

East coast gas: Why prices could rise faster in Sydney and Melbourne

Commonwealth Bank · 2026-09-17 · English original

Key points

- CBA modelling shows gas reservation could delay higher East Coast gas prices.
- Pipeline constraints mean Sydney and Melbourne face greater pressure than Brisbane.
- Expanding north-to-south infrastructure could push back higher prices by several years.

The future of gas prices on Australia's East Coast may increasingly depend on where you live.

While a proposed domestic gas reservation scheme could help keep more supply in Australia, Commonwealth Bank modelling suggests the benefits could be significantly greater in Brisbane than Sydney and Melbourne.

CBA Head of Commodities and Sustainable Economics Vivek Dhar said limited pipeline capacity between Queensland and the southern states was a key challenge as gas production from Victoria's mature fields declines.

"This is an infrastructure problem. It's a deliverability problem to Sydney and Melbourne," Dhar said on the CommBank View podcast.

The infrastructure issue means Australia could have enough gas nationally while still facing difficulty getting it to where it's needed.

Why gas prices have risen

Wholesale East Coast gas prices have nearly tripled over the past decade, Dhar said.

Prices were typically about \$3 to \$4 a gigajoule around 2014, he said. But as Queensland's LNG export terminals opened from late 2014, domestic prices became more closely linked to international LNG markets.

Prices initially rose to about \$8 to \$10 a gigajoule and Dhar said they are now around \$13 to \$14.

The importance of those prices extends well beyond households and businesses directly using gas.

Around 45% to 50% of East Coast gas demand comes from industry, including alumina, chemicals, fertiliser and food and beverage production. Gas-fired electricity generation can also support the power grid when renewable generation is low.

"We think of gas as almost the insurance policy for this transition," Dhar said.

What could gas reservation change?

The Australian Government plans to introduce a domestic gas reservation scheme, with obligations intended to apply from 1 January 2028.

Under the proposed scheme, LNG exporters would be required, at most, to supply gas equivalent to 20% of their export volumes to the domestic market, although Dhar said protections for existing export contracts could reduce its effective impact in its earlier years.

CBA modelling suggests the policy could delay higher-cost gas flowing through to the East Coast market by around 12 to 18 months.

But its impact could vary considerably between cities.

Brisbane sits closer to Queensland's lower-cost gas production and above the major pipeline constraints affecting gas moving south.

Sydney and Melbourne, by contrast, increasingly face the risk of high-cost LNG imports as gas production from southern fields declines.

Why pipelines matter

The Australian Energy Market Operator has forecast risks of extreme peak-day gas shortfalls in southern Australia from 2029, with additional supply needed in most scenarios from 2030.

One option is to increase the amount of gas that can be transported south from Queensland.

CBA modelled the impact of the proposed Bulloo Link pipeline project, which would add capacity to the north-to-south gas network.

Dhar said the modelling found additional pipeline capacity could delay the point at which gas prices rise to around \$18 to \$20 a gigajoule by between two and five years, depending on the scenario.

"And that is an enormous reprieve in terms of what the market sees in terms of pricing," he said.

More gas production in southern Australia could also help, but Dhar said its higher production costs make the economics more difficult.

CBA estimates potential new southern supply could cost around \$12 to \$16 a gigajoule to produce, compared with about \$6 to \$8 for potential supply from Queensland's Bowen and Surat basins.

Could lower-cost Queensland gas offer another answer?

Another option could be long-term government offtake contracts that help underpin new Queensland gas supply and the infrastructure needed to move it south.

CBA modelling indicates such an approach could potentially support prices of around \$12 to \$14 a gigajoule in Sydney and Melbourne over a 20-year period.

"Ultimately, if we had to look at the economic forces that are present here," Dhar said, the question was how to use "low-cost gas" from Queensland to supply Sydney and Melbourne, "where the higher cost risks really sit".

Whatever combination of policies and infrastructure ultimately emerges, Dhar said gas was likely to retain an important role as Australia's electricity system changes.

Coal-fired power stations are expected to continue retiring, while growing data centre demand could add to electricity requirements. Batteries are also expected to play a bigger role in reducing the link between gas and electricity prices.

But Dhar said gas would still be needed as backup when renewable generation is low, particularly during winter.

“If we can just rely on low-cost gas as insurance ... that’s really why this market is so critically important,” he said.

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