30 July 2021

Our Reference: APLNG - COR - 0014625

Australian Competition & Consumer Commission
Level 20
175 Pitt Street
Sydney
New South Wales 2000

Sent by Email: LNGnetbackreview@accc.gov.au

To Whom it May Concern

RE: ACCC review of the LNG netback price series

Thank you for the opportunity to make a submission in response to the draft decision of the LNG Netback price series by the Australian Competition & Consumer Commission ("ACCC") on 1 July 2021 ("Draft Decision") which used expert advice from Wood Mackenzie Consultancy dated 25 June 2021 ("Preliminary Report").

This letter follows Australia Pacific LNG Pty Limited's ("APLNG") written submissions dated 16 April 2021 ("April Submissions") in response to the issue paper published by the ACCC on 18 March 2021 ("Issues Paper"). This letter also refers to the round table discussion held on 20 July 2021 ("Round Table Discussion").

APLNG is based in Queensland and is an incorporated joint venture between ConocoPhillips, Origin Energy and Sinopec. Origin Energy is the upstream operator and ConocoPhillips is the downstream operator of APLNG.

APLNG is committed to the Australian domestic gas market. APLNG is currently the largest east coast supplier, supplying around 30 per cent of the total east coast market demand via numerous long-term gas supply agreements. Some of those agreements have supply terms that extend as far out as 2040. Our industries' collective investments in gas production, processing and LNG production facilities have produced a global scale industry with lasting benefits for local communities and the nation.

APPEA's Submission

APLNG is a member of the Australian Petroleum Production and Exploration Association ("APPEA") and, as a member, notes and fully supports the separate and comprehensive APPEA submission to the Draft Decision.

<u>APLNG's Position</u>

APLNG is supportive of the Draft Decision and welcomes the opportunity to make further observations in response to ACCC's request for further comments on the Draft Decision.

The length of the forward LNG netback price series

2. Is the ACCC's draft decision to publish additional longer-term forward LNG netback prices appropriate? Should the ACCC publish additional longer-term forward LNG netback prices?

APLNG's believes it could be appropriate to publish additional longer-term forward LNG netback prices based on JKM if there is sufficient liquidity in the JKM market and the mechanism reflects LNG supply and demand fundamentals (including shipping) and the variability of pricing. APLNG has witnessed JKM liquidity grow and extend out two years. If this liquidity continues to extend beyond two years, it would be reasonable to extend a JKM LNG netback series longer-term. Any base price used for a longer-term forward LNG netback price, that is not liquid beyond a few years, should be accurately caveated.

APLNG wishes to highlight that in addition to the spot LNG market and long-term sale purchase agreements (**SPAs**) there is also a mid-term market where counterparties negotiate LNG supply contracts bilaterally. The prices of these bilateral contracts are usually negotiated based on an oil index. However, the mid-term market is opaque as there is no comprehensive publicly available record of these mid-term oil-based contracts or the underlying pricing formula. Therefore, APLNG is reluctant to support an LNG netback price based on an oil-index. APLNG would expect any LNG netback price based on an oil-index to be provided with a range referencing historical average relationships and recent market intelligence rather than based on a single slope.

APLNG would appreciate the chance to participate in further discussion on the most appropriate basis for a longer-term forward LNG netback series.

LNG price markers to calculate the LNG Netback price series

5. Is the ACCC's draft decision to continue using JKM to publish historical and short-term forward LNG netback prices appropriate?

APLNG believes the JKM Netback is an appropriate indicator of spot Asian LNG price. APLNG agrees with the ACCC's assessment that the JKM Netback represents a price that a gas/LNG producer would expect to receive from a domestic gas buyer for a spot, as available, sale to be indifferent between selling the gas to that domestic buyer and exporting it. APLNG notes that this is purely an indication of the spot, as available, market price and that the ACCC has also identified that multiple other factors should be considered for a firm, long-term domestic supply.

Regarding suggestions to change the market to Henry Hub, LNG spot cargoes priced off a Henry Hub marker are already embedded into the JKM price. The JKM price reflects the market, i.e. the global economic conditions and competing pricing and shipping costs of the Title Transfer Facility (TTF) in Europe, Henry Hub based in US Gulf Coast and the cargoes from Australia and Qatar, among others.

9. What other issues should be considered in calculating shorter- and longer-term forward LNG netback prices?

APLNG recommends multiple other factors should be considered in calculating both shorter and longer-term forward LNG netback prices as an indicator for domestic gas prices. APLNG wishes to re-emphasise there are key differences between an as available, spot LNG sale with limited buyer flexibility versus a firm long term domestic gas or LNG supply.

Examples of other issues which should be considered in determining a domestic netback price include contract duration and the additional risk a producer takes to commit to a long-term supply, volume flexibility (daily, seasonal and/or annual) in which the producer is required to reserve that capacity for a customer, transportation costs, credit worthiness and cost of production.

Export costs deducted to calculate the LNG netback price series
13. Is the ACCC's draft decision to use its current approach to deducting liquefaction costs to calculate additional longer-term forward LNG netback prices appropriate?

APLNG believes the ACCC's draft decision to use its current approach is sound. During the Round Table Discussions, the buyers claimed they are "paying for the capital cost to build the Gladstone LNG facilities." As identified in the draft decision, this is inaccurate as capital costs incurred for building LNG plants does not factor into pricing, which reflects APLNG's position previously posed to the ACCC (refer to April Submission, page 2). APLNG supports the Draft Decision not to include capital costs when deducting liquefaction costs.

We trust this information is helpful, should you have any questions or would like to discuss this submission further, please contact the undersigned or Chris Pickford, Senior Commercial Negotiator at [redacted] or [redacted]

Yours sincerely,

[redacted]

Darren Meznarich [redacted]
General Manager, Commercial
Australia Pacific LNG Pty Ltd