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## Expectations of surging demand drive new, alarming forecast – gas producers will respond

APPEA gas producers noted the release today of reports into the east coast gas market by the Australian Competition and Consumer Commission (ACCC) and the Australian Energy Market Operator (AEMO).

“Both reports are complex and detailed, requiring careful analysis. In particular, the AEMO report marks an abrupt change from its last forecast,” said APPEA Chief Executive Dr Malcolm Roberts.

“It is concerning that AEMO’s latest forecast is more pessimistic about the supply-demand balance than its March 2017 forecast. APPEA needs to see more information to understand these forecasts, especially the data behind the huge change in forecast demand.

“Over recent months, the industry has increased substantially the flow of gas to the domestic market. As the ACCC notes (page 17) the LNG projects will contribute more gas to the domestic market in 2018 than they ‘take out’. Queensland is now meeting its domestic and export demand almost entirely from local supply. Queensland gas is being sold in southern markets.

“Looking ahead to 2018, there is a large supply of uncontracted gas available for domestic customers. The industry has made it clear that it will ensure that sufficient gas is available for the domestic market.

“Despite these moves expanding local supply, APPEA is very concerned that AEMO has now produced a much more pessimistic forecast than six months ago.

“But, before the usual critics recycle their familiar press releases demanding punitive regulation, it is essential to look beyond the simple headline number to understand what is driving the forecast.

“Comparing today’s reports with AEMO’s March 2017 Gas Statement of Opportunities (GSOO) shows that it is not a lack of gas production or demand for gas from the LNG projects producing the forecast shortfall – it is AEMO’s forecast of sharp increases in demand from the electricity generation and industrial sectors.

“AEMO is now predicting a dip of 58 petajoules (PJ) in gas production in 2018 but this fall in production is more than offset by a larger drop in demand for gas from the LNG projects (73 PJ). If no other element of the March 2017 forecast had changed, there would be no shortfall forecast for 2018.

“However, AEMO is now forecasting two new demand scenarios – an ‘expected’ scenario and an ‘uncertainty’ scenario. Both forecast surges in demand from the electricity generation and industrial sectors. In the case of electricity generation, AEMO forecasts as much as a 76 per cent increase in demand.



“AEMO is clearly worried that wind, hydroelectric and coal generation output may fall. One-third of the shortfall in AEMO’s uncertainty scenario stems from concerns that wind and hydro-electricity production may be too low. Another 10 per cent or so stems from concerns of lower coal output.

“Adding to this demand surge, AEMO is also forecasting a lift in demand from the industrial sector.

“This analysis reinforces how vital it is for all governments to support developing new gas supplies as quickly and as cheaply as possible.

“For its part, the gas industry is striving to lift production, often in the face of regulatory barriers and escalating costs. More gas supply and more gas suppliers is the only sustainable way to meet long-term demand and to put downward pressure on prices.

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