

Esso Australia Resources Pty Ltd

ABN 62 091 829 819
Level 9, 664 Collins St
Docklands, Victoria 3008
GPO Box 400C
Melbourne, Victoria 3001
613 9261 0000 Telephone
613 9261 0072 Facsimile



12 April 2021

By email to LNGnetbackreview@accc.gov.au

Australian Competition & Consumer Commission

Response to ACCC review of the LNG netback price series – issues paper

Esso Australia Resources Pty Ltd (**Esso**), on behalf of its joint venture partners, BHP Billiton Petroleum (Bass Strait) Pty Ltd and Mitsui E&P Australia Pty Ltd, operates a network of 23 offshore installations, 600 km of pipelines and three gas processing plants in Victoria. Esso has been supplying natural gas for over 50 years and currently markets gas to major wholesale gas retailers and large industrial users in Victoria and New South Wales. In addition to natural gas, Esso is a major supplier of ethane feedstock, liquefied petroleum gas, condensate and crude to refineries, petrochemical producers and consumers in Victoria and global markets.

Esso welcomes the opportunity to provide feedback to the ACCC's review of LNG netback price series issues paper (**Issues Paper**).

Esso would like to build upon the submission that will be made by the Australian Petroleum Production & Exploration Association (APPEA). In particular, Esso is of the view that the current LNG price series is of limited relevance to producers supplying gas to consumers in Southern markets (Victoria, Tasmania, New South Wales and South Australia). This is due to important seasonal and storage factors in the pricing of this gas, the length of contractual terms, and the expected introduction of LNG imports from 2023.

The unique circumstances applicable to Southern gas consumers is significant: in 2020, Southern consumers accounted for 72% of East Coast domestic gas demand.¹

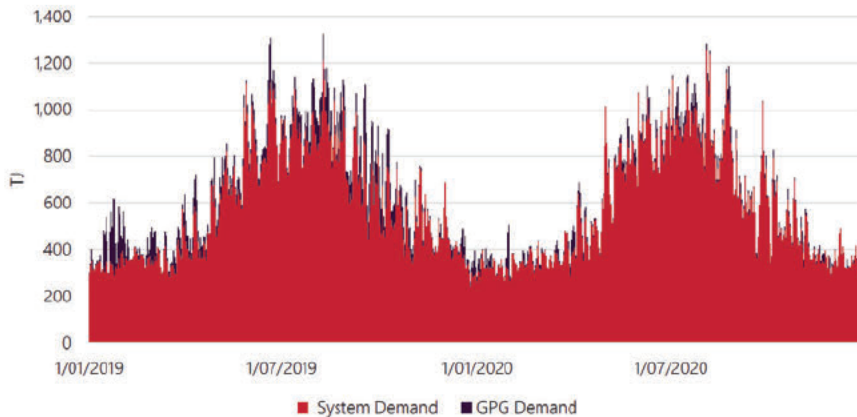
Factors applicable to Southern State gas pricing

In its 2021 Gas Statement of Opportunities (**GSOO**)², the Australian Energy Market Operator (**AEMO**) highlighted the seasonal nature of demand in Victoria, primarily due to spatial heating load.

¹ AEMO Forecasting Data Portal (<http://forecasting.aemo.com.au/>)

² 2021 Gas Statement of Opportunities, AEMO, pg 36

Figure 17 Actual daily gas demand in Victoria since January 2019, showing seasonality and peakiness (TJ)



This seasonal demand is also evident in New South Wales and South Australia, albeit to a lesser extent given warmer climate and lower residential gas connections.

This seasonal demand profile is currently met by:

- The existence and ongoing maintenance of surplus gas processing capacity, particularly at the Esso-operated Longford Gas Plants;
- The utilization of gas storage facilities;
- The transportation of gas from Northern production facilities to Southern markets; and
- Utilization of transmission pipeline linepack.

All of the above involve material costs being incurred by market participants and hence are important factors in the pricing of gas in Southern markets.

While the ACCC acknowledges that “different pricing dynamics apply in states and territories outside Queensland”³, it has nonetheless reported extensively on the quantitative relationship between the forward LNG price series and Southern state offers in its 2017-2025 Gas Inquiry Interim Reports.⁴

LNG imports

In the Issues Paper the ACCC notes that:

“... there are a number of proposed LNG import terminals for the east coast of Australia. However, we will consider the development of an import parity price separate to this review, once it becomes clearer if an import terminal will commence operation on the east coast and the arrangements that will apply to its commercial operations.”⁵

³ ACCC Gas Inquiry 2017-2020 Guide to the LNG netback price series (October 2018), pg 7

⁴ <https://www.accc.gov.au/regulated-infrastructure/energy/gas-inquiry-2017-2025>

⁵ ACCC review of the LNG netback price series – issues paper, pg 10

Esso notes that in its 2021 GSOO report (published after the Issues Paper was released), AEMO now considers the Port Kembla Gas Terminal to be a committed project with gas expected to flow from 2023:

“With the binding development agreement executed between Australian Industrial Energy (AIE) and Jemena in March 2021, AEMO now considers the Port Kembla Gas Terminal (PKGT) to have obtained all necessary approvals and to be ready to commence implementation. It is therefore classified as a committed project for this GSOO.”⁶

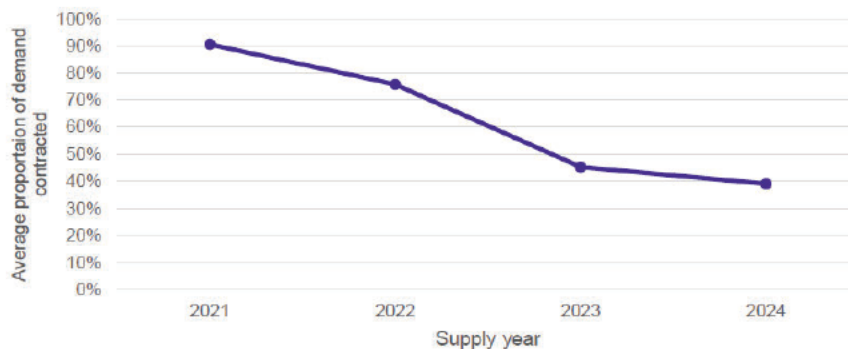
Esso also notes the recent comments of the ACCC Chair that LNG import prices “will necessarily be at import parity, and in many (if not most) circumstances higher than export parity price levels.”⁷

As imported LNG is expected to be supplied from 2023 and LNG will be priced differently to export parity gas, Esso is interested in understanding whether the ACCC will now include LNG imports in the scope of the Issues Paper, or if it will initiate a separate LNG Import price series, and, if so, the expected timeline for this activity.

Period between supplier offers, executed gas sales agreements and gas flowing

Esso notes the data presented in the ACCC’s latest Gas Inquiry Interim Report⁸ indicating that commercial & industrial users execute contracts for gas supply sometimes many years ahead of when gas is supplied:

Chart 4.1 Average percentage of demand C&I users report is contracted under GSAs as at August 2020.



Esso believes this is likely to also be the case for other demand segments (retailers, gas powered generators).

⁶ 2021 Gas Statement of Opportunities, AEMO, pg 41

⁷ ‘Overcoming gas affordability issues’, speech to 2021 Australian Domestic Gas Outlook conference, March 2021, <https://www.accc.gov.au/speech/overcoming-gas-affordability-issues>

⁸ Gas Inquiry 2017-2025 Interim Report – January 2021, pg 70

As JKM has very limited liquidity beyond 12 months⁹, this further reduces the scope of offers and gas sales agreements for which the present LNG price series is relevant.

Conclusion

In summary, Esso is of the view that:

- Southern state customers account for the vast majority of East Coast demand and there are important factors in the pricing of gas in the Southern states that are not included in the current LNG price series which reduce the prices series' relevance;
- Customers generally procure gas well in advance of when gas flows and as JKM is illiquid beyond 12 months this further reduces the scope of offers and gas sales agreements for which the present LNG price series is relevant; and
- LNG imports – which will be priced on a different basis to the LNG price series – are expected to be a feature of Southern state markets from 2023.

As such, in its review of the LNG price series, Esso believes there would be value in the ACCC:

- Analysing offer, bid and GSA data (timing, volume, geography) received from gas sellers and buyers as part of the 2017-2025 Gas Inquiry to provide market participants with quantitative data on the proportion of gas sold for which comparison with the current price series is appropriate; and
- Extending the Issues Paper scope to include LNG imports.

Esso believes that incorporating these two recommendations will help meet the ACCC's LNG price series objective of "improving transparency of gas prices in the East Coast Gas Market".¹⁰

Yours sincerely,

[REDACTED]

David Berman
Commercial Director
Esso Australia Pty Ltd
For and on behalf of Esso Australia Resources Pty Ltd

⁹ [https://www.accc.gov.au/system/files/LNG_netback_price_series - Public version – 1 April 2021_0.xlsx](https://www.accc.gov.au/system/files/LNG_netback_price_series_-_Public_version_-_1_April_2021_0.xlsx)

¹⁰ ACCC Gas Inquiry 2017-2020 Guide to the LNG netback price series (October 2018), pg 5