

Batteries key as Australia's east-coast gas, electricity markets weather energy shock well

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Key points

- Batteries have helped shield east-coast energy prices from the global gas shock.
- NSW electricity futures are now below pre-war levels.
- Gas supply pressures remain a longer-term challenge.

Liquid natural gas (LNG) spot prices to Asia have more than doubled since the US-Iran war began as the Strait of Hormuz accounted for a fifth of global LNG supply. But prices have remained well below levels observed in the aftermath of the Ukraine war in 2022, largely because LNG supply outside the Middle East has increased substantially.

But worries that east-coast Australia would suffer through a winter like it did in 2022, where domestic gas prices linked up with international gas prices, which in turn contributed to surging electricity prices, have thankfully not come to pass.

To be clear, the 2022 winter experience for Australia's electricity market was largely due to a perfect storm of events: unplanned dispatchable power outages, stronger electricity and gas demand due to a colder-than-usual winter, and renewable generation underperforming expectations.

While a repeat of these events was unlikely in winter 2026, Australia's east-coast energy market has exceeded expectations in weathering the increase in international gas prices this year.

Batteries make the difference

Batteries, both utility-scale and behind-the-meter, have proven the decisive difference.

East-coast spot gas prices have traded at a significant discount to international gas prices, as the influx of batteries has reduced gas demand from gas power generation (GPG).

A proposed Domestic Gas Reservation Scheme to commence from 1 July 2027 has also provided a disincentive for gas producers to link domestic and international gas prices.

On the electricity side, batteries have meant more electrons are competing in the morning and evening price peaks, reducing the role of GPG and, more importantly, reducing the influence of GPG on electricity prices.

Given GPG typically influences the price of the marginal electron in the morning and evening peaks, batteries have effectively lowered electricity prices.

To put this price reduction in perspective, NSW baseload power futures are now tracking below pre-war levels over the next 24 months.

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Longer-term pressures remain

As impressive as batteries have been in giving east-coast energy markets resilience to international energy prices, the influx of utility-scale batteries was a market-driven reaction to low prices in the middle of the day and high evening peak prices.

Therefore, this outcome of lower electricity prices from stronger battery deployment should be expected.

The challenge to keep electricity and gas prices contained in east-coast Australia remains over the medium to longer term, especially as markets contend with annual east-coast gas shortfalls by 2030, coal power retirements coinciding with transmission delays, higher-than-expected wind generation costs and potentially stronger data centre demand growth.

Gas reservation could delay price rises

The east-coast gas reservation policy is aiming to minimise domestic gas prices.

Our modelling shows that the proposed domestic supply obligation (DSO), which caps the gas that LNG exporters have to keep for local use at 20% of LNG exports, does delay the onset of higher gas prices in Sydney and Melbourne compared to an east-coast gas market without a gas reservation.

But persistent low gas prices in Sydney and Melbourne that remain at a discount to LNG netback prices, LNG minus freight and liquefaction costs, are contingent on gas supply from the southern states increasing.

This will initially see gas prices track between \$7-13 a gigajoule in coming years before eventually rising to marginal gas resource costs of about \$16 a gigajoule in the southern states over the long term.

But our modelling shows there is generally little economic incentive to develop these resources before 2033, entrenching gas prices over the next six to seven years that are closer to LNG netback levels in the best case (\$12-15 a gigajoule) and LNG plus regasification and storage levels in the worst case (\$18-20 a gigajoule).

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