Australian Government

AUSTRALIAN ENERGY REGULATOR

State of the energy market

Wholesale gas performance report 2026

Overview

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Overview

The Australian Energy Regulator (AER) has conducted this review of wholesale gas markets and pipeline service operators under the National Gas Law, which requires us to monitor competition and efficiency in wholesale gas markets and the behaviour of gas pipeline service providers. This 2026 report is the first broad ranging assessment of wholesale gas markets that examines these elements together and provides an assessment of whether there are market features that may be detrimental to effective competition or the efficient functioning of the market.

This report focuses on the performance of markets facilitated by the Australian Energy Market Operator (AEMO), which are primarily used by participants to trade gas in the short term. We have also assessed other aspects of the wholesale gas markets, including the bilateral contract markets for pipelines, storage and financial products. To the extent it is relevant to our assessment, we have also had regard to the market for long term gas supply agreements through which most gas is traded. This report also draws on our earlier focus reports and incorporates the Australian Energy Market Commission's previous reporting on liquidity in the facilitated wholesale gas and pipeline trading markets (Appendix A).

Separately, we regularly monitor the behaviour of gas pipeline service providers under the National Gas Law, focusing on risk arising from pipelines' natural monopoly characteristics. We report to the Energy and Climate Change Ministerial Council on pipeline conduct and must also publish a public version of the report that is not likely to identify a particular service provider. The public version is provided as Appendix B in this 2026 report.

The facilitated gas markets are performing well

There are several upstream and downstream gas markets on the east coast of Australia that are operated by AEMO and collectively referred to as the facilitated gas markets. These are:

- **The downstream wholesale spot markets**, namely the **Victorian Declared Wholesale Gas Market (DWGM)** and the **Short Term Trading Market (STTM)** hubs in Sydney, Adelaide and Brisbane, which provide for short-term gas trading.
- **The upstream Gas Supply Hubs (GSH)** at Wallumbilla, Moomba, Culcairn and Wilton, which are intended to support short-term gas trade.
- **The Day Ahead Auction (DAA)**, which provides a mechanism for spare pipeline capacity and compression services to be made available for short-term trading.

These markets support efficient short-term trading of gas, as well as liquidity and transparency in the broader east coast gas markets. Participants use these markets to source additional gas in response to periods of demand that are higher than expected or higher than covered by contracted volumes, and to balance or optimise their portfolios. While the bulk of trade in east coast gas markets is supplied through long-term bilaterally negotiated contracts for gas and transportation, the facilitated markets play an important role in ensuring gas is efficiently delivered to customers across the east coast.

Given this supporting role, we assessed the facilitated markets' performance in terms of whether they are competitive and delivering efficient short-term trading, liquidity and transparency. On this basis, the facilitated markets are performing well. The markets have grown significantly since inception and appear to be relatively competitive and efficient:

- The structure of the markets is increasingly supportive of competitive outcomes. Concentration is decreasing in several markets and the largest suppliers are infrequently required to meet demand. Barriers to participation appear low for parties with access to gas supply and transportation contracts (see chapter 3).
- Occasional high price events in the downstream spot markets appear to have been driven primarily by supply and demand factors, rather than indicating the exercise of market power (see chapter 4)
- Prices in the downstream spot markets are typically lower than prices for contracted supply, and prices are generally aligned across facilitated markets, suggesting gas is being allocated efficiently to where it is most valued (see chapter 5).
- The facilitated markets show seasonal patterns of trade that suggest they are complementing longer-term contracts in supporting trade over critical winter months (see chapter 6).
- The Day Ahead Auction has supported access to the facilitated markets by making large volumes of short-term pipeline capacity available to participants at low or no cost (see chapter 8).

We also examined the use and role of financial risk management products in managing wholesale gas market and commodity price risk. The use of financial risk management products is not widespread; however, this does not appear to be a material risk or barrier to participation in the facilitated markets. Financial risk products are primarily a complement to bilateral contracting for physical gas supply and can support efficient outcomes for some participants.

Opportunities exist to strengthen liquidity and price transparency

Notwithstanding the encouraging performance of the facilitated markets, there are opportunities for further improvement to support price transparency and encourage further liquidity. In particular:

- the facilitated markets support some price transparency, but liquidity remains a primary constraint to robust and reliable price signals
- financial products on the Australian Securities Exchange (ASX) are thinly traded, which reduces their usefulness in providing a reliable forward price curve
- the GSH provides some transparency on upstream trade, but there is lower liquidity in ‘on-screen’ trades that are more visible to the market and provide real-time information on bids and offers. Liquidity in longer-term products at the GSH also remains low.

Government is currently progressing reforms to harmonise prudential requirements across the facilitated markets, which would allow participants to net their trading positions and could reduce costs and encourage further participation. The Australian Government’s Gas Market Review noted the need to progress these reforms and it highlighted further opportunities aimed at improving efficient operation and access to the facilitated markets.

Underlying supply and demand dynamics have contributed to price outcomes and geopolitical events are a source of price risk

Prices in facilitated markets have stabilised since the unprecedented volatility experienced during market disruptions in 2022. While prices have fallen, they have generally settled at a higher level. A combination of supply and demand dynamics, including those in the broader east coast gas markets, National Electricity Market (NEM) and export gas market have contributed to price outcomes in facilitated markets over the short and long term. These factors also mean that the downstream gas markets are more susceptible to high price events, particularly over winter.

Outcomes in the downstream facilitated markets are closely linked with events in the National Electricity Market

While not the largest source of domestic demand, gas demand for gas-powered generation (GPG) is highly variable and can have a significant impact on downstream spot market outcomes. Gas is an important fuel source for generation in the NEM. GPG is typically higher during periods of high NEM prices. Higher gas demand from GPG participants during these periods can drive up prices in the facilitated gas markets and contribute to price spikes. Market outcomes between electricity and gas are increasingly connected as the changing electricity market generation mix is shifting peak GPG demand from summer to winter months, which aligns with peak residential gas usage. Conversely, entry of batteries into the NEM has and may continue to displace gas generation at times, reducing demand in gas markets.

Gas supply in the east coast gas markets is constrained and production costs have increased

Competitive and efficient gas markets depend on sufficient long-term gas supply being available at competitive prices. Difficulties in accessing sufficient and cost-effective long-term contracted supply are well documented, and the focus of the Australian Government's recent Gas Market Review. The Review made recommendations targeted at improving supply to the domestic market, which includes establishing a domestic gas reservation policy.

Higher production costs across all gas basins on the east coast and declining lower cost southern production have contributed to a general upward shift in prices. A range of potential developments are underway that would increase and diversify capacity in production, but there is uncertainty around the timing of many of these projects.

The emergence of liquified natural gas (LNG) export markets has had a significant impact on the east coast gas market

From 2010 LNG exporters invested in significant new gas production in Queensland to provide gas for export, underpinned by long term foundational contracts. The owners of 3 LNG export facilities now produce most gas on the east coast. Gas produced to support LNG exports is predominantly coal seam gas, which has higher production costs than conventional gas. With southern production in decline domestic users are increasingly reliant on this higher cost uncontracted gas produced from exporter operated fields to support domestic east coast demand.

The launch of the LNG market has also linked domestic gas prices to more volatile international oil and gas markets and means that the domestic market is more susceptible to geopolitical events that impact global gas supplies. The recent conflict in the Middle East has restricted global LNG supply and had a significant impact on global oil and LNG prices. As of late April 2026, prices in downstream domestic markets have remained steady and there is no evidence LNG exporters have increased gas purchases in short term domestic markets. The Iona storage facility is also currently full, which gives confidence for southern supply ahead of winter. However, if high international prices persist and LNG exporter uncontracted gas is required to meet domestic demand, there will be greater risk of high domestic gas prices.

Access to long-term north-south transport is a key risk to competition and efficiency

Gas transmission pipelines have natural monopoly characteristics, and ownership of key pipelines is concentrated among a small number of businesses. While the regulatory framework includes tools to mitigate market power for individual pipelines, portfolio ownership of multiple critical assets can strengthen incentives and ability to exercise market power and can weaken competitive pressure on new investment. This gives rise to two key risks:

- **Pricing and terms risk:** service providers have and may be able to exercise market power by setting prices and/or non-price terms that are less favourable than would exist for equivalent services in a competitive market
- **Investment risk:** transportation investment is vital to accommodate new sources of supply, but limited competitive tension may weaken incentives for timely and efficient investment in new or expanded pipeline capacity.

These risks are heightened as southern production declines. Southern downstream markets are increasingly reliant on a small number of gas transmission pipelines transporting gas south from Queensland. Much of the capacity on key north-south pipelines is already contracted, and for most shippers there are currently limited viable substitutes for long-term pipeline contracts. This makes access to transportation contracting a key risk for southern markets.

We will continue to monitor for evidence of market power by pipeline owners, including trends in prices and key non-price terms and conditions for access to key north to south routes. In particular, we will monitor closely new contracting on key north-south pipelines as contracted capacity becomes available over coming years, and where additional capacity is made available through pipeline expansions.

Southern storage, especially Iona, is critical to meeting winter demand

Southern gas storage plays a critical role in winter when domestic gas demand is highest. As southern production continues to decline, southern markets are increasingly reliant on gas transported from the north; however, key transmission pipelines can become constrained during peak periods. In this context, access to storage in Victoria, particularly the Iona facility is increasingly important. Iona is the only large storage facility located on the southern side of key pipeline constraints and can inject and withdraw gas quickly.

Participants typically refill Iona storage over summer, when demand and prices are often lower, and draw on it over winter to manage higher demand and supply or transport constraints. This provides flexibility to participants and reduces the risk of shortfalls during peak periods. However, Iona storage is heavily contracted and typically reaches full capacity ahead of winter. Additional storage, increased pipeline capacity, or new sources of southern supply would provide more options to meet peak winter demand.