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Victoria, NSW risk gas shortages unless they turn to imports

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Homes and businesses are in danger of facing temporary gas shortages as soon as the winter of 2026 unless Victoria or NSW start importing the fuel as new forecasts say local gas production is dropping far more quickly than demand.

The speed and scale of declining output from ExxonMobil's 50-year-old gas fields in the Bass Strait, which have traditionally supplied most of the gas used locally for cooking, heating, power and manufacturing, have intensified concerns that demand spikes on cold winter days could lead to sporadic gas shortfalls within two years.

Gas is a key source of planet-warming emissions but remains widely used in Victoria and NSW. ADOBE STOCK

More Australians are replacing their gas appliances with electric alternatives but the shift is not happening fast enough to avert the threat of shortfalls in Victoria and NSW, Australian energy consultancy EnergyQuest says in a new report.

Seasonal supply gaps are expected from 2026, it says, while the entire east coast gas market is facing an annual deficit from 2028, a forecast in line with official warnings from the national energy market operator.

“These two states will be reliant on liquefied natural gas imports within a few short years, or there simply won't be enough gas supply to meet demand, and gas users will be unable to source gas at any price,” EnergyQuest chief executive Rick Wilkinson said.

”Our analysis shows there is only enough supply to meet 70 per cent of NSW/ACT demand in the winters of 2026, 2027 and 2028.“

The Australian Competition and Consumer Commission sees the risk of annual deficits emerging even earlier, by 2027, without urgent action.

The looming shortage of gas, a key source of planet-warming carbon dioxide and methane emissions, presents a challenge for Australia, which is being forced to balance efforts to combat climate change with the need to shore up traditional energy supplies for consumers that still depend on them.

Australia is one of the world's top shippers of LNG – gas that has been super-chilled down to a liquid so it can be transported – but most LNG is produced in the far north of the country, far from the populous south-east.

Fearing time has run out to develop enough new local gas projects or additional pipeline capacity, state governments and industry leaders are increasingly looking to LNG terminals as a fix for the supply crunch facing Victoria and NSW.

At Port Kembla in NSW, Squadron Energy, owned by Andrew and Nicola Forrest's Tattarang Group, is developing what could become Australia's first terminal capable of receiving LNG from Queensland or overseas to turn back into vapour and supply to homes and businesses.

Construction of the terminal was on track to be completed this week, Squadron chief executive Rob Wheals said.

"The winter of 2026 is when we start to see those red flashing lights," Wheals said. "Our focus is to make sure we are in the market and working with customers to make sure we've got the market well supplied."

EnergyQuest is forecasting that Victoria, the nation's biggest gas-consuming state, may need to source 32 per cent of its gas from LNG imports by the winter of 2028, increasing to more than half by the 2030s.

Petrol and diesel supplier Viva Energy is also proposing to import LNG, potentially from Western Australia and elsewhere, into a floating terminal at the site of its Geelong oil refinery on Corio Bay. The company bills the location of its project, which is undergoing assessment for environmental approval, as best placed to meet Victoria's gas needs.

"Our project is about efficiently securing Victoria's energy needs at the lowest cost – delivering gas close to where it is most needed – the large Melbourne and Geelong market – in an existing industrial port with only a short connection to the existing gas pipeline network," a Viva spokesman said.

If the approval process is concluded by the end of the year or early 2025, Viva is confident it can sign deals with gas retailers or industrial buyers to underpin the investment and that it could start delivering gas to the market by mid-2028 – in time to plug expected annual shortfalls.

Dutch storage developer Royal Vopak is proposing to park a floating LNG terminal at another location in Victoria's Port Phillip Bay, 19 kilometres offshore from Avalon, avoiding the need to dredge the bay. The company has begun planning for the project.

Squadron says its Port Kembla terminal would be the only option available to plug seasonal supply east coast gaps if they emerged from 2026-28. The company said the project would be able to direct more gas to Victoria under a plan to reverse the Eastern Gas Pipeline.

Squadron is yet to strike any supply deals with long-term customers, such as energy retailers, which it will need to underpin the Port Kembla terminal's commercial launch.

But it had secured the floating storage unit and talks with potential buyers were under way, Wheals said. Customers had made clear they would be looking for new sources for small quantities of additional gas from 2026, and "very sizable" quantities from 2028, he said.

"When customers start to look at their gas books in 2026, there is only one option that will be available in that timeframe," Wheals said.

The Australian Competition and Consumer Commission has said LNG producers in Queensland may be required to set aside even more uncontracted gas for the domestic east coast market to "mitigate the risks" of shortfalls.

But even if more of that gas was held back and diverted south, it would still be unable to alleviate the full extent of the crunch in Victoria and NSW on days of the heaviest winter demand, EnergyQuest said. The north-south gas pipeline is already routinely running at capacity during winter, and there is insufficient storage capacity in the south to store off-peak gas.

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