frontier economics

Assessment of Coalition gas policy proposals

Description and assessment | 2025

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1 Introduction

1.1 Context

Many Australian industries and jobs are dependent on gas for their survival, including industrial, hospitality and commercial enterprises. Similarly, many residential customers enjoy using gas for heating and cooking.

Opposition Leader, Hon Peter Dutton MP, announced in his budget-in-reply speech on 27 March 2025 a number of measures to improve the availability and pricing of gas supplies on the east coast of Australia where prices have been high and volatile. These proposals do not disrupt the gas reservation scheme that has been operating in Western Australia for almost 20 years.

The Opposition's announcements will achieve three main things:

- increasing the supply of gas to the domestic market
- ensuring gas can be transported where the market needs it
- decoupling the domestic gas market from the volatile international gas market to provide long term stability for businesses that use gas and for residential gas customers.

1.2 This report

This report summarises the suite of gas supply and pricing proposals and provides an assessment of the immediate effects on any new gas sales on wholesale and retail prices on final gas customers.

2 Increasing gas supply and relieving gas transport constraints

To ensure an increase in supply of gas for domestic gas users and Australia's international gas customers the Coalition has announced a series of initiatives to increase gas supply and to get the gas where it needs to be. These include:

- Introducing 'use it or lose it' provisions for offshore tenements to ensure that quality resources can't be hoarded and denied to the market. The Opposition has committed to working with the states to deliver the same outcome for onshore gas development
- Providing $300 million for the development of the Strategic Basin Plan to help fund resource development
- Providing $1 billion for a Critical Gas Infrastructure Fund to relieve gas supply constraints
- Annual offshore acreage releases to increase the likelihood that new gas resources will be developed
- Making gas a critical mineral, which prioritises development
- Delivering a strengthened ADGSM as a measure of last resort – including obligations to sell into the domestic market, not just offer, if the mechanism is triggered
- Streamlining of red and green tape – including halving timeframes, introducing consistent reporting requirements, reducing the ability of activists to interfere in decision making processes
- Including gas generation in the Capacity Investment Scheme to support the development of gas generation capacity, which will stimulate the development of gas resources to fuel these power stations.

3 East Coast Gas Reservation Scheme

To ensure that Australian business and household gas consumers get gas at competitive prices, the Opposition has announced the East Coast Gas Reservation Scheme.

This scheme has two key aspects:

- A requirement to supply a proportion of gas supplies to the domestic market
- A scheme that incentivises gas suppliers to offer these gas reserves at competitive prices that ensures stable domestic prices that are not driven by international events.

3.1 East coast domestic supply requirement

Western Australia already has a domestic gas reservation scheme which comprises two main elements:

- *Offshore domestics gas reservation scheme*: A domestic gas supply commitment on all offshore gas production as a condition of access to Western Australian land for the location of processing facilities in order to achieve the State's objective to secure domestic gas commitments up to the equivalent of 15% of LNG production from each export gas project.[1] Further, the producers are obliged to commit to developing or obtaining access to the infrastructure to meet their domestic gas supply obligations. The domestic offshore gas reservation scheme does not have any mechanism to influence domestic gas prices other than to rely on the outworking of the gas market.
- *Onshore gas exports*: In September 2024 the Western Australian government announced an amendment to the domestic gas reservation that has even more domestic stringent domestic supply reservation requirements than the obligations on offshore suppliers. Until 31 December 2030 onshore gas producers are obliged to reserve 80 per cent of their production that is fed into the existing pipeline network for the domestic market. From 1 January 2031 100 per cent of onshore gas production is to be reserved for the domestic market.

The proposed east coast gas reservation scheme will involve an obligation on gas exporters to reserve an additional determined volume of gas for the domestic market.

In the first year of operation, gas exporters will be expected to commit to an additional 50-100 petajoules to the domestic market. The requirements of the scheme will evolve over time.

Currently, about 25-30% of gas production on the east coast of Australia is consumed domestically, and the balance is exported, mostly under long-term, foundation LNG contracts. The required reservation for the domestic market will not jeopardise the foundation contract volumes. All producers who wish to export gas will be subject to the domestic reservation policy.

[1] Western Australian Government, WA Domestic Gas Policy, 19 September 2024, Weblink: https://www.wa.gov.au/organisation/department-of-jobs-tourism-science-and-innovation/wa-domestic-gas-policy-updates#:~:text=In%20September%202024%2C%20the%20WA,network%20until%2031%20December%202030.

3.2 Gas security charge

A key reason domestic gas consumers are paying high prices for gas on the east coast of Australia is because gas producers can earn higher profits by selling the gas all Australians own to international customers. The lack of development of new gas resources exacerbates this problem. The gas reservation scheme seeks to assist with the supply problem and the gas security charge will encourage gas producers to sell at competitive prices locally.

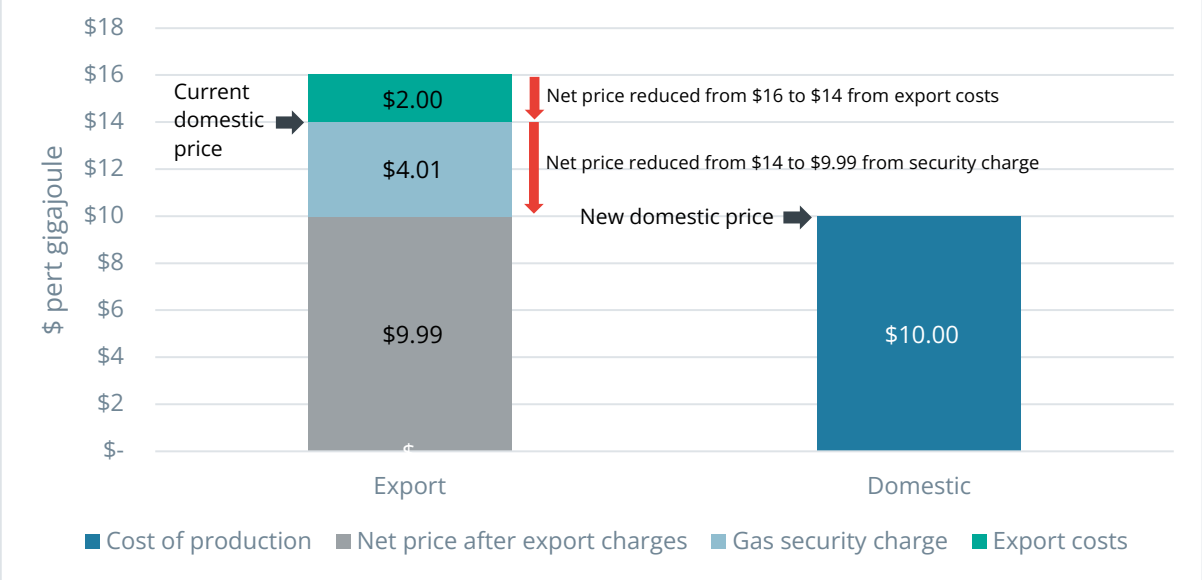
For the purposes of this scheme, a competitive price is the cost of the 'marginal' gas project required to meet demand. This cost also includes a normal rate of return. This means that gas producers supplying the domestic market will not be making a loss. They just won't be making excessive profits for the share of gas to be supplied domestically. The scheme does not prevent gas producers from selling at the prevailing international prices for gas supplied under their current long-term LNG contracts or future exports.

The principal mechanism of the gas security charge is very simple. The aim is to set an export charge to the producer that makes exporting gas less financially attractive than selling gas domestically at the competitive price.

In general, the net price earned by a producer selling gas internationally is the international gas price less the costs of exporting gas (known as the gas export net back price). For example, for an international LNG price of $16 per gigajoule where there are $2 per gigajoule costs to export gas, the net back price is $14 per gigajoule.

If the (long run) marginal costs of producing gas domestically is, say, $10 per gigajoule, then a gas security charge of $4.01 per gigajoule would mean that the gas producer would be better off selling gas domestically for $10 per gigajoule than exporting the gas and receiving $9.99 per gigajoule ($14 minus $4.01), all other things being equal (see Figure 1 below).

Figure 1: Example of gas security charge operation



In order to ensure gas reserved for the domestic market is supplied to the domestic market at competitive prices, under the scheme, producers would face the gas security charge on exports (not under foundation contracts) up to the quantity of gas reserved for the domestic market but be rebated that gas security charge if the producer meets their domestic gas supply obligation.

Under this scheme any exports in excess of current long-term foundation contracts, and any amounts reserved in future for the domestic market will be subject to the gas security charge/rebate scheme. This means that the scheme will have an immediate impact on new wholesale gas sales and, progressively, more sales will occur at the competitive market price. This also means that, progressively, the east coast market will be decoupled from the volatile international gas market for as long as the scheme is in place. This will provide much greater price security for gas users that they can rely on to make long term investment plans.

3.2.1 Estimate of the LRMC of new gas supply

The East Coast Gas Reservation Scheme operates by providing an incentive for gas producers to offer gas to the domestic market at prices that reflect the cost of producing gas. To ensure gas producers can recover their full costs of producing gas, the relevant measure of the cost of producing gas is the long-run marginal cost (LRMC) of producing gas. The LRMC includes both the upfront capital costs of developing gas production projects (including a return on investment) and the ongoing operating costs of gas production projects.

There is, of course, uncertainty about the LRMC of gas production in eastern Australia. However, estimates of gas production costs are provided by AEMO as part of the Gas Statement of Opportunities (GSOO). AEMO reports production costs for 2P reserves and for 2C resources:

- 2P reserves measure the best estimate of quantities of gas that are commercially recoverable and intended to be developed. 2P reserves can be part of developed or undeveloped projects.
- 2C resources measure the best estimate of quantities of gas potentially recoverable but not yet commercial to develop (for instance, because there is no current market or because infrastructure would need to be developed).

AEMO makes clear that the estimates of gas production costs from the 2025 GSOO are marginal costs and include operating costs, capital costs, royalty, tax and a return on capital. However, AEMO also notes that for developed reserves the production costs include largely operating costs, royalties and tax, while for undeveloped reserves the marginal costs also include the cost of drilling and completion and the cost of gas processing plant. Based on this, we consider that the reported production costs for undeveloped reserves – which would include all 2C reserves – can be used to estimate the LRMC of producing gas.

AEMO's latest estimates of gas production costs – from the 2025 GSOO – are reproduced in Table 1.

Table 1: Gas production costs ($/GJ)

Basin	2P reserves	2C resources
Amadeus	-	$11.92
Bass	$7.64	$11.26
Beetaloo	-	$9.33
Bowen/Surat	$3.38	$6.10
Cooper/Eromanga	$8.54	$9.19
Galilee-Drummond	-	$7.69
Gippsland	$4.82	$11.51
McArthur	-	$9.33
Otway	$6.95	$12.51

Source: AEMO 2025 GSOO

Gas that is exported as LNG from Gladstone is primarily produced in the Bowen/Surat basin in Queensland. AEMO estimates that gas production costs from 2C resources at the Bowen/Surat basin are $6.10/GJ.

However, since the domestic market also relies on gas production from other basins in eastern Australia, these gas production costs for the Bowen/Surat basin are unlikely to be a good estimate of the LRMC of producing gas for the domestic market. AEMO estimates that gas production costs for other basins that currently supply the domestic market – including the Cooper-Eromanga basin in central Australia and the Gippsland, Bass and Otway basins in Victoria – are higher than $6.10/GJ. This suggests that the LRMC of producing gas for the domestic market is higher than $6.10/GJ.

It is not as simple as saying that the LRMC of producing gas for the domestic market is the highest gas production cost for basins that currently supply the domestic market. This is because location is important. Since we are interested in the LRMC in the context of the East Coast Gas Reservation Scheme, we are primarily interested in the LRMC of gas that is reserved for the domestic market. That is, we are primarily interested in the LRMC of gas in Queensland. Because of the cost of transporting gas through long-distance transmission pipelines, the LRMC of gas in Queensland can be lower than the cost of producing gas in southern markets, without preventing producers of gas in southern markets from recovering their full cost of production.

Considering this, a price of gas of $10/GJ in Queensland seems a reasonable estimate of LRMC based on current information. This estimate of LRMC is:

- Higher than AEMO's estimates of gas production costs for 2P reserves for all basins that are currently supplying the gas market in eastern Australia.
- Higher than AEMO's estimates of gas production costs for 2C resources for the Bowen/Surat basin in Queensland.

- Higher than AEMO's estimates of gas production costs for 2C resources from the Cooper/Eromanga basin.
- While lower than AEMO's estimates of gas production costs for 2C resources from gas basins in Victoria – the Gippsland, Bass and Otway basins – should still allow for the recovery of these estimated gas production costs once accounting for the cost of shipping gas from Queensland to Victoria.

4 Impact on wholesale gas prices

The East Coast Gas Reservation Scheme, together with other policies intended to increase the supply of gas and facilitate the transport of gas, would be expected to result in wholesale gas prices that reflect the cost of producing gas. Typically, this would result in wholesale prices of gas in eastern Australia that are lower than they would otherwise be.

The extent to which the suite of polices would reduce the wholesale prices of gas in eastern Australia will depend on the level that domestic prices would otherwise be. Generally, domestic prices have been linked to international prices and, in the absence of the suite of policies, this can be expected to remain the case. This means the reduction in wholesale prices that the suite of policies would deliver will depend on the level of international prices. At times when international prices are high, the suite of policies can be expected to deliver larger reductions in domestic wholesale prices. At times when international prices are low, the suite of policies would be expected to deliver lower reductions in wholesale prices or, if international prices are low enough, no further reductions in wholesale prices. Importantly, by decoupling domestic prices from international prices, the suite of policies can be expected to deliver domestic prices that are more stable and lower over time than without the scheme.

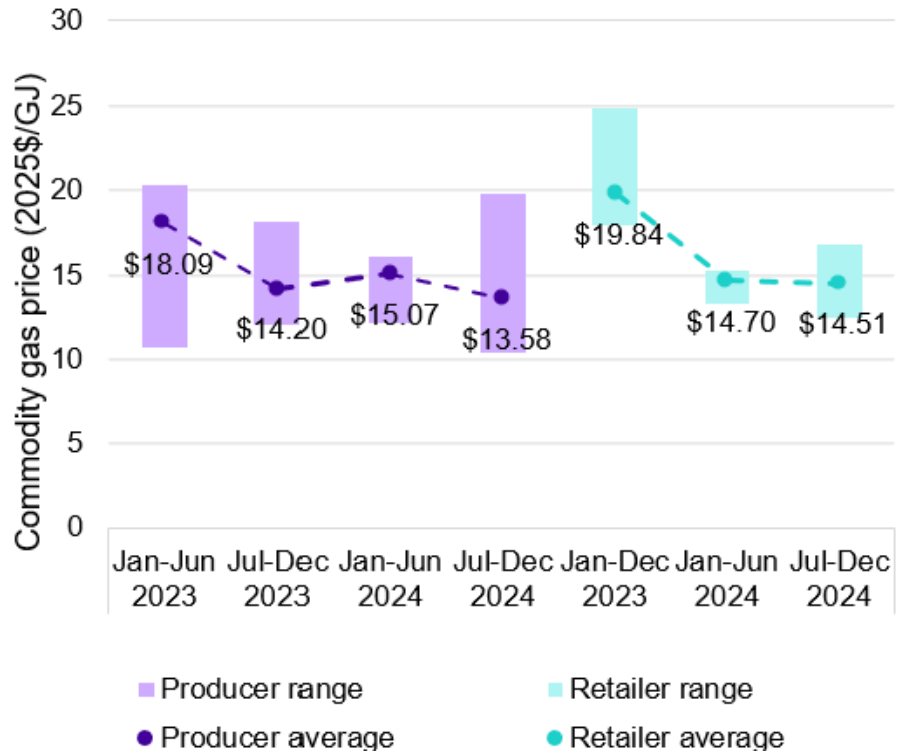
We can estimate the expected effect of the suite of policies on wholesale gas prices by considering estimates of wholesale gas contract prices for 2025 and 2026. Both the ACCC and AEMO publish estimates of wholesale gas contract prices in eastern Australia for 2025 and 2026.

As part of its Gas Inquiry Report 2017-2030, the ACCC regularly publishes interim reports with summary information on Gas Supply Arrangements. This information is provided to the ACCC by suppliers and summarised by the ACCC. The ACCC's latest interim report, released in March 2025, summarises gas commodity prices under GSAs for the east coast for supply in 2025 and 2026:

- **For supply in 2025**, the ACCC reports that the average price agreed under GSAs agreed between July 2024 and December 2024 was $13.58/GJ for GSAs with producers and $14.51 for GSAs with retailers.
- **For supply in 2026**, the ACCC reports that the average price agreed under GSAs agreed between July 2024 and December 2024 was $13.94/GJ for GSAs with producers and $13.55 for GSAs with retailers[2].

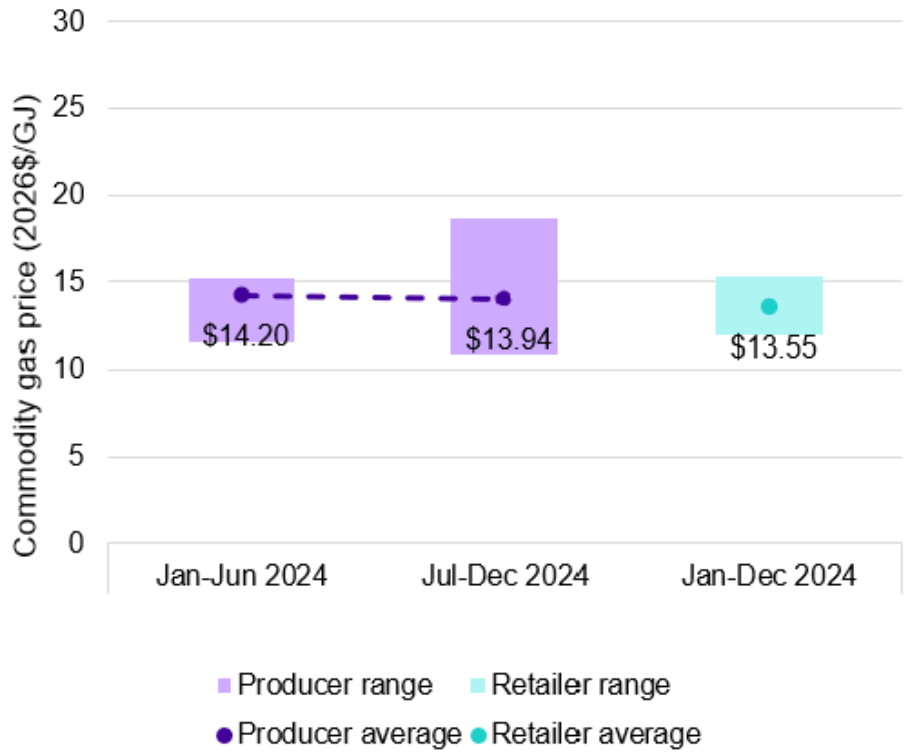
[2] Note that this retailer average price was an average for GSAs agreed between January 2024 and December 2024.

Figure 2: Gas commodity prices in the east coast gas market for 2025 supply



Source: ACCC, Gas Inquiry 2017-2030, *Interim update on long-term contract prices for July-December 2024, March 2025.*

Figure 3: Gas commodity prices in the east coast gas market for 2026 supply



Source: ACCC, Gas Inquiry 2017-2030, *Interim update on long-term contract prices for July-December 2024, March 2025.*

AEMO also publishes estimates of gas prices. As part of its *Inputs, Assumptions and Scenarios* (IASR) report, AEMO publishes estimates of gas prices for gas generators, residential and commercial gas customers and industrial gas customers. Of these, the most relevant estimates are for industrial gas customers, since the constant load of these customers means that their gas price will best reflect average wholesale gas prices.

The latest IASR published by AEMO is the Stage 2 Draft 2025 IASR.[3] The estimated wholesale industrial gas prices for the east coast for 2025/26 from the Stage 2 Draft 2025 IASR are shown in Table 2.

Table 2: Industrial gas price for 2025-26

State	Industrial gas price ($/GJ, June 2024 dollars)
Adelaide	$13.54
Brisbane	$13.63
Melbourne	$14.10
Sydney	$14.84

Source: AEMO, Stage 2 Draft 2025 IASR

[3] AEMO, *Draft 2025 Inputs, Assumptions and Scenarios Report*, Draft report– Stage 2, February 2025.

These industrial gas price forecasts include pipeline transmission costs, so we have deducted pipeline transmission costs from Queensland (based on pipeline costs published in AEMO's 2025 GSOO) and estimated an average gas commodity price for industrial customers in eastern Australia of $11.58/GJ (in current dollars)

Having regard to the estimates of gas commodity prices from both ACCC and AEMO, we estimate that achieving an LRMC of gas in Queensland of $10/GJ would result in a reduction in gas commodity prices relative to 2025 and 2026 levels of around 23% on average.

5 Impact on retail gas prices

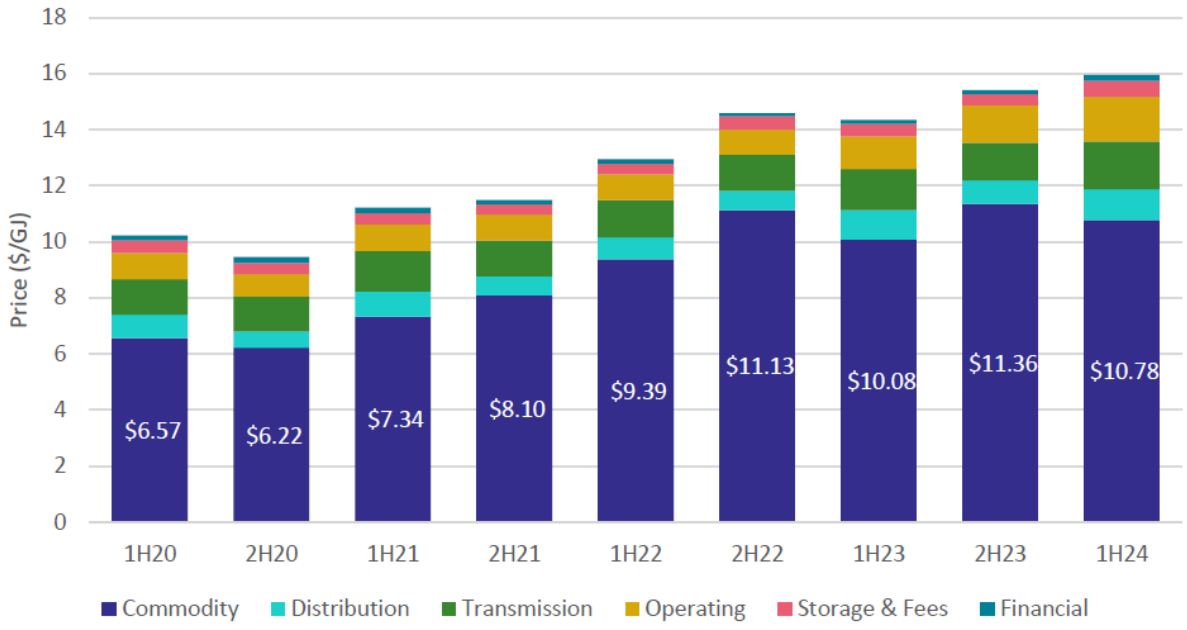
Reductions in wholesale gas prices can ultimately be expected to flow through to reductions in retail gas prices. However, there can be a lag in wholesale gas price reductions flowing through to retail gas price reductions as existing contracts are replaced by new contracts.

The extent of the percentage reduction in retail prices depends on how much of a customers' retail bill is accounted for by gas commodity costs (as opposed to the cost of transmission and distribution pipelines and retail costs). Since gas commodity costs account for a larger proportion of the retail bill for industrial customers, industrial customers receive a bigger percentage reduction in their retail bill than residential customers.

Retail gas prices for industrial customers

For industrial customers, the largest component of retail bills is accounted for by gas commodity costs. This is shown in Figure 4 from the ACCC, which shows the cost components that retailers face in supplying commercial and industrial customers in the east coast gas market. This data suggests that in the first half of 2024, 68% of the cost of supplying commercial and industrial customers in the east coast gas market is accounted for by gas commodity costs. Based on this contribution of gas commodity costs to the retail price for commercial and industrial customers, a 23% reduction in gas commodity prices would be expected to result in a 15% reduction in retail gas bills for industrial customers.

Figure 4: Costs incurred by retailers supplying commercial and industrial customers (Jan 2020 – Jun 2024)

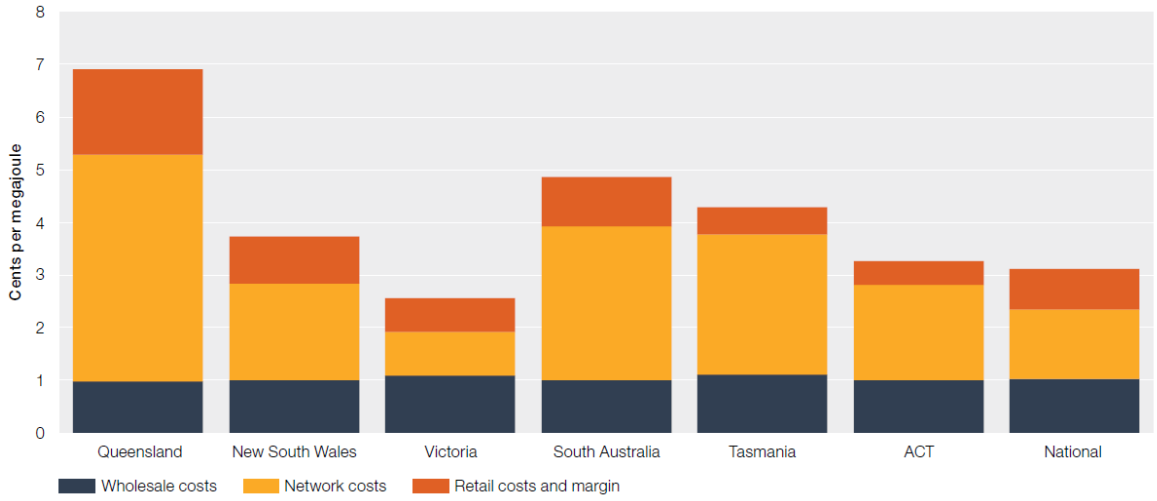


Source: ACCC Gas Inquiry 2027-2030, Interim update on east cost gas market, December 2024

Retail gas prices for residential customers

For residential customers, gas commodity costs are a much smaller proportion of the total retail bill. This is not because it is cheaper to purchase wholesale gas for residential customers, but because supplying gas to residential customers requires significant costs for the use of the gas distribution network. This is shown in Figure 5 from the AER, which shows the cost components that retailers face in supplying residential customers in each jurisdiction in the east coast gas market. This data suggests that, on average, across the east coast gas market, 32% of the cost of supplying residential customers is accounted for by gas commodity costs (wholesale costs). Based on this contribution of gas commodity costs to the retail price for residential customers, a 23% reduction in gas commodity prices would be expected to result in a 7% reduction in retail gas bills for residential customers.

Figure 5: Costs incurred by retailers supplying residential customers



Source: AER, State of the Energy Market 2024

6 Impact on electricity prices

Reducing gas commodity prices will also have an impact on electricity prices, since gas-powered generators often determine the wholesale electricity price in the National Electricity Market.

We have used our electricity market model to determine the impact on wholesale electricity prices of gas commodity price reductions for gas-powered generators, using the reduction in gas commodity prices discussed above. Our modelling suggests that this reduction in gas commodity costs in 2025 and 2026 would result in a reduction in wholesale electricity prices of around 8%.

While there can be a lag in wholesale electricity price reductions flowing through to retail electricity price reductions – both due to contracting and due to the way that regulated retail electricity prices are determined – this would ultimately be expected to lead to a reduction in residential electricity prices of around 3%.

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