SHELL AUSTRALIA

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Australian Competition and Consumer Commission (ACCC)
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30 May 2022

Dear ACCC

RE: Market Advice and Estimates of Contemporary LNG Contract Prices

Shell Australia welcomes the opportunity to provide a submission to the ACCC's Market Advice and Estimates of Contemporary LNG Contract Prices. Please find below Shell's comments on the paper.

Overview

As a company that has been providing energy to Australians for 121 years, we are deeply aware of the need to play our part in supporting a well-functioning domestic gas market. In Queensland, we are the operator of the onshore QGC coal seam gas project and Joint Venture (JV) partner in the Arrow project. In Western Australia, we operate the Prelude Floating LNG facility and are also part of JV projects including North-West Shelf and Gorgon.

Shell Energy is Shell's global renewables and energy solutions business which has a long history of helping its customers to decarbonize and reduce their environmental footprint. In Australia, Shell Energy is the second largest electricity provider to commercial and industrial businesses[1] and delivers energy solutions and innovation across a portfolio of electricity, gas, environmental products and energy productivity for commercial and industrial customers. Shell Energy's residential energy retailing business, Powershop, serves a further 185,000+ households and small business customers in Australia.

As a core principle, we want to see markets work in a transparent, efficient and competitive manner. In that regard, we want both buyers and sellers to have choice. That includes ensuring additional supply is brought to the market, developing greater transparency in bilateral transactions through the Code of Conduct as well as expanding the ACCC's inquiry into the demand side in addition to supply, and developing a deeper, more liquid and more transparent traded hub for the East Coast market.

[1] By load, based on Shell Energy analysis of publicly available data

Shell Australia has constructively engaged with the ACCC's Gas Inquiry since its establishment in 2017. Over the past years we have also supported the introduction of the Heads of Agreement (HoA), the Australian Domestic Gas Security Mechanism, COAG pipeline reforms, and through APPEA we supported the voluntary code of conduct. We also supported the ACCC's LNG netback price series as a way to provide further transparency. All of these reforms must work together in order to achieve further improvements in the market.

Key Issues

It is likely that parties will have different views to the oil slope calculated by the consultant. Shell encourages the ACCC to provide more transparency behind the consultant's process to calculate the oil slope as this will enable parties to understand differences in views.

Benchmarks, such as the ACCC's LNG netback price series will only ever provide a useful starting point for discussions on short term Gas Supply Agreements (GSAs), as negotiated prices will always reflect a range of circumstances. Factors include: the cost of transportation, the cost of gas production, currency hedging, counterparty credit risk, the 'non-price' terms and flexibility products that C&I customers request in their GSA, retailer costs, margins and the length of contractual terms. As outlined in our previous submission on the subject, publishing a longer-term LNG netback price series would be of decreasing and limited benefit.

There are additional challenges arising from increasing uncertainty when looking forward beyond the short-term horizon. There have been significant changes to the energy market over the last 12 months and there are ongoing uncertainties as to how things will evolve in the medium and long term.

Shell maintains the view that the international price of LNG prevailing in Asia makes sense. We are concerned that the current market uncertainties and consultant's process may result in the US Henry Hub based LNG price having a disproportionate impact on the calculated oil slope widening the potential gap in views by different parties. As mentioned above, there are currently significant uncertainties which have had an impact on the number of longer-term commitments by LNG participants, thus limiting the availability of datapoints for analysis as proposed by the consultant.

Information on previously reported transactions can also rapidly become out of date given the pace and magnitude of the changes the LNG market has seen in the last 12 months. As outlined in earlier submissions, Shell does not support the use of the US Henry Hub for calculating the LNG netback price series. The fundamentals of the supply side in the US are vastly different to Australia given that the gas is largely a by-product of liquids rich fracking, compared to very lean CSG in Queensland. For this reason alone, the economics are not comparable. In addition, prices at Henry Hub are subject to local, that is, US demand and supply conditions, which have nothing to do with market conditions in Asian LNG markets or in domestic markets in Australia. The methodology and lack of available market data creates the risk that there is a lack of confidence in the oil slope calculation that will drive a gap between parties and sellers being unable to see a path to make offers at the percentage slope.

Queensland LNG cargoes are focused into the Asian market, which is why the JKM netback has been an influencing factor on short-term domestic gas prices on the East Coast. Further, it is worth noting

Queensland's liquefaction costs are sunk and US Gulf Coast liquefaction is on a tolling basis which includes a capital recovery charge.

As is the case with the current LNG netback price series, Shell recommends the LNG price publications continue to caution users on the range of variables and limitations inherent in the calculation.

Please contact [redacted] at [redacted] for any queries regarding this submission.

Yours Sincerely,

Michelle Barry
VP Corporate Relations Australia