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

Ref: ACCC LNG netback review draft decision paper

Cooper Energy has reviewed ACCC LNG netback review draft decision paper (July 2021) and supports the proposal as outlined:

- continue to publish historical and short-term forward LNG netback prices extending to 2 years based on JKM spot prices
- publish longer-term forward LNG netback prices extending to 5 years based on an oil index

Cooper Energy's fundamental strategy is ***the best source of gas for South-east Australia is gas from South-east Australia***.

The adoption of a 5-year oil index LNG netback price will provide another relevant price marker to longer term gas supply agreements, allowing bankable cash flows to attract investment capital, consequently supporting increased supply and new competition with a long-term mindset.

Cooper Energy would like to thank ACCC and its role of continuing to promote competition and transparency and show appreciation to industry participants for submissions and collaboration in these efforts.

With regards to the specific feedback requested by ACCC seeking stakeholder views on proposed approach to calculating the LNG netback price series outlined in the draft decision, please find Cooper Energy responses in Attachment 1.

Yours sincerely
Cooper Energy Limited

[redacted]

Eddy Glavas
General Manager, Commercial & Business Development

Attachment 1

The length of the forward LNG netback price series

1. Is the ACCC's draft decision to continue publishing a 2-year forward LNG netback price series appropriate? Should the ACCC continue to publish a 2-year forward LNG netback price series?

   Cooper Energy supports the continued publishing of 2-year forward LNG netback prices series as appropriate. This price series and length is an appropriate price marker for 1-2 year GSAs and provides price indication for economic incremental supply options.

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?

   Cooper Energy supports the publishing of longer-term forward LNG netback prices as appropriate. Longer-term price series is a more suitable price marker for long-term GSAs which help to underpin exploration, development, and execution of supply projects over relevant time frames to market.

3. Over what length of time should the ACCC publish additional longer-term forward LNG netback prices (such as 3 or 5 years)?

   Cooper Energy supports the publishing of longer-term forward LNG netback prices over a 5-year period. This period will cover medium-term gas sales agreements and gas supply projects from exploration to commercialisation time frames.

4. What other issues should be considered when publishing longer-term forward LNG netback prices.

   ACCC and the consultant should consider appropriate estimate of percentage, or slope to apply to oil indexes should be comparable to the Australian LNG supplier and buyer landscape. For example, Wood Mackenzie preliminary report (page 33) highlights LNG deals between government-to-government as a limitation. Where possible these factors should be negated for ECGM long-term price series relevant to the Australian market.

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?

   Cooper Energy supports using JKM for historical and short-term forward LNG prices as appropriate. As highlighted in Wood Mackenzie preliminary report Queensland LNG spot sales into Asia are the marginal export transactions in the ECGM.

6. What is the minimum level of liquidity needed in JKM futures to extend the current forward LNG netback price beyond 2 years?

   Cooper Energy suggests that this question be raised again in the 2024 Netback Price Review to allow further development in the JKM futures market.

7. Is the ACCC's draft decision to use prices in medium-term oil-linked LNG contracts to calculate additional longer-term forward LNG netback prices appropriate? Should the ACCC publish additional longer-term forward LNG netback prices based on oil-indexes?

   Cooper Energy considers medium-term oil linked contracts for medium term (5-year) LNG netback pricing as sufficient for gas supply projects from exploration to commercialisation time frames.

8. Is the ACCC's draft decision to use consultant estimates of an appropriate percentage, or slope, of the oil price to calculate longer-term forward LNG netback prices appropriate?

   Cooper Energy supports the use of consultant estimates of an appropriate percentage, or slope, of the oil price to calculate longer-term forward LNG netback prices appropriate. ACCC publishing consultant report, assumptions or supporting documentation will reduce information asymmetry for domestic users not transacting in the global LNG market.

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

   Short and long-term price markers are relevant only when Queensland LNG exporters have ongoing opportunities for marginal LNG volume sales beyond their contractual commitments. As highlight in the Wood Mackenzie ACCC – LNG Netback Price Series Review Preliminary Report, Queensland LNG spot sales into Asia are the marginal export transactions in the ECGM. On this basis JKM and oil-linked price marker are only relevant with the availability of surplus gas from the QLD LNG export projects.

Export costs deducted to calculate the LNG netback price series

10. Is the ACCC's draft decision to use the current approach to calculating forward LNG freight costs, for period up to 24 months, appropriate? Should the ACCC use an alternative approach?

    Cooper Energy considers the current approach for calculating forward LNG freight costs, for period up to 24 months, appropriate and sufficient.

11. Is the ACCC's draft decision to use consultant estimates of longer-term forward LNG freight costs appropriate? Alternatively, should the ACCC (a) determine an indicative daily charter rate based on an estimate of the long-run marginal costs (LRMC) of building new LNG freight vessels (b) estimate the extended forward LNG freight cost based on an average of the historical or short-term forward LNG freight costs, and how should the average period be determined (c) estimate the extended forward LNG freight cost as a percentage of the extended forward LNG netback price, and how should that percentage amount be determined?

    Cooper Energy supports consultant estimates of longer-term forward LNG freight costs appropriate and sufficient. ACCC publishing consultant report, assumptions or support documentation will reduce information asymmetry for domestic users not transacting in the shipping markets and is fit for purpose.

12. What other issues should be considered in estimating future LNG freight costs?

    Cooper Energy considers LNG freight costing as fit for purpose and appropriate for intent of reducing information asymmetry.

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?

    Cooper Energy considers deducting liquefaction costs to calculate additional longer-term forward LNG netback pricing as appropriate over proposed 5-year time frame.

14. What other issues should be considered when estimating and deducting LNG liquefaction costs?

    Cooper Energy considers current method for estimating and deducting LNG liquefaction costs as appropriate for intent of reducing information asymmetry.

15. Is the ACCC's draft decision to use its current approach to deducting pipeline transportation costs to calculate additional longer-term forward LNG netback prices appropriate?

    Cooper Energy considers deducting pipeline transportation costs to calculate additional longer-term forward LNG netback prices appropriate

16. What other issues should be considered when deducting pipeline transportation costs?

    Cooper Energy considers current method of deducting pipeline transportation costs as appropriate for intent of reducing information asymmetry.

Reviewing the LNG netback price series in 2024

17. Is the ACCC's draft decision to undertake another review of the LNG netback price series in 2024 appropriate?

    Cooper Energy supports reviewing LNG netback price series in 2024, however should the LNG market (either as JKM or oil linked) experience any major structural changes prior an ad hoc review should be considered.