



9 July 2019

Flawed IEEFA report wrong on gas and electricity pricing

A new report by the Institute for Energy Economics and Financial Analysis (IEEFA) is flawed in its analysis of gas and electricity prices and policies in Australia, APPEA said today.

The report, by analyst Bruce Robertson, is wrong at many levels, especially to claim Australia's high electricity prices are caused principally by high gas prices.

APPEA Chief Executive Andrew McConville said: "Firstly, gas does not set the price of electricity across the national energy market (NEM) in Australia.

"There are many reasons why Australia has electricity affordability issues, including that wholesale and retail markets are too concentrated; poorly designed regulation and policy have added significant costs to electricity bills.

"In addition, while prices for new contracts have increased, average prices across the economy have not risen by nearly as much – the average price across the Australia economy in 2014 was around \$US4/MMBTU* and is now just over \$US4.50/MMBTU.

"Prices for new supply have risen as a result of rising production costs and supply restriction caused by the impact of bans and moratoriums in southern states."

On wholesale gas prices, the report is also deliberately misleading to claim Australian gas prices are substantially higher than in South East Asia.

"This is a nonsense claim as Australia's average gas prices are amongst the lowest in the Asia-Pacific, according to the latest survey by the International Gas Union," Mr McConville said.

"The IGU report found the average wholesale gas price in Australia last year was about 40 per cent less than the average wholesale price for the Asia Pacific region. So Australian gas consumers are not paying prices above the average in Japan or other LNG importing nations in Asia."

In terms of calls for a gas reservation policy, APPEA notes that Canada, the USA, Netherlands, Norway and United Kingdom allow their gas markets to set wholesale gas prices. "This is what we need in Australia – these nations do this for a good reason; gas reservation actually makes worse the situation it's supposed to fix."

In 2016, the ACCC's gas inquiry report found: "Over time, reservation policies would reduce the likelihood of new sources of gas being developed to the detriment of the level and diversity of supply for domestic gas users."

The Productivity Commission also highlighted concerns, saying domestic gas reservation could distort important signals for adjustment and was unlikely to be efficient or effective in the long run.

"A domestic gas reservation policy would act as an implicit tax on Australian gas production that diminishes incentives to invest in future gas production and exploration. This can lead to lower investment and lower gas production which in turn may cause higher prices," Mr McConville said.



“The most effective policy response to concerns about prices or supply availability lies in bringing more gas to market. Put simply, the best way to create downward pressure on gas prices is more gas, not more regulation.”

Media contact: Brad Watts – 0447 793 444 – bwatts@appea.com.au

*Note - MMBTU = one million British Thermal Units. The BTU is a traditional unit of work equal to about 1,055 joules. It is the amount of work needed to raise the temperature of one pound of water by one-degree Fahrenheit. The more usual measure of price used in Australia is gigajoule (GJ). 1 MMBTU = 1.055056 GJ