collaboration between two of the four proposed import plants which could start operations in the next few years. Although the two companies have not held talks over the idea, the Venice executive said it would allow each project to supply gas users in Victoria and South Australia without relying on expensive pipeline charges.

“If they want to put that gas through to South Australia, they have to come up through the pipeline network, which will bring additional charges, so you can do a swap where we provide the gas for them in whole or in part in South Australia and we do a price swap over their gas in Victoria,” said Mr Winter-Dewhirst.

“It’s a way of defraying some of the costs.”

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