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The Australian Competition and Consumer Commission  
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**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 47.5 percent joint venture participant and downstream operator of Australia Pacific LNG (APLNG). APLNG has an operating budget of over \$2.5 billion a year to develop coal seam in Queensland. This investment has made APLNG the largest single supplier of gas to the east coast domestic market, meeting over 30 percent of total demand. ConocoPhillips Australia also has an 80 percent interest in and operatorship of the exploration T/49P permit in the Otway Basin. While still in the exploration phase, T/49P, if successful, could be developed to 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. Given the restricted timeframes for consultation, ConocoPhillips would appreciate the opportunity to support this submission with a briefing for the ACCC by our global subject matter experts to provide greater depth and context.

ConocoPhillips Australia has prepared this submission to support APLNG and APPEA's separate submissions. Whilst ConocoPhillips recognizes the ACCC's objective to publish a longer-term netback price series, the Gaffney Cline report acknowledges the limitations of its own oil-linked methodology proposal and as such we have concerns in the following three areas.

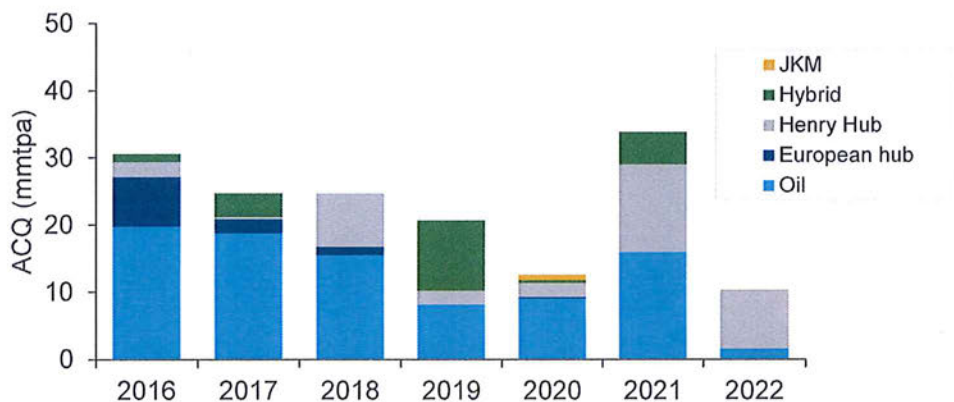
### **Purpose of the ACCC Netback Price Series**

The ACCC LNG netback price series is an indicative gas price designed to support end users in understanding the market drivers of gas prices and provide assistance in their competitive bargaining. The underlying principles of the methodology to calculate a netback price are well established and supported by industry. The netback price series is an *indicative price* at which a gas supplier would expect to receive from a domestic buyer to be *indifferent* between supplying gas to the domestic market or to LNG export markets. It is not an actual price traded in the gas market, nor is it reflective of how two parties conduct commercial discussions for the sale of natural gas. As the ACCC explains in detail, there are numerous factors other than LNG netback prices that influence the final prices accepted by producers and paid by domestic gas users.

The Gaffney Cline report<sup>1</sup> recognizes the limitations of its own proposal, namely the sample size of oil-linked LNG contracts tendered, the lack of transparency in determining those prices, and the declining correlation of oil versus gas. Data from Wood Mackenzie<sup>2</sup> suggests the amount of LNG volume contracted using purely oil-indexation has been declining from 2016, and as such, the sample size of contracts going forward to use for the LNG netback pricing series will continue to be small and therefore may not accurately reflect, or be representative of, market dynamics in Australia.

The risk therein is that resultant ACCC netback price may be starkly different from what is offered in the domestic market as domestic users have different commercial needs (contract duration, flexibility, etc.) than that of LNG buyers. Additionally, as the relationship between gas and oil continues to weaken, and global LNG prices are influenced by the fundamentals of natural gas, the ACCC will have difficulty explaining to end users how and why prices are inevitably disconnected to what is published. The ACCC Netback Price series' role as a reference point in the Australian Domestic Gas Security Mechanism and Heads of Agreement reinforces the importance of its accuracy to East Coast Gas regulatory and self-regulatory mechanisms' relevance to market dynamics.

ACQ (Annual Contract Quantity) of Contracts by Pricing Indexation<sup>3</sup>



Source: Wood Mackenzie

### Consistency of Approach

ConocoPhillips remains of the view that natural gas ought to be priced on the fundamentals of natural gas, and the best price benchmark for the Australian market is a *local* spot and futures benchmark. We continue to support a Wallumbilla Hub gas index, and whilst we recognize the lack of, but improving, liquidity of Wallumbilla, the next best alternative is JKM in the interim given its liquidity and proximity to Australia.

Since January 2021, APLNG have transacted over 11.5 PJ of gas over 550 trades on the Wallumbilla Hub and have been engaging end users with the opportunity to contract gas based on a Wallumbilla Index Price reflecting the evolving trend in domestic gas pricing. We also note JKM's continued improvement in liquidity since our last opportunity to offer feedback on the ACCC netback price series. We remain of the view that the ACCC should continue to expand the forward outlook of the JKM-linked LNG netback price series beyond the 2 years in step with improving JKM liquidity.

The ACCC's indifference price concept, which underpins the netback price calculation methodology, remains fundamental to assessing methodologies in publishing longer term prices. What was unclear from the Gaffney Cline report is whether the proposed oil-linked methodology will preserve the

<sup>1</sup> Market Advice and Estimates of Contemporary LNG Contract Prices, Gaffney Cline, May 3, 2022

<sup>2</sup> Source: Wood Mackenzie, *LNG Contract Trends*, Retrieved May 2022

<sup>3</sup> Source: Wood Mackenzie, *LNG Contract Trends*, Retrieved May 2022



indifference price concept and net prices back to Wallumbilla. For example, if the use of oil-linked LNG contracts is expressed as an oil slope delivered in Asia, there is the potential for a disconnect in the basis between the short-term and long-term prices published by the ACCC. We continue to support the ACCC's decision to deduct only avoidable, marginal export costs netted back to Wallumbilla in calculating the LNG netback price series if the basis is delivered in Asia. However, if the revised methodology also contemplates using US LRMC sourced from Henry Hub, appropriate costs need to be added (such as Panama Canal fees, re-gas fees at Port Kembla, and transportation to Wallumbilla) to net the prices back to Wallumbilla which in effect, and similar to our earlier point made, may not accurately reflect, or be representative of, market dynamics in Australia.

### Relevance in Commercial Discussions

Given the proposed six-monthly publishing of the longer-term netback price series, it is assumed that end-users will be encouraged to adopt this methodology and apply it to their own views on forward pricing as the lack of publishing frequency will have little relevance in real-time commercial discussions, especially as markets change. However, despite the relative simplicity of the volume weighted average calculation in the proposed oil-linked methodology, the input generation for the calculation requires access to subscription-based data, knowledge on how to normalize LNG contracts, and apply market volatility and correlations, often which requires intimate knowledge and experience in how LNG contracts are bilaterally negotiated and how gas trading is conducted. This may be acceptable for sophisticated portfolio players but may be less transparent for end users who are less sophisticated. The advantage of the currently published ACCC netback is in its relative simplicity, which is essential for end users in their ability to adopt the methodology.

If the ACCC is to adopt the methodology proposed by Gaffney Cline, the publishing of the price should be in step with the current ACCC netback series to account for changing market conditions. Additionally, it'll be imperative to educate end users about the intricacies of the calculation and stress its limitations in forecasting domestic gas prices.

Thank you for your consideration of our submission. We urge the ACCC to publish a clear set of metrics on which this longer-term oil linked price series will be assessed in the impending 2024 ACCC netback price review. Please contact [REDACTED] at [REDACTED] or [REDACTED] if you require any further information.

Yours sincerely,

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