

**While most of us were on holidays, something happened off the coast of Gladstone in Queensland that will have hip-pocket implications for consumers across the eastern states.**

In late December, British energy giant BG Group sent the first ever shipment of liquefied natural gas from Australia's east coast, using gas from the state's booming coal seam gas industry. Granted, it sounds far removed from everyday life for most of us. But this cargo load is the start of a trend that will dramatically increase how much households pay for gas used for hot water, cooking, or heating.

**It is predicted to push up many households' utility bills by a similar amount to the carbon tax, but there are no plans for compensation. And as you'd expect with a jump in the cost of living of this size, this one is producing some seriously flimsy economics.**

Now that the east coast is able to export gas (WA has been doing it since 1989) producers have the option of selling to buyers in Asia, who are willing to pay much, much more for it than we have been. Historically, the east coast gas market was insulated from the rest of the world, and the domestic wholesale price was stable at about \$3 to \$4 a gigajoule. Now, there are buyers across Asia prepared to pay \$12 or \$13.

That translates to much higher domestic prices. When you account for the costs of converting the gas into LNG and shipping, it still suggests a domestic gas price of \$6 to \$8 in the wholesale market. That is, a 100 per cent increase from the long-term average.

As this extra cost is passed on to users, it will push up utility bills significantly. A report by the Grattan Institute's Tony Wood last year estimated the average Melbourne household gas bill would jump \$300 a year because of the changes over the next few years, while the average Sydney bill would rise by more than \$100.

And it is in this heated environment that business groups are mounting a campaign based on flawed economics. In submissions to a NSW parliamentary inquiry, industry groups and AGL have repeatedly claimed that increasing the supply of gas in NSW would be one way to limit the impact of the gas price shock.

It's economics 101, right? Lifting supply should push down the price. Except in this case, the claim is a furphy. As the Independent Pricing and Regulatory Tribunal (IPART) says in its submission, the amount of coal seam gas being extracted in NSW has a minimal impact on what the state's residents pay for gas. That price is now being set in the international market.

When you consider that NSW's gas reserves only meet 5 per cent of its own needs, the state's industry is clearly nowhere near the scale to affect global prices in any plausible scenario. To imply that it could is misleading.

**The bottom line is that gas prices are set to soar because the long-sheltered domestic market is being linked to global prices via exports.**