



2 June 2022

Our Reference: [REDACTED]

Australian Competition and Consumer Commission (ACCC)
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To Whom it May Concern

Re: GaffneyCline LNG price estimates methodology discussion paper

Thank you for the opportunity to make a submission in response to the final decision paper of the LNG Netback price series by the Australian Competition and Consumer Commission (ACCC) on 30 September 2021 and the methodology discussion paper by GaffneyCline published on 6 May 2022.

This response follows Australia Pacific LNG Pty Limited's (APLNG) written submissions to the Issues paper and draft decision paper dated on 10 May 2021 and 18 August 2021 respectively, which we have attached as Appendix 2 and 3 to this submission.

APLNG is an incorporated entity headquartered in Brisbane with the shareholders ConocoPhillips (47.5%), Origin Energy (27.5%) and Sinopec (25%). 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. APLNG notes that the ACCC has decided to publish longer-term forward LNG netback prices, as outlined in the LNG netback review final decision paper of September 2021, and has released a methodology paper prepared by GaffneyCline outlining a potential methodology for estimating medium-term LNG slopes. As an interested party, APLNG appreciates the opportunity to make a submission to the ACCC in response to the methodology paper. The three-week period allocated to interested parties to make a submission does not provide sufficient time for APLNG to provide an in-depth response. APLNG notes however that the ACCC has offered an opportunity for further discussion on the issues raised in this submission and looks forward to organising an engagement for that purpose at the ACCC's convenience.

ACCC's September Decision

APLNG maintains its support of the ACCC's September 2021 decision to continue to publish historical and short-term forward LNG netback prices extending to 2 years based on the Japan Korea Marker (JKM) spot prices. In our last submission we noted that if JKM liquidity continued to grow and extend beyond two years, it may be reasonable to consider a longer-term JKM-linked LNG netback series, potentially for up to five years.¹

¹ 2021b APLNG, *ACCC review of the LNG netback price series, July*, [accessed](#) 19/05/2022.
commercial-in-confidence

APLNG notes however that the ACCC's September 2021 decision also signalled an intention to publish longer-term forward LNG netback prices extending to 5 years based on an oil index, and that the intent of the ACCC at that time was to source from a consultant an estimate of the appropriate percentage, or slope, to apply to an oil index no less frequently than on an annual basis, to calculate longer-term forward LNG netback prices.

APLNG understands that the ACCC's objective when publishing longer-term information is to help inform negotiations between commercial and industrial (C&I) gas users and gas producers in the east coast gas market, including for negotiations over longer-term domestic gas supply agreements (GSAs).

That said, in its September 2021 decision the ACCC acknowledged both that in publishing the LNG netback price series, the ACCC is not providing a view on what level of gas pricing is 'fair' to either sellers or buyers, and that LNG netback prices are not the sole factor influencing domestic gas prices. Further, we note that the Wood Mackenzie advice which underpinned the ACCC's September 2021 decision stated that the LNG netback price series is a, '*...concept price and is not a benchmark or marker for domestic gas contracting or pricing.*'²

APLNG Comments on the Proposed Methodology

Framed by the ACCC's stated objectives in publishing longer-term information, and considering the limitations acknowledged in ACCC's September 2021 decision and the Wood Mackenzie advice, APLNG wishes to provide the following preliminary views on the methodology paper provided by GaffneyCline (APLNG's comments should also be read in conjunction with the content of its prior submissions as part of this process):

- APLNG is not familiar with the methodology proposed by GaffneyCline and, in practice, does not presently use that methodology when analysing the price / pricing structure that it wishes to secure from C&I gas users when negotiating longer-term GSAs.
- The LNG netback price series is just one input that is considered as part of APLNG's decision-making process when negotiating longer-term GSAs.
- APLNG also considers current market conditions, competition, seasonal factors, supply factors and to some extent, anticipated market events.
- Further, APLNG also takes into account a range of trade-specific factors including firmness, volume, location flexibility, optionality³, duration, FOB offtake versus DAT/DES and buyer/seller shortfall provisions.

APLNG has proposed some more detailed comments on the GaffneyCline methodology in Appendix 1 to this submission. Please note that these comments are not exhaustive but reflect some key issues that APLNG has identified with the methodology in the limited time that has been made available for submissions.

Publishing the Proposed Methodology

Should the ACCC publish the methodology proposed by GaffneyCline or a variant thereof then APLNG urges the ACCC to ensure that:

- The ACCC website retains existing cautions / statements of limitation on the intended use of the LNG netback price series information, including that the series does not represent the ACCC: setting a level of gas prices in the east coast gas market or any other market in Australia; forecasting international or domestic gas prices; forecasting any of the inputs used in the calculation of the LNG netback prices, or providing an endorsement of the price reporting agencies or the specific methods adopted by those agencies.
- The ACCC website include additional cautions which expand upon the variance that can occur between oil and gas markets, and the impact that has for inferring future oil-linked LNG prices.

The GaffneyCline methodology discussion paper includes such commentary and describes challenges, limitations and adjustments that would be required on an ongoing basis to provide as robust an oil-linked LNG netback price forecast as possible. For example, 'the fundamental supply dynamic of LNG is very different to oil, and the two commodities are increasingly de-linked. This has

² 2021 Wood Mackenzie, ACCC – LNG Netback Price Review Series Review, Preliminary Report, p. 4, [accessed 19/05/22](#).

³ For example, max/min daily quantity, load factor and take-or-pay.

implications when estimating of LNG prices linked to oil prices...⁴ The GaffneyCline analysis of available contract information also highlights that a relatively small proportion of available current or future three-to-six-year contracts included oil price indexation in their price.⁵

Conclusion

APLNG hopes the ACCC considers the above comments and suggestions. This will help to ensure that methodologically driven, longer-term forecasts published by non-market participants do not pose unnecessary risk to domestic gas market participants due to misuse, misinformation or misunderstanding. APLNG strongly supports the ACCC making all information used to calculate these forecasts publicly available and accompanying each publication with reasonable commentary to contextualise forecast estimates.

Yours sincerely,



Nick McKenna
Chief Executive Officer
Australia Pacific LNG Pty Ltd

⁴ 2022 GaffneyCline, *Market advice and estimates of contemporary LNG contract prices*, [accessed](#) 09/05/22

⁵ 2022 GaffneyCline.

APPENDIX 1

Specific Comments on the Proposed Methodology

APLNG would like to highlight the following points for further consideration regarding the adoption of an oil-linked LNG netback price by the ACCC.

Methodological complexity

The GaffneyCline methodology is complex, which makes it challenging to fully understand and be replicated by market participants. On that basis, it is unlikely to be incorporated widely into decision making frameworks.

At a high level, to mitigate this, each iteration of the price series needs to be accompanied by a detailed explanation of the assumptions underpinning each variable and relevant trends, as well as source information for the data used (ideally, accessible to market participants). This transparency and accompanying narrative may reduce the likelihood of misinformation, misunderstanding and misuse of information and offer a window to those analysts/market participants who seek to understand the process.

Adjustments to Oil Slope Data

The GaffneyCline methodology describes “adjustments” to be made to available oil slope data to account for the many factors that will have a material impact on the output LNG netback price. Some of the factors addressed include FOB vs DAT; destination flexibility and downward/upward flexibility. The report states that to enable an ‘apples to apples’ comparison between different LNG offtake agreements requires a sophisticated understanding of LNG Sale and Purchase Agreements (SPAs) and their unique commercial relationships. APLNG agrees that such amendments will be necessary, and recommends that:

- the adjustments are based on data-based evidence
- slope change due to adjustments is shown
- methodology for adjustments is transparent and always up to date
- any adjustments account for the timing of agreed pricing, given market volatility.

Furthermore, the methodology developed by Gaffney Cline is at risk of being interpreted with a high degree of false precision. This could be de-risked with the inclusion of a range or bracket of oil slopes with defined lower and upper limits. By providing a single data point or a very narrow range of the slope, ACCC potentially increases the risk of misleading market participants, either gas buyers or sellers, through oversimplification and a false precision which will generally not reflect the natural variability of market reality.

Semi-Annual Reporting of the Slope

APLNG suggests that the longer-term LNG netback price forecast reporting cadence should be as frequent as practicable to allow for capture of significant market trends and movements, in what can be volatile markets. These are vital when negotiations take place between buyers and sellers.

More frequent updates, for example a monthly release, would reduce the risk of the longer-term LNG netback price series becoming obsolete and irrelevant.

Shipping Costs

APLNG notes that the methodology for estimating shipping costs needs to be refined and incorporated into the short- and longer-term netback forecasts upon the completion of ACCC review process.

APPENDIX 2

[Refer to APLNG Submission from 10 May 2021]

APPENDIX 3

[Refer to APLNG Submission from 18 August 2021]