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Gloves need to come off in east coast gas price fight

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Another good news story. The dam wall holding commercial gas prices at ridiculous levels is starting to crack.

As I will explain below, with a few placed blows that crack can be widened providing, an avenue for Incitec Pivot CEO Jeanne Johns and a large number of other commercial users to join 27 other important Australian enterprises who have slashed their gas prices.

As [reported in The Australian this week](#), Johns said high gas prices are putting jobs at risk and raising fresh threats to Australia's recovery from the coronavirus.

It is now important for all middle-sized commercial gas users, who are paying ridiculously high prices, to understand that the game has finally changed.

In electricity the same lower price mechanisms are beginning developed but have not yet been as successful.

Shareholders in companies that complain about current high gas prices, including Incitec Pivot, need to seek explanations from their boards as to why they are missing out on the benefits of crack in the dam wall. Sometimes there will be a good explanation as to why they are being ripped off.

Group buying gas

As we all know the high gas prices were originally propelled by overseas price levels but they were locked into Australia because Victorian Premier Daniel Andrews banned development of the immense non-fracked gas reserves in his state, while New South Wales, under Gladys Berejiklian, stopped Narrabri. By deliberately creating gas shortages, the Victorian and NSW governments put users at the mercy of the big gas retailers.

A great many medium sized commercial gas buyers are spaying around the \$10 a gigajoule mark. In Queensland the struggling shale gas producers are seeing spot prices of just \$4 a gigajoule. Accordingly local Australian prices look like manna from heaven to some producers.

The crack in wall was actually opened by ACCC chief Rod Sims late in 2017 when he approved a buying group, Eastern Energy Buyers Group, to aggregate orders from medium sized businesses up to 16 million gigajoules of gas. It's actually a small amount of gas – about 10 per cent of the Victorian market and 1 per cent of the Australian market, but it was a start. The Eastern Energy group was not certain it could slash prices by dealing direct with producers, so its maximum request was pitched low. Sims naturally granted the full request. In hindsight perhaps it should have asked for more but, given what has been achieved, it is highly likely that, if they ask the ACCC, they will receive a greater quota to widen the dam crack.

Retail ripoff

Today most commercial buyers still go to the major retailers and are given a take it or leave it price. Sometimes it's more than \$10 a gigajoule and sometimes it is less. For most users it seemed too hard to do anything but accept what they were offered. And even for the buyers group, it's been hard because while the gas markets are connected by pipelines, the operators of the pipelines are monopolies.

The Eastern Energy Buyers Group was founded by Richard Doyle and includes Royce DeSousa.

To get the dam wall to crack it was necessary to gain a deep understanding of gas flows and become part of the various swap arrangements. It took time but prices of between \$7.00 and \$7.50 can represent a 30 per cent saving – an enormous benefit in the COVID-19 world. .

In all, some 27 gas users, mainly from Victoria, are benefitting from the buyers group's slashed prices. They are led by Australian agricultural suppliers Ridley, listed dairy food group Bega, and

Smorgon.

Some gas users are finding that when they discover that they can reduce their price by 30 per cent the retailers match. Unfortunately many consumers are often paying around \$13 a gigajoule, which is three times the Queensland spot gas price. It's an enormous mark-up but it is much harder for them to come together in buying groups.

Increase supply

The approach by the government has been to try and improve the actual gas and power supply networks. While that is an important objective in the longer term, the biggest thing they could do on is to put huge pressure on Victoria and New South Wales to allow the development of their gas.

We are moving into a world of low inflation, where gaining price rises is extremely difficult. So low energy costs are going to be even more important. The Eastern Energy Buying Group still has capacity under its ACCC agreement. Sims will need to watch that this commentary exposing the price differences does not trigger anti-competitive behaviour to repair the crack.

Gloves off

So why is Jeanne Johns at Incitec Pivot being quoted in the vicinity of \$9 to \$10 a gigajoule when Ridley, Bega, Smorgon and 24 other enterprises are currently paying between \$7 and \$7.50.

Johns would argue that even \$7 is too high but that's another issue. Normally when you are a huge buyer you get a discount. But in Australia the retailers and producers reckon they have Johns over a barrel. She has nowhere else to go so Incitec Pivot must pay. The Eastern Energy Buying Group is unable to include a buyer of the size of Incitec Pivot in its quota. And even if Sims lifted the quota to enable Incitec Pivot to gain a lower gas price, the forces behind the high prices may simply not allow their Incitec Pivot honey pot to be destroyed. Nowhere else in the world are large users held to ransom and charged more than small users.

In my view Jeanne Johns is fighting by Marquess of Queensberry Rules in what is a brutal bare-knuckle fight. For example, she asked the retailers to quote for gas after 2023. That's not what you do in a bare-knuckle fight. Eastern Buyers Group has shown achieving lower prices requires a different approach. Meanwhile, Incitec Pivot is trying to get the government to change the rules so

everyone can enjoy lower prices without bare-knuckle fighting. Maybe the revelations of price differentials will help but entrenched vested interests wanting high prices have the ear of Canberra.

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