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Gas Inquiry Unit
Australian Competition and Consumer Commission
Via email: LNGnetbackreview@acc.gov.au

Ref: ACCC review of the LNG price series

Cooper Energy welcomes the opportunity to make a submission in response to the ACCC's review of the LNG netback price series Issues Paper. Cooper Energy's submission addresses specific aspects of the Issues Paper, focussing on those areas that are particularly important for increasing new supply and upstream competition in South-east Australia.

Cooper Energy overview

Cooper Energy is a company focussed on bringing new competitive gas supply to South-east Australia and is a participant in the local gas sector through the exploration, development, production and delivery of gas in South-east Australia to gas buyers in the region. This includes:

- Cooper Energy's contribution to develop new gas supplies. Cooper Energy's \$605 million Sole Gas Project commenced production in 2020 and will supply industrial users and utilities for approximately 10 years. The Final Investment Decision made in 2017 was the first Final Investment Decision for an offshore gas development in southern Australia in a decade.
- Cooper Energy ranks as one of few Australian domestic-focused gas suppliers and has entered into long-term domestic gas supply agreements with utilities including AGL Energy, Origin Energy, Alinta Energy and Energy Australia and industrial gas users Visy Paper and Visy Glass.
- Cooper Energy's twin hub gas strategy is focused on finding and commercialising competitive gas supply from the Otway and the Gippsland Basins. Both hubs are comprised of offshore conventional exploration and development opportunities and producing fields tied into existing gas processing and transport infrastructure.

Our position in the local gas sector has been built over the last 9 years under a gas strategy which foresaw the potential for an emerging tight gas supply market in South-east Australia. The premise of our strategy is the fundamental point identified and reiterated by the ACCC in its ongoing gas enquiry: ***the best source of gas for South-east Australia is gas from South-east Australia.***

As a gas producer and supplier to gas buyers in South-east Australia, Cooper Energy is committed to fostering an efficient, competitive and sustainable long-term domestic gas market. This can be achieved where gas prices ensure gas remains a competitive source of energy for end users, but are maintained at a level which incentivises existing and new producers to explore and develop new gas supply. Cooper

Energy believes this balance is best achieved over the long-term in an environment where gas prices are set by commercial negotiation, without Government intervention directing gas supply terms.

The ACCC LNG netback price series

Cooper Energy supports the ACCC's efforts to improve gas market transparency through its reporting on price markers, such as the current LNG netback price series. Cooper Energy also recognises the importance of the ACCC's review of, and consultation on, these price series to ensure reported price series are relevant and improve market outcomes.

Gas sourced from the Queensland LNG producers is currently the marginal source of supply for the southern states. We understand that such gas sold into the domestic market has been surplus in nature to the LNG buyers' requirements under the relevant LNG foundation sales agreements. Whilst this surplus gas remains, Cooper Energy believes the current ACCC LNG price series is a relevant price marker for short-term transactions only. Notwithstanding this, there are some limitations:

- Short-term price volatility and seasonal pricing variations could influence behaviour; buyer and seller price expectations can grow apart during volatility; seasonal swings may incentivise sellers and buyers coming to market at different times.
- The price series relies on developed 'surplus' being available from the Queensland LNG producers. This may be challenged in the future due to changes in LNG buyer demand or levels of investment in field development.
- Both AEMO and the ACCC forecast an increasing supply gap in the domestic market over the coming two years, largely as a result of southern domestic supply declining. Current expectations are that the marginal supply source of gas to meet Southern states' demand towards the middle of this decade may not be gas from Queensland, but rather alternatives such as LNG imports.
- For multi-year supply arrangements, Cooper Energy believes LNG term pricing, often transacted on an oil-linked basis, is a more relevant price marker than LNG spot pricing. Put simply, the relevant LNG netback price marker is the LNG alternative for sales into Asia that best matches term and volume.

Fostering an efficient, competitive and sustainable long-term domestic gas market

The ACCC has called for greater competition between producers and this can be achieved with the development of new supply and encouraging the entry of new producers. Cooper Energy believes the lowest cost source of new gas supply to the South-east Australia will continue to be from conventional gas accumulations in the basins offshore South-east Australia and the onshore Otway and Cooper Basins. This is consistent with gas supply to date. Whilst future supply from undeveloped discovered and undiscovered gas fields in these basins is expected to be higher cost than the larger existing fields commercialised at historical domestic gas prices, Cooper Energy is confident that future gas prices required to underpin investment will ensure that gas remains a competitive source of energy.

Supporting new competition and increased supply requires a long-term mindset. Development of new gas supply often requires long-term foundation gas contracts offering stable, bankable cash flows to attract investment capital. In order to foster longer term gas supply agreements, we suggest that the ACCC consider developing and reporting a price series calculated with reference to LNG term supply.

Moreover, Cooper Energy supports the ACCC's role of continuing to promote competition and transparency, including:

- improving transparency and understanding of the longer-term supply and demand outlook;
- analysing the issues and impediments to exploring for, and developing, new gas supply; and
- ensuring gas supply terms remain commercially negotiated between the parties, rather than Government-imposed terms which risk medium and long-term investment uncertainty and investor confidence.

These activities extend the market efficiency measures implemented over the past decade including development of short-term trading markets, deregulation of retail markets, implementation of capacity trading mechanisms, and implementation of the Australian Domestic Gas Security Mechanism and the Heads of Agreement between the Queensland LNG producers and the Federal Government.

Cooper Energy is committed to continuing to work collaboratively with Governments, regulators, gas customers and our partners to realise the benefits from the safe, efficient and sustainable development of local gas resources for the benefit of end users. Cooper Energy welcomes the opportunity to discuss our views further with the ACCC.

Yours sincerely

Cooper Energy Limited



Eddy Glavas

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