

A Critical Analysis on The Impact of Australian Natural Gas Price Cap Policy on Asset Value and Income

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Abstract: *This paper provides an in-depth critical analysis on the impact of the Australian government's natural gas price cap policy on the asset values and income of major energy companies like Santos. It begins with detailed background information on Santos, examining its business operations, revenue streams, products and services, competitive landscape, and regulatory environment. A comprehensive financial analysis of key ratios from Santos' annual reports is then presented to evaluate liquidity, profitability, efficiency, and leverage trends. The paper highlights several salient business risks posed to Santos from commodity price volatility, operational risks in exploration and development activities, intense competitive pressures, and stringent regulatory compliance requirements. It then rigorously analyzes the significant effects of government-imposed price caps on gas prices on asset valuation and revenue recognition as two key audit matters, delving into the relevant accounting assertions and suggested audit procedures. The implications for the audit report and opinion are also discussed in-depth with regard to properly assessing risks and obtaining sufficient appropriate audit evidence as per Australian Auditing Standards. Overall, this paper conclusively demonstrates how the introduction of gas price controls can profoundly impact asset carrying values and revenues for major energy companies like Santos, posing critical risks of material misstatement that must be thoroughly evaluated and addressed in independent financial statement audits.*

Keywords: Asset Valuation, Revenue Recognition, Financial Analysis Of Santos, Business Risks, Key Audit Matters.

1. COMPANY INFORMATION

The chosen article is related to Santos. Santos is one of the largest energy companies in Australia headquartered in Adelaide. The auditor should learn and understand the entity's organization structure and it can help to understand the details of how the entity works (Australian Auditing Standards [ASA 315], 2020, para. A56).

Revenue streams: According to ASA 315 (2020, Appendix 1 para. 5), an auditor's knowledge of an entity's revenue sources, products and offerings, and its operating activities are all worth considering when looking at an entity's operations. Santos focuses on oil and gas exploration, mining, transporting, and selling. Its main source of income is the sale of natural gas and petroleum products. Santos' total revenue in 2022 is 7987 million USD, of which product sales revenue is 7790 million USD, and the sales of 7790 million USD are all sales of oil and gas products: (Santos AR 2022 p.5 and p.70). Santos specializes in oil and gas products. Santos also experiences the risk of commodity price fluctuations. Ludlow and Macdonald-Smith (2022) mentioned in their article Due to the outbreak of the war in Ukraine, the price of oil and natural gas has risen and led to a surge in electricity prices, but the government has set the price of natural gas in order to curb higher electricity costs in the next few years. A gap price is specified, and the price of the company cannot exceed this value when selling natural gas. Therefore, the current gas price in eastern Australia is easily lower than the price in the international market, and Santos is also facing the same situation. This will affect Santos' sales, revenue and overall financial performance, and this price volatility is one of the commercial risks facing Santos. It could also lead to misstatements of recognition of revenue, and it is one of the audit risks facing Santos.

Products and services and business processes: Santos provides sales and services for these products and provides supply chain services to a large amount of other entities, and it is also committed to improving and providing cleaner energy and providing more low-carbon products and services according to customer requirements (Santos, 2023). IBIS (2021) showed that Santos' business processes are to find and explore areas with rich oil resources, such as gas fields and oceans, and then develop them to build mining equipment, and then carry out mining and production, and process coal seams in oil fields into PNG, LNG, which ultimately transports oil and gas through pipelines and sells them. But in this process, Santos may face the risk of exploration and development, and the blowout of offshore oil wells may be one of the most difficult leakage accidents to control, and Santos owns offshore natural gas drilling platforms such as Barossa ("Exploration and Development Risks", 2013). This is one of the business risks that Santos is facing. Another business risk related to the products and services provided by Santos is environmental and climate risks. The large Santos gas project near the Tiwi Islands could threaten a vulnerable sea turtle species and damage marine ecosystems ("Too much to lose", 2022). This will also affect Santos' reputation and face reputational risks.

Competitive environment: ASA 315 (2020, para. A68) stated that Auditors should consider appropriate industry factors such as the competitive environment, bargaining power of suppliers and customers, technology, and market cycles, etc. The main competitors of Santos are ORG, Shell, BEP, WDS, etc., all of them are energy giants. Santos' competitive opportunity lies in the fact that the energy extraction industry has high barriers to entry and has high average industry profits. But the threat is that the current competition is still fierce, product services are relatively concentrated, and capital requirements are high. IBIS (2021)

showed that from the past long-term data, the advantage of Santos is that the net profit margin is higher than the industry average, but the disadvantage is that the revenue growth rate is lower than the industry average.

Regulatory environment: ASA 315 (2020, para. A70) also stated that auditors should also be aware of regulatory policies including frameworks, laws, policies, and environmental requirements. However, Santos' projects sometimes do not meet regulatory requirements. Breen (2022) stated that in September 2022, the aborigines of the Tiwi Islands in Australia filed a lawsuit against Santos' Barossa project without consulting them. Santos subsequently appealed, but this was rejected by the Federal Court of Australia and the judgment to terminate the project was upheld. Appropriate legislation, regulations, and environmental requirements affecting the industry should be considered when carrying out projects and conducting audits. Regulatory risk is also one of the commercial risks facing Santos. In addition to this project, the gas price gap proposed by the Australian federal government will also affect the regulation of Santos risk. Santos faces additional regulatory requirements for price caps, and it needs to meet the full requirements of this new regulation to avoid auditor risks such as compliance risks.

2. FINANCIAL ANALYSIS

Financial Ratios	Year 2022	Year 2021
Current ratio	1.48	1.58
Quick asset ratio	0.85	1.28
Operating cash flow ratio	1.31	0.76
Receivables turnover ratio	13.46	8.55
Inventory turnover ratio	9.19	8.62
Return on assets	7.32%	2.19%
Return on equity	14.85%	5.1%
Gross profit ratio	49.94%	36.73%
Net profit ratio	27.11%	13.96%
Debt / Equity	37.18%	59.10%
Times interest earned	10.50	6.87

According to ASA 520 (2009, para.6), auditors need to evaluate the accuracy of data when performing analytical procedures, and get the result, compare it with the understanding of the entity and see if the two are consistent. Auditors should also obtain sufficient and valid evidence, and then assess the material uncertainty of the entity's ability to continue as a going concern based on the obtained evidence (ASA 570, 2015, para. 6).

According to the data obtained from the Santos annual report in 2022, its current ratio and quick ratio is on a downward trend and current ratio is lower than the commonly assumed benchmark of 2. The current level needs timely attention to ensure that it does not deteriorate further to affect the going concern and the manager should manage working capital more effectively. Santos' Receivables turnover ratio and Inventory turnover ratio both rose, indicating that it has better inventory management and credit processing capabilities. Overall, Santos' profitability is on the rise. However, compared with 59% of the gross profit in the same industry, the gross profit of Santos is 49%, which is lower than the industry level ("Energy Sector Profitability", 2023). This may also be due to the inaccurate recognition of revenue by Santos due to the price gap. But its net profit ratio is higher than the industry level, which shows that Santos effectively manages and reduces the cost of goods sold ("Energy Sector Profitability", 2023). Its returns are also rising, indicating that Santos is using assets more effectively.

3. BUSINESS RISK

Based on the analysis conducted in Q1 and Q2, the selected article presents several business risks to Santos, one of the largest energy companies in Australia (Santos AR, 2022). These risks can have implications for the audit process. Firstly, the risk of commodity price fluctuations, as reported by Ludlow and Macdonald-Smith (2022), exposes Santos to potential revenue and financial performance volatility. Auditors must carefully assess revenue recognition methods to ensure compliance with accounting standards (Ludlow & Macdonald-Smith, 2022).

Secondly, Santos faces operational risks associated with exploration and development activities, particularly offshore oil well blowouts (Santos AR, 2022). Leakage accidents in this process can be difficult to control, potentially leading to environmental damage and reputational risks (Santos, 2022). Auditors need to evaluate risk management measures and assess potential financial implications of such incidents during exploration and development (Santos, 2022).

Moreover, the competitive environment in the energy sector poses risks to Santos, with strong competitors and high capital requirements (IBIS, 2022). Auditors should assess Santos' strategies for managing competitive pressures and evaluate the impact of industry dynamics on the company's financial performance (IBIS, 2022).

Furthermore, regulatory compliance is crucial for Santos, as failure to meet requirements can result in legal and financial risks (Breen, 2022). Auditors must evaluate Santos' adherence to regulations and assess the impact of compliance risks on financial

statements (Breen, 2022).

Regarding the financial analysis in Q2, the ratios indicate both strengths and weaknesses for Santos. While profitability and returns have improved compared to the previous year, liquidity ratios such as the current ratio and quick asset ratio have declined. Auditors need to scrutinize liquidity management practices and evaluate their impact on the company's ability to continue as a going concern (Santos, 2022).

In conclusion, the information in the selected article presents business risks to Santos related to commodity price fluctuations, operational risks, competitive pressures, and regulatory compliance. These risks can impact the audit process, requiring auditors to assess revenue recognition, risk management practices, compliance with regulations, and the company's financial performance.

4. KEY AUDIT MATTER

According to ASA701 para9, the key audit matters are those matters requiring significant attention in performing the audit, as determined in conjunction with governance, that require consideration of areas of higher risk of material misstatement or identified significant risks as assessed in accordance with ASA 315.5, significant auditor judgments related to areas of financial reporting that involve significant management judgment, and the audit effect of significant events.

4.1 Key account-Asset

The first key account warrant key audit matter paragraphs are asset account. According to AASB136 para9, AASB requires the entity to evaluate, during the reporting period, whether there is evidence that an asset may be impaired or, conversely, whether a previously recognized impairment should be reversed. As stated in the business summary segment of the primary operating activities of Santos, the primary source of revenue is the sale of natural gas and petroleum products. It derives the majority of its revenue from the sale of natural gas and petroleum products. The total revenue for Santos in 2022 is \$7987 million, of which \$7790 million comes from the sale of oil and gas products (Santos AR, 2022). Therefore, the impact of the natural gas price cap policy on the value of the assets mentioned in the news is substantial, and the impairment estimate is crucial.

The asset account affects the key audit matters paragraph for three reasons: a. Materiality: Changes in the value of Santos' assets as a result of the price cap could have a material impact on the company's financial health and performance, as well as on stakeholder decisions. b. Risk of material misstatement: Changes in the value of Santos's assets as a consequence of price caps could pose a material risk of financial statement misstatement. This is due to the fact that price limits may have an impact on estimates of the fair value of assets and the assumptions and judgments used by management to determine the value of assets. c. Disclosure requirements: Changes in the value of Santos' assets due to price caps may activate disclosure requirements under accounting standards, such as disclosing the impact of price caps on the fair value of assets and the company's underlying assumptions and judgments.

Changes in the value of Santos's assets as an outcome of the natural gas price limit will necessitate the inclusion of a key audit matter paragraph in the audit report, as this represents a significant risk to the financial statements and requires substantial professional judgment and estimates. A key audit matter paragraph would provide stakeholders with transparency and clarity, as well as convey the auditor's risk assessment and its impact on the financial statements.

4.2 Assertion-Asset

Accuracy, valuation, and allocation (AVA) is the primary assertion for the asset account that the auditor may select as audit plan priorities. In the case of a price cap, it is essential that the asset's recorded value accurately reflects its true value, taking into consideration the impact of the price ceiling. This includes determining whether the asset's calculations, measurements, and disclosures are accurate and in accordance with accounting standards. Price ceilings can have a substantial effect on the fair value of an asset, notably natural gas assets. Despite being experienced auditors, Cannon and Bedard (2014) found that they rely on third-party experts for the most challenging and difficult to audit fair value measurement estimates. The auditor must determine whether the valuation of these assets has been adjusted appropriately to reflect the price ceiling. This may include a review of the methodologies and assumptions used to determine fair value, an evaluation of the reasonableness of estimates, and the consideration of any indicators of impairment. Price limits also influence the allocation of costs and revenues associated with natural gas assets, including exploration, development, production, and transportation expenses. The auditor must assess whether the allocation methodology is reasonable and in accordance with accounting principles and regulatory requirements. Therefore, the auditor should prioritize AVA assertions in their audit plan.

4.3 Audit procedures/Substantive tests-Asset

Test the asset impairment: The auditor may evaluate the reasonableness of the company's impairment assessment by examining the assumptions and methodologies used by management to estimate the recoverable amount of the company's assets. In this instance, the auditor would concentrate on assets that are anticipated to be impacted by the gas price limit, such as gas reserves,

production facilities, and equipment. The auditor may evaluate the veracity of management's assumptions regarding prospective gas prices, production volumes, and operating costs. The auditor may also evaluate the reasonableness of the discount rates and cash flow projections used by management to estimate the recoverable amount of assets. The auditor may also assess whether management has taken into account all pertinent factors, such as technological advancements, regulatory modifications, and competitor activity.

Test of disclosures: The auditor may examine the adequacy of disclosures regarding asset impairment resulting from the gas price limit. The auditor would assess whether the company has disclosed adequately the potential impact of the gas price limit on the recoverability of its assets. The auditor may evaluate whether the notes to the financial statements and other disclosures are complete, accurate, and consistent with the financial statements. In addition, the auditor may assess the adequacy of the disclosure regarding the main assumptions and judgments used to determine the recoverable amount of the affected assets.

By executing these audit procedures, the auditor is able to address the most important audit concerns related to the AVA assertion, with a particular focus on asset impairment resulting from the gas price restriction. Specifically, testing the reasonableness of impairment assessments can help assess whether the values assigned to assets are reasonable, whereas reviewing the adequacy of disclosures can help ensure that users of the financial statements are provided with sufficient information to comprehend the impact of the gas price cap on the company's assets. By addressing these critical auditing issues, the auditor can collect sufficient and relevant audit evidence to support their opinion on the financial statements.

4.4 Key account-Revenue

One of the key accounts selected that relates to the key audit matter is revenue, since the government price cap limits gas selling price which would have negative impact on Santos' revenue. It poses a business risk of a reduction in revenue, which may further demonstrate an audit risk that revenue is potentially being fraudulent. To elaborate, with the same sales volume, there are consequences of reducing revenues in its financial statements due to lower prices. Even under the regulation of price caps, a company can enhance its sales volume and impose cost cuts to compensate for the loss of revenue (Jamison, 2007). However, according to Josh Stabler (Angela and Mark, 2022), decreased prices could raise a heightened risk of undersupply. As a result, the revenue generated is more plausible to be further reduced by the decrease in sales caused by the supply shortage. Ultimately, this KAM would have a substantial effect and would be reflected as a reduction in revenue.

4.5 Assertion-Revenue

With respect to revenues, the occurrence assertion is to be recommended to the auditor as the priority assertion in the audit plan. To substantiate, the company will expect a potential decline in revenue due to the price cap and the supply shortage it may impose. According to Kaplan and Kiron (2004), revenue growth is one of the significant performance indicators for management, which motivates managers to take actions to achieve an upward-trend revenue. While the most typical approach to achieve a permanent increase in sales is to falsify sales (Beasley, Carcello, Hermanson, et al. 2000). The pressure to boost sales belongs to the scope of the fraud triangle which suggests that revenue accounts are exposed to a material risk of financial misrepresentation.

In addition, revenue contributes directly to investors' reviewing of the company and influences the outcome of their investment decisions (Tariquzzaman 2017), which is especially evident in an energy company like Santos: In the annual report's letter to shareholders (2022), sales revenue and production volumes are identified explicitly to illustrate the results of operations to investors, demonstrating that Santos considers revenue as a substantial and straightforward performance indicator to investors. Therefore, the high concern about falsifying sales revenues arose under the pressure to monitor performance and expectations of investors. The occurrence of such revenues implies a heightened risk of fraud and should be considered primarily during the audit process.

4.6 Audit procedures/Substantive tests-Revenue

Auditors should not give separate opinions on KAM, KAM should help form the audit opinion as a whole (ASA 701, para 11(b)). Thus, procedures that address the KAM should eventually serve the form of the audit opinion, that is, the procedures should be determining the affected area's risk of audit and address that risk with the procedure to give a reasonable opinion on Santos.

One of the audit procedures that should be utilized to address the identified revenue occurrence assertions is control testing. Internal controls in revenue recognition determine whether any internal control weaknesses provide an open window for fraudulent sales recognition. A complete set of controls tests for the revenue cycle can assist the auditor in understanding the entire system and recognizing any weaknesses that could contribute to revenue not occurring. In order to accomplish this, the auditor should initially interview the major departments and personnel associated with the revenue cycle to understand their framework and be aware of the movement of documents through the system.

A walk-through test of revenue should be performed to determine if current controls are effective. Then, A random sample should then be taken from year to year to test whether controls are implemented reasonably, correctly, and consistently

throughout the year. At each control point, the auditor should concentrate on whether the documentation has been examined and approved by an adequate number of departments. It is advisable to focus the sample more on year-end since typically year-end performance reviews bring more pressure to management to commit fraud. In addition, internal control testing of sales can provide the auditor with an initial estimate of the extent of potential errors in the financial statements, and it will further assist the audit team in determining the sample size and scope of the following audit procedures (Miller and Savage, 2009).

After the control risk was determined, more substantive procedures should be performed so that the detection risk of audit can be reduced to an acceptable level (Segal, 2017). According to Rummell and Weickgenannt (2021) sales revenue is always at risk of being overstated, auditors are encouraged to conduct substantive testing, validating the transaction of sales. Therefore, substantive procedures are recommended to be tests of detail, to be specific, tests for transactions, auditors should check the sales ledger and check the totals to the income statement making sure the record is complete. The auditor may then select a sample of sales transactions from the sales journals. With respect to each transaction, the auditor should be certain that customer orders, packing slips, inventory changes and related sales invoices are sighted and approved marked, and that all cash generated by the transactions is recorded in the ledger and accompanied by relevant documentation. When examining the documentation, the auditor should focus on those documents that substantiate sales volumes and sales prices, due to the fact that within Santos' annual report, its main revenue is "mainly derived from the sale of natural gas and liquid hydrocarbons", i.e. calculated by multiplying the sales volume by the unit price. If any error is identified, the auditor should consider whether it is a material misstatement. If it is a material error, then the auditor should cast its impact on the entire population to estimate the amount of impact on the financial statements. In summary, when the risk of an assertion is resolved, the auditor can indicate that KAM has completed the relevant audit work.

5. AUDIT OPINION

The information presented in the selected article has significant implications for the audit report and the audit opinion formed. The audit report is the final outcome of the audit process and communicates the auditor's findings and opinion regarding the financial statements of the company. In this case, the selected article provides insights into various business risks and challenges faced by Santos, an energy company in Australia. These risks need to be considered in accordance with Australian Auditing Standards.

ASA 315 emphasizes the importance of obtaining an understanding of the entity and its environment to assess the risks of material misstatement in the financial statements. The information in the selected article helps auditors gain insights into the specific risks and challenges faced by Santos. By considering the entity's revenue streams, products and services, business processes, competitive environment, and regulatory environment (ASA 315 para. A56), auditors can better assess the impact of these risks on the financial statements and the audit opinion formed.

For example, the article highlights the risk of commodity price fluctuations, which can impact Santos' sales, revenue, and financial performance. Auditors need to carefully evaluate the recognition of revenue, ensuring that it is in accordance with accounting standards and reflects the true economic substance of transactions (ASA 315 para. A68). Any misstatements in revenue recognition due to price volatility could have a significant impact on the financial statements and may result in qualified or adverse audit opinions.

Similarly, the article mentions operational risks associated with exploration and development activities, such as blowouts in offshore oil wells. Auditors should assess the adequacy of risk management practices, including measures to prevent and mitigate such risks (ASA 315 para. A56). Failure to adequately manage these risks could lead to material misstatements in the financial statements, impacting the audit opinion.

Additionally, the competitive and regulatory environment highlighted in the article affects Santos' business operations and financial performance. Auditors need to consider the impact of competitive pressures and regulatory compliance on the financial statements and assess the appropriateness of the company's strategies and practices (ASA 315 para. A56). Any failure to meet regulatory requirements or effectively manage competition could result in material misstatements and may impact the audit opinion formed.

In conclusion, the information presented in the selected article has a significant impact on the audit report and the audit opinion formed. By considering the risks and challenges faced by Santos in line with ASA 315, auditors can better evaluate the potential material misstatements in the financial statements and form an appropriate audit opinion. The insights provided by the article help auditors understand the entity's environment, assess risks, and ensure the audit is conducted in accordance with professional standards.

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APPENDICES

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Perspective

Gas Fights for Its Future

Angela Macdonald-Smith, Mark Ludlow

Angela Macdonald-Smith and Mark Ludlow

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Energy industry warnings about government price caps have been ignored, and Labor will have to own the consequences if the imposition doesn't work, write Angela Macdonald-Smith and Mark Ludlow.

Just over a week ago, the worst-case scenario for Australia's world-scale gas industry was a temporary cap on prices, supposedly to provide relief for households and businesses slammed by spiking energy bills.

Now the out-of-favour sector is fighting for its future, with stark repercussions feared for the broader Australian economy.

Despite the hundreds of billions of dollars of investment, billions in taxes and royalties, and thousands of jobs the industry has provided over the past decades, its prospects could hardly be bleaker under the Albanese government's radical package of gas measures rushed through parliament this week.

At least that's the viewpoint of global energy heavyweights such as [ExxonMobil](#), [Shell](#) and [Mitsui](#), which have invested billions of dollars to create one of the world's largest and most reliable sources of LNG - in demand the world over to keep the lights on through the transition to low-carbon energy - and which also supply gas to east coast domestic buyers.

"Reckless free market intervention," blasted the normally conservative [ExxonMobil](#), supplier of 20 per cent of the gas used in the eastern states. "Counter-productive for domestic consumers in the long run," said Japan's [Mitsui](#) in a rare pronouncement on domestic politics.

Domestic gas players are equally aghast. "Soviet-style" policy and a form of nationalisation, said Santos chief [Kevin Gallagher](#). "Draconian", said [David Maxwell](#), boss of pure-play domestic gas producer [Cooper Energy](#), which will be hit by the measures.

Others talk of "vandalism" being wrought on the energy industry and the economy, and "the most anti-business and anti-market policy in recent memory". And that is when billions of dollars of fresh investment are needed to fund Australia's transition to low-carbon energy.

Core to their concerns is not, however, the \$12 a gigajoule cap on uncontracted gas sold on the east coast in 2023. That has become a side issue compared to the ongoing control on prices enshrined in the legislation through "reasonable pricing" provisions.

That insistence that gas is sold based on the cost of production plus a commercial return is being seen as a pathway towards a regulated price that ignores the risk capital producers have to invest to bring on new supply. "It treats us like a power line: it's a fundamental misunderstanding of how the resources sector works," fumed one gas executive.

But amid the bill shock being felt by consumers, the industry's outrage at the idea has only invited criticism.

"It's been something else to watch people react in the gas industry with horror at the notion of a reasonable price," Industry Minister [Ed Husic](#) said. "It has been something else, and it is not an alien concept in other markets or in other regulated sectors."

But there's the rub. Gas, as a commodity, follows cycles dictated by supply and demand. Production on the east coast is defined by high-risk, heavy up-front capex and income that moves with those cycles. High prices encourage more investment that helps turn the commodity cycle from high to low.

Imposing price caps in such a market "can be like holding back the ocean," says Josh Stabler, managing director at adviser EnergyEdge. He says regulating the price appears short-sighted and unlikely to achieve the intended goal.

"This policy is likely to see the energy markets shift from one characterised by high prices without shortfalls to another characterised by low prices with higher risks of supply shortfalls."

Certainly, the incentive to bring on new gas supply projects needed to meet the supply gap forecast by the [Australian Energy Market Operator](#) for later this decade has been smashed. In question are projects such as [Santos'](#) Narrabri gas venture in NSW, [Senex Energy's](#) \$1 billion coal seam gas expansion in Queensland, and drilling off Victoria and onshore in South Australia.

[Credit Suisse](#) energy analyst [Saul Kavonic](#), one of several predicting the policy will lead to shortages and possibly blackouts as early as 2024, says Labor's response shows they haven't begun to understand the extent of the problem they have created.

Kavonic says the government has presented "a false dichotomy" between ripping up the gas market and higher prices. "There are many options to bring energy price relief to Australians that don't resort to destroying the market, hurting Australia's investment reputation and causing long-term shortages," he says. "But Labor hasn't been willing to even hear other options or allow time to understand what the unintended consequences of their legislation might be."

In Canberra, tensions have been running high, with the government and industry CEOs at loggerheads during the super-squeezed - many say farcical - timing allowed for discussion on a bill that totally transforms the east coast energy system.

With a self-imposed Christmas deadline to land the long-promised energy relief package, Prime Minister Anthony Albanese and his senior ministers moved fast.

The big gas companies claim they were only given three hours' notice to attend a briefing in Canberra on Wednesday to discuss the price cap and an ongoing mandatory code of conduct on pricing to be monitored by the [Australian Competition and Consumer Commission](#).

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Gas bosses who met Albanese, Treasurer [Jim Chalmers](#) and Resources Minister [Madeleine King](#) stressed the interventionist measures would freeze investment in a critical transition fuel, and precipitate an energy crisis within two years, similar to the one being experienced in Europe.

"The market is working and the government's interfering is actually causing significant disruption and significant uncertainty on both sides of the table," said [Woodside](#) chief executive [Meg O'Neill](#), who, as chairman of petroleum industry group [APPEA](#) and head of a major east coast gas supplier, led the industry delegation.

But the government gave no ground other than agreeing to rework a section of the legislation that relates to the powers of the minister to direct both the supply and price of gas under the mandatory code of conduct. Industry figures had dubbed this section as the "communist", "nationalist" or "Venezuelan" clause.

The changes to section 53V of the bill followed 24 hours of furious industry lobbying triggered by a meeting on Tuesday with Treasury and [ACCC](#) officials that participants described as heated and tense.

Some big gas players likened the rushed legislation to an ambush, but got short shrift, with Albanese saying his government had been warning for three months that intervention was coming to deal with surging power prices.

And compared to a super profits tax, as was introduced in the UK, the price cap was described by government sources as the "softest intervention ever".

Albanese accused the sector of "jumping at shadows", accusing the big companies of engaging in hyperbole with their dire warnings about damage to future investments.

"I say this to the sector - they want to be careful that they aren't talking themselves down because there are big opportunities for future investments," he said.

With the support of the Greens and other key crossbenchers including independent senator David Pocock, Labor pushed through the energy bills on Thursday.

"This is a big win for households and the climate and another big blow to the greedy gas corporations," said Greens Leader [Adam Bandt](#), calling the measures "the beginning of the end for gas".

Albanese was able to shun the Greens to pass major legislation this year, but with the Coalition opposed to key elements, the energy bills were too important for the first-term Labor government.

Opposition Leader [Peter Dutton](#) supported relief for households, but couldn't stomach other parts of the intervention - despite the former Morrison government's energy intervention when it was in power, including the "gas trigger" and Snowy 2.0.

Unfortunately for the gas companies, Albanese knows he's on a winner with the voting public - they will always back a government that looks like it's aggressively tackling energy companies to lower their power bills.

But the new energy laws will only go so far in curbing the pain of higher power bills over the next few years.

After campaigning to bring down power bills by \$275 before the May election, the Albanese government was mugged by political reality as the war in Ukraine pushed up coal and gas prices and sent electricity prices surging.

Treasury estimated power bills would increase 56 per cent over the next two years, including 36 per cent in 2023-24. After the price cap is introduced, bills will be \$230 lower than they would have been, the prime minister claims; but energy bills will still rise a hefty 23 per cent next financial year. The new laws are likely to only "take the sting out of rising energy prices", Chalmers acknowledged.

On the gas side, small manufacturers - typically the worst hit by price increases - remain worried. Spot prices are sharply down from mid-winter levels but remain in double figures per gigajoule, well above historical levels between \$4/GJ and \$6/GJ. Contract prices have meanwhile spiked, with some industrial buyers complaining of increases of 300 per cent or more as the effects of elevated spot prices combined with uncertain future supply flow through.

The government uses Russia's invasion of Ukraine to justify its energy price relief measures, but analysts point out that east coast domestic prices spiked only in May this year, three months after the invasion, signalling that the early winter crisis in power generation in the National Electricity Market, which fuelled a sustained spike in gas demand, was more to blame.

Wholesale gas prices now on spot markets in the eastern states remain easily less than half equivalent international prices, according to EnergyEdge analysis.

Several larger manufacturers such as [Brickworks](#) have recently locked in gas delivery contracts, while others such as fertiliser makers are set for a big boost from the price controls, even as they continue to sell their own products at international prices.

Still, the pain being inflicted is real for some. Aditya Jhunjhunwala, managing director of NSW-based magnesium products maker Causmag International, is one of many small manufacturers that say the government hasn't gone far enough. He favours the price cap being halved to \$6/GJ, price controls to be extended to include retailers, and the introduction of a domestic gas reserve system on the east coast.

"The government has let gas producers off very lightly," he says, arguing they should have to pay compensation for the huge profits they have made from manufacturing customers over the past six months.

Jhunjhunwala is waiting for retailers to come back with reduced offers from the \$28/GJ to \$31/GJ they proposed for 2023, but fears they may still be double the \$12/GJ cap on prices from producers. Meanwhile, the government's assurances to valuable LNG customers in Japan and Korea that the measures won't affect their contracted gas deliveries from Australia may prove hollow.

Some gas industry sources say the expected shrivelling-up of investment in domestic supply means LNG export restrictions will have to be invoked down the track to meet east coast demand.

Others warn that no sector of the economy is safe given what has happened in gas.

"Every business owner in Australia should be alarmed at what the federal government has done today," Santos' Gallagher said on Thursday. "If it doesn't like your business, your profits or the prices you charge for your products and services, it will regulate you."

Kavonic says the Albanese government will now own the consequences on energy supply and the economy, under the "you broke it, you bought it" principle.

"This policy breaks the gas market design that has kept the lights on for decades," he says. "Now the burden is on the government to try to make up a new market design on the fly, while keeping supply security intact."

Like the temporary 12-month energy intervention, any political victory may also only be short-lived.

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