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16 April 2021

COPA-COPA-GENL-L-00024

**The Australian Competition and Consumer Commission**  
[LNGnetbackreview@acc.gov.au](mailto:LNGnetbackreview@acc.gov.au)

**RE: ACCC Review of the LNG Netback price series**

Thank you for the opportunity to contribute a submission to the 2021 ACCC Review of the LNG Netback price series issues paper (Issues Paper).

For over twenty years ConocoPhillips Australia has demonstrated its commitment to developing energy resources in Australia by investing over \$20 billion in operated and joint venture projects. ConocoPhillips Australia is a 37.5 percent joint venture participant and downstream operator of Australia Pacific LNG (APLNG) and has an 80 percent interest in and operatorship of the exploration T/49P permit in the Otway Basin. Through this permit we have the potential to develop those resources which will supply the Australian east coast market.

ConocoPhillips is one of the world's largest independent exploration and production companies. We offer this submission from the perspective of a dedicated Australian energy investor and a global leader in oil and gas exploration, production, marketing, and trading.

ConocoPhillips Australia has prepared this submission to support APLNG and APPEA's separate submissions.

Continued and sustained investment in exploration and development across the east coast remains the key to offsetting projected production decline and reducing price pressures.<sup>1</sup> Stimulating gas production requires a stable policy framework which supports a functioning market and stabilises investment.

ConocoPhillips Australia supports government policies which seek to increase the competitiveness of the Australian economy and attract new investment. This is in the context of multiple LNG projects in Qatar, US, Canada and Africa, acknowledged in the Issues Paper, which are driving fierce competition for investment.

The best price benchmark for the Australian market is a spot and futures Australian benchmark. ConocoPhillips Australia continues to support the development of a Wallumbilla gas index which reflects the daily spot market and over time, a liquid futures market.

Until a spot and futures Australian benchmark is established in which the market has confidence, the next best alternative for incremental supply is the price benchmark utilised by incremental gas suppliers in the market. For the east coast of Australia, the incremental suppliers are the three

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<sup>1</sup> Australian Competition and Consumer Commission (2021) Gas Inquiry 2017-2025 Interim Report January 2021: 26.

Gladstone LNG projects which typically utilise a Japan Korean Marker (JKM) netback price for their shorter-term decisions as the preferred market benchmark to sell gas. ConocoPhillips Australia believes that the current ACCC LNG Netback price series is an accurate reflection of the price alternatives for incremental gas supplies on the east coast.

Numbered references below align with the questions from section 4 of the Issues Paper.

**4.1 Length of the forward LNG netback price series**

The ACCC Issues Paper documents the growth in LNG trades which has coincided with the increased level of liquidity for the JKM benchmark, both spot and futures and it also recognises that the JKM benchmark is an important indicator of Asian LNG prices. Rather than considering a change to the benchmark, we believe these facts support the continued use of the JKM netback price as currently drafted and we believe that the ACCC should continue to expand the forward outlook of the LNG Netback price series as liquidity grows in the future. Unfortunately, as evidenced by current trades on the JKM International Continental Exchange (ICE) futures, there is not enough liquidity longer than two years still, so ConocoPhillips Australia does not support publishing a longer-term LNG netback price series now.

ConocoPhillips Australia understands that the LNG market was established based on oil-linked long-term contracts. However, as the LNG market continues to mature in the future, LNG should be priced on a gas index. Even though Brent oil futures are more liquid out further than JKM, we note in Figure 1 below, JKM prices are not correlated to oil prices. Therefore, there is a risk in pricing natural gas based on a different commodity, which is why the JKM pricing has been widely utilised by LNG producers.

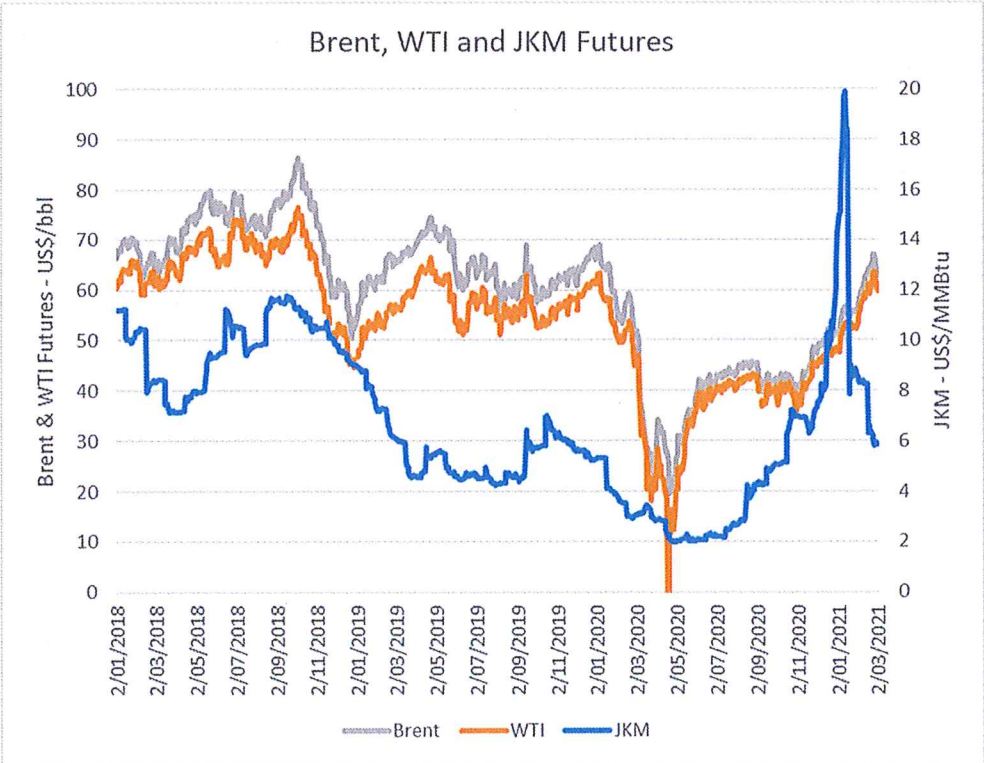


Figure 1: Daily Futures from ICE and CME.



JKM is not only an international benchmark for spot cargos reported by Platts, but also a liquid and developing futures market for LNG via ICE. In fact, JKM has become the default Asian “benchmark” for LNG.<sup>2</sup>

#### 4.2.1 Choice of the LNG price used as a reference to calculate the LNG Netback price series

The ACCC LNG Netback series should continue to base its calculations on the JKM as it remains the most relevant LNG spot price marker to the Australian LNG export market. The Issues Paper notes that “an LNG Price reflects the price that an LNG producer could expect to be receiving for exporting LNG, netting back relevant costs associated with producing and developing to a destination port.” Given that the bulk of Australian LNG exports (around 75 per cent) are shipped to north east Asian ports, the JKM remains the best local price benchmark for an export parity price for the east coast domestic market.

The Issues Paper has documented the limitations of the JKM netback futures price and ConocoPhillips Australia agrees that even with the dramatic growth in liquidity, JKM should only be used two years into the future to estimate pricing. In fact, currently there are only trades one year out into the future, even though there are potential contracts offered from May 2021 to March 2027. Extending the JKM netback series beyond two years would not be helpful to the market at the present time. ConocoPhillips Australia suggests that the ACCC continues to assess this growing market liquidity and expand the price series as liquidity grows.

Unfortunately, Henry Hub (HH) futures has a similar issue to JKM futures in that there is very limited liquidity out longer than one year. Even though contracts for HH futures extend out to December 2033, there is no traded volume (i.e., no liquidity) out past February 2022. This is demonstrated in Figure 2 where there is no HH trade volume beyond February 2022.

MONTH	OPTIONS	CHARTS	LAST	CHANGE	PRIOR SETTLE	OPEN	HIGH	LOW	VOLUME	UPDATED
MAY 2021	OPT	∞	2.626	+0.003	2.623	2.621	2.630	2.618	2,658	03:01:26 CT 31 Mar 2021
JUN 2021	OPT	∞	2.681	UNCH	2.681	2.676	2.688	2.676	336	02:53:49 CT 31 Mar 2021
JUL 2021	OPT	∞	2.741	UNCH	2.741	2.741	2.747	2.739	269	02:59:45 CT 31 Mar 2021
AUG 2021	OPT	∞	2.758	+0.001	2.757	2.756	2.763	2.755	70	02:52:12 CT 31 Mar 2021
SEP 2021	OPT	∞	2.748	+0.006	2.742	2.742	2.749	2.739	37	02:06:26 CT 31 Mar 2021
OCT 2021	OPT	∞	2.761	+0.005	2.756	2.756	2.761	2.753	52	01:47:13 CT 31 Mar 2021
NOV 2021	OPT	∞	2.830	+0.005	2.825	2.823	2.830	2.823	53	01:13:05 CT 31 Mar 2021
DEC 2021	OPT	∞	2.955	+0.001	2.954	2.952	2.958	2.952	15	03:01:11 CT 31 Mar 2021
JAN 2022	OPT	∞	3.050	+0.005	3.045	3.045	3.050	3.041	52	02:52:12 CT 31 Mar 2021
FEB 2022	OPT	∞	2.988	+0.001	2.987	2.988	2.989	2.987	24	02:41:38 CT 31 Mar 2021
MAR 2022	OPT	∞	-	-	2.812	-	-	-	0	20:41:27 CT 30 Mar 2021
APR 2022	OPT	∞	-	-	2.479	-	-	-	0	20:41:27 CT 30 Mar 2021
MAY 2022	OPT	∞	-	-	2.437	-	-	-	0	20:41:27 CT 30 Mar 2021

Figure 2: CME: Henry Hub price quotes, 31 March 2021

<sup>2</sup> See article <https://institutional.anz.com/insight-and-research/jkm-the-future-of-the-LNG-market>.

Figure 3 also indicates the differences between a JKM netback and a HH Build Up price which would both be landed into the Australian gas network. These two indices are counter-cyclical, not correlated and recently, Henry Hub Build Up was more expensive.

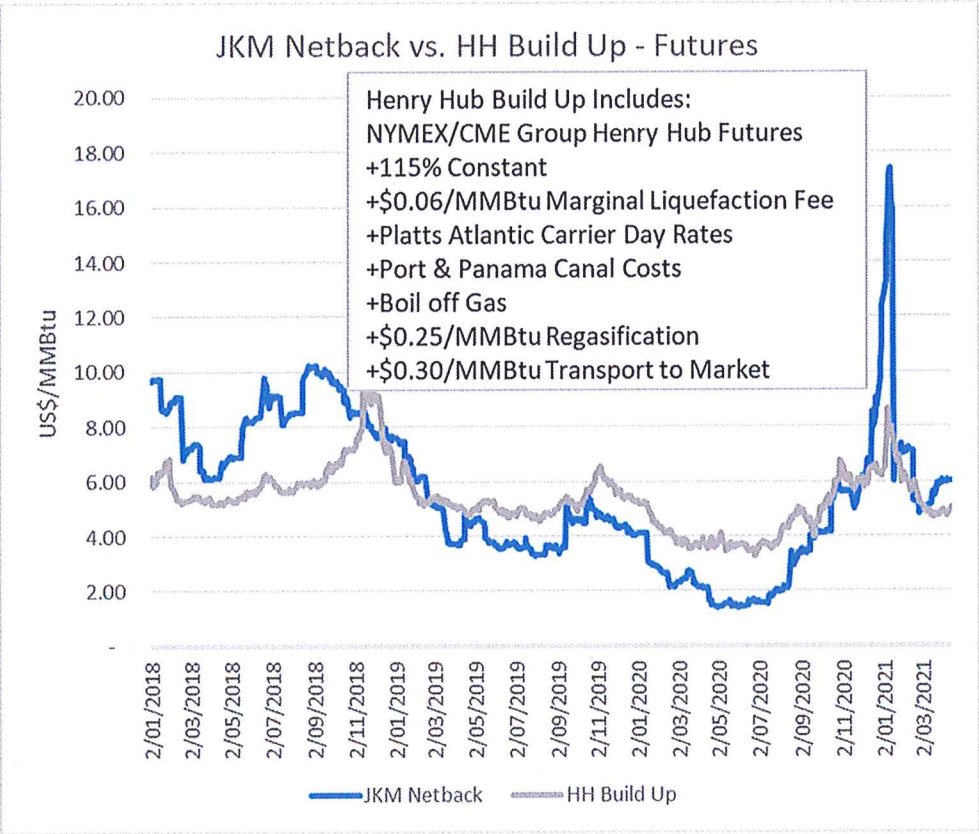


Figure 3: JKM Netback and HH Build Up Daily Futures - ICE and CME

Regional, seasonal, political and logistical factors will continue to drive differences in local gas markets. Whether sold in the Australian domestic market or as LNG, gas can be subject to delivery and local issues based on the amount and complexity of the infrastructure required. Thus, the preferred benchmark should always be as local as possible as more distant indices are subject to events that do not necessarily impact the local domestic market. This is best shown in Figure 4 by the spike in shipping caused by delays in the Panama Canal in part caused by additional LNG traffic going to Asia during the severe 2021 Asian winter. Regional events like this should not have an impact on Australian domestic prices. Thus, ConocoPhillips Australia believes that the best gas index is a JKM netback as the closest liquid gas benchmark to the Australian market.



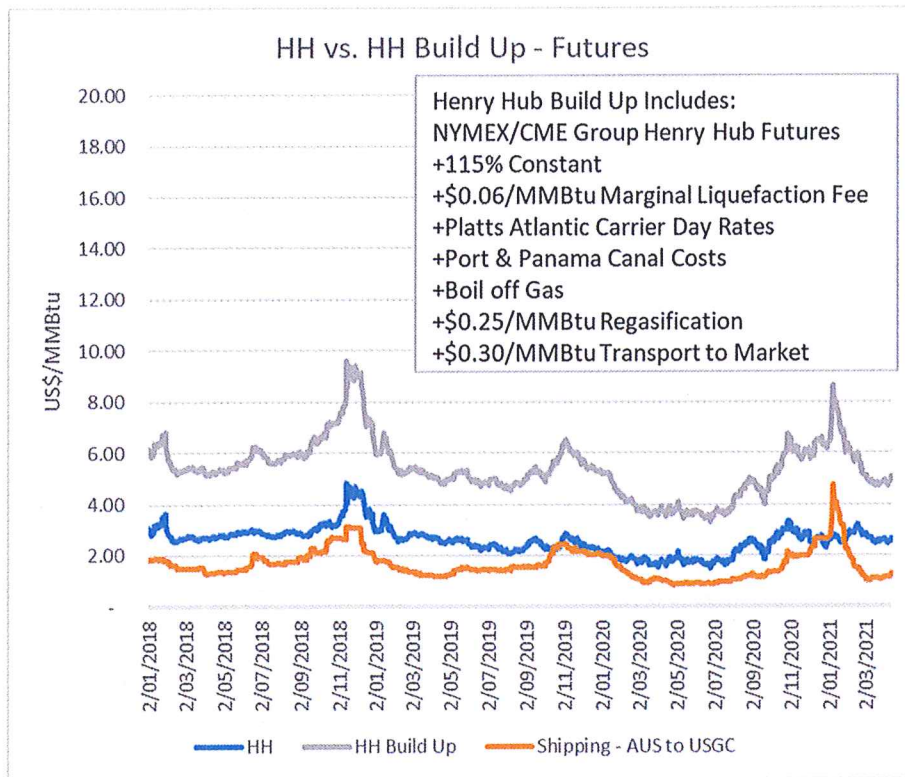


Figure 4: HH and HH Build Up Daily Futures - CME

Continued use of the JKM as the basis for the ACCC Netback price series remains appropriate given it is the local marker for our major Asian LNG importing nations and is subject to the regional dynamics which influences Queensland LNG export demand. As the Issues Paper points out, gas markets and particularly the LNG markets are dynamic, and ConocoPhillips Australia agrees with the potential impact of the planned and proposed project expansions in both the USA and Qatar. However, until all these projects are operational, and their impacts are absorbed into the LNG market, ConocoPhillips Australia does not believe a change in the current ACCC Netback price series is warranted.

#### 4.2.2 LNG Freight costs

ConocoPhillips Australia believes that as JKM becomes more liquid, the freight rate market will grow and extend with it, thus no change is required currently. The only change to the JKM netback price that we would suggest is when/if China becomes the top exporting destination for Queensland LNG, we believe the shipping deducts should reflect this alternate destination, rather than Tokyo.

#### 4.2.4 LNG plant costs

ConocoPhillips Australia supports the current approach to deducting variable LNG plant costs is appropriate since these costs cannot be avoided in the short-run. Deducting any capital costs incurred by the LNG exporters would also contradict the ACCC Netback series' intent to provide a measure of the opportunity costs to gas suppliers of supplying gas to the domestic market, rather than export markets.

Thank you for your consideration of our submission. We would welcome the opportunity to support this submission by providing a briefing to the Commission. Please contact James Mathews at [REDACTED] if you require any further information.

Yours sincerely,

[REDACTED]

Khoa Dao  
President,  
ConocoPhillips Australia