Australian Competition & Consumer Commission (ACCC)

By email: LNGnetbackreview@ACCC.gov.au

14 April, 2021

Dear Sir or Madam,

ACCC Review of the LNG netback price series

On behalf of Viva Energy Australia Pty. Ltd. (Viva Energy), thank you for the opportunity to provide feedback on the ACCC's *Review of the LNG netback price series* Issues paper (the Paper). As the owner and operators of the country's largest and most complex refinery in Australia, located at Geelong (Victoria), we make our comments from the perspective of being a large industrial gas user, and our vision to develop a gas import terminal at our refinery site in Geelong.

Overall, in principle, we support the intent of ACCC's review of the LNG netback price series as part of its ongoing inquiry into the east coast gas market which aims to create an environment of improved information and therefore transparency of gas prices in this market.

About Viva Energy

Viva Energy is a leading Australian company conducting downstream petroleum refining, storage, distribution and marketing in Australia. We manufacture and supply a range of products including fuels, lubricants, greases, bitumen and chemicals to commercial customers and businesses nationally. Through our footprint and supply chain (shown in Figure 1), we supply about a quarter of Australia's fuel needs.

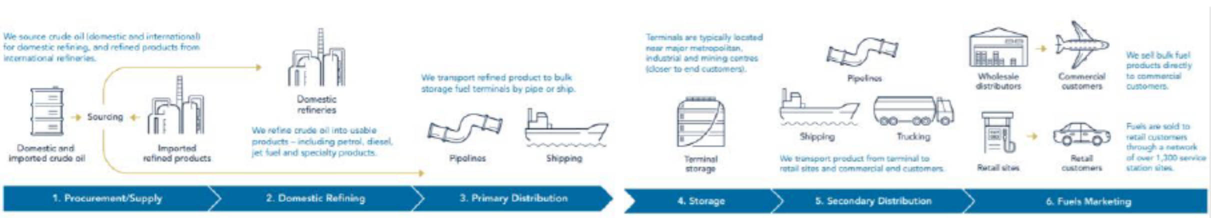

Figure 1: Viva Energy's downstream operations in Australia.

We are a vital part of our country's current and future energy security as our products are supplied to and used in the transport, aviation, marine, agriculture, mining, industrial, defence and resources sectors. As the exclusive licencee of the Shell brand in Australia, fuels manufactured and imported by Viva Energy are also sold to consumers and customers through Shell and Liberty branded retail sites. In addition to this retail network, we own and/or operate more than 20 fuel import and storage terminals across Australia.

Our strategically located Geelong Refinery is an important part of the country's energy infrastructure and security, producing around 10 percent of Australia's liquid fuel requirements and suppling more than 50 percent of Victoria's needs. The refinery helps to underpin Australia's fuel supply security, provides direct and indirect benefits to the local community through the employment of around 700 people, offers training and skills development, and injects hundreds of millions of dollars in wages and services into the local economy each year. We proudly process a range of locally produced crude oils (>30 percent of our refinery's overall diet), which offers an important and significant level of self-sufficiency for Australia's fuel supply.

Refining is a cyclical and, at times, challenging industry which is impacted by global markets, movements in refiner margins, fluctuations in the exchange rate, reliability and ongoing capital demands. As a trade exposed industry, refining in Australia is also subject to competition from large scale refineries overseas that typically have lower operating costs and prior to the announced closure of the BP and ExxonMobil refineries, supplied around 60% of the country's liquid fuel requirements. Throughout 2020 we have also keenly felt the impacts of the COVID-19 pandemic which has seen the global demand for oil products fall as much as 20-30 percent which has weighed heavily on global refining margins and the industry's viability.

Victorian gas market

Owing to a lack of competitive gas supply alternatives and a market now increasingly linked to global prices, gas consumers in eastern Australia have faced rising and volatile gas prices. This increase in local prices has led to a reduction in our international competitiveness compared with Asian manufacturers of similar goods to those manufactured in Australia, such as refined fuels. Petroleum refining is an energy intensive process, which relies on natural gas as a key input into the process and is used to provide energy for direct heat, steam and electricity. Like other manufacturers in Australia, the refining industry is heavily dependent on access to reliable and affordable energy in order to be competitive.

Since 2016 we have seen local gas prices escalating significantly as a result of a number of changes in the energy system, most notably through the closure of coal fired power stations and the accelerated growth in Australia's LNG export industry. Average gas prices have escalated from historical averages across 2003 – 2012 of $3.75/GJ to an average across 2018-2022 (expected) of $9.14 - $11.33/GJ. As the 2015 East Coast Gas Inquiry found, higher delivered gas prices have an adverse effect on economic efficiency and in the case of fuels manufactured at our Geelong Refinery is a cost that cannot be recovered from our customers due to the import parity nature of fuel pricing in Australia.

Hence this represents a significant head wind to our overall refining profitability, and substantially erodes other important efficiency gains that we have achieved over that time. Similar with other C&I users reported by the ACCC in its *Gas Inquiry Report – January 2021*, we share concerns about the price of gas and its availability; particularly the forecast shortfall of gas in the southern states predicted from the mid-2020s. In order to ameliorate the impact of rising gas prices we are a participant in the Declared Wholesale Gas Market (DWGM) in Victoria, and procure gas through a mixture of contracted Gas Supply Arrangements (GSAs) and spot pricing.

However, the competitive dynamics change if less gas enters the market or if international customers take more LNG under their long-term LNG contracts than currently forecast. It is widely recognised that maintaining improved market conditions includes the timely development of new supply sources and associated infrastructure.

As announced in mid-2020, Viva Energy has plans to develop an LNG import terminal at its Geelong Refinery as part of a broader Energy Hub vision for the site. The terminal would bring natural gas from various locations in Australia and overseas and, subject to board and regulatory approvals, is targeted to be commissioned in 2024. Whilst AEMO's 2021 *Gas Statement of Opportunities* (GSOO) projects there "to be sufficient supply to address the near-term shortfall forecasts of recent GSOOs (deferring shortfall forecasts to at least 2026)," this is on the assumption that the first gas from Port Kembla Gas Terminal is delivered ahead of winter 2023 and other committed field developments and pipeline expansions proceed as planned. As AGL's proposed gas terminal at Crib Point was not approved by the Victorian Government[1], Viva Energy's plans to develop a gas terminal at its Geelong Refinery will be vital to meet the forecast shortage of gas as well as form a critical part of the energy mix for Victoria.

[1] The Victorian Government ruled out a proposal on 30 March 2021 to establish a gas import terminal at Crib Point in Western Port and construct a pipeline from the terminal to Pakenham. Minister for Planning Richard Wynne concluded the proposed AGL and APA project would have unacceptable effects on the environment in Western Port.

Response to LNG netback Review

International LNG markets have seen material changes since the ACCC developed and commenced publication of the LNG netback price series in 2018. We recognise that the Asian LNG spot prices have generally been viewed by the ACCC as the most relevant export reference price for the domestic market and that any forecast is subject to market swings depending on volatility in the Asian LNG reference price.

Increasing the suite of reference pricing markers beyond the Japan Korea Marker (JKM) in the ACCC's netback series would assist in providing further transparency on the pricing of marginal LNG exports from the Gladstone plants. Relying on a single Asian spot price marker can be potentially misleading as the market is linked to international prices which can have a number of pricing bases. There are significant differences between the global LNG spot market and the domestic east coast gas market such as contract terms, tenure, supply certainty risks and pricing. Given that the global LNG market is largely based on long-term oil-linked contracts, usually without public disclosure of any contract terms, the domestic market has little visibility into these prices. For these reasons, the broader the number of pricing benchmarks the ACCC can publish as part of its LNG / Natural Gas price series, the more informed the market is likely to become.

Given the uncertainty around supply, the ACCC has found that large gas users can be subject to 'risk premiums'. There should not be the ability for suppliers to cite the uncertainty of adequate supply for future years as justification for these 'risk premiums' as part of their pricing strategy for firm contracts. Indeed, LNG importation into southern states should work to eliminate any such supply risk being built into prices. Viva Energy's proposed gas import terminal would, as an example, help address the uncertainty of the long term supply demand outlook.

In addition, an LNG import terminal is a cost effective way of bringing gas from where it is produced to where it is needed. While Australia is a net exporter of gas, it is not necessarily produced in a locations close to demand centres. To get the gas to the demand source, either pipeline infrastructure from northern Australia (where most of the gas is produced) is needed to be built or upgraded, or import terminals need to be developed to be able to ship in the gas. LNG import terminals therefore effectively become "virtual pipelines" from the most economical sources of supply to demand centres, and are a significantly more efficient infrastructure solution to fixed over-land pipelines.

We welcome ongoing engagement with the ACCC either directly, or through any consultation opportunities. Should you wish to discuss any aspect of our submission, please contact me in the first instance either via phone on [redacted] or via e-mail [redacted] .

Yours sincerely,

[redacted]

Patrick Stock
Contracts & Procurement Lead
Viva Energy Australia