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Mr Joshua Runciman

Australian Competition and Consumer Commission

Submitted via email: LNGnetbackreview@accc.gov.au

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Dear Joshua,

AGL welcomes the opportunity to provide comments on the Australian Competition and Consumer Commission's (ACCC), LNG netback price series review issues paper. AGL is one of Australia's largest ASX listed owner, operator, and developer of gas, hydro, thermal and renewable generation. AGL is also a significant retailer of energy and telecommunications, providing solutions to around 4.5 million customers across Australia.

AGL is supportive of measures to ensure Australia's gas market continue to meet customer needs and continue to provide a key role in the transition of the energy market towards the 2050 net emissions zero target. AGL understands that the LNG netback series was introduced as part of a broader suite of transparency reform for the gas market but AGL does not consider the LNG netback price series to be an adequate or accurate reflection of a price that a gas producer would expect to receive for gas at a specific reference location if that gas has not been converted to LNG and exported.

The ACCC LNG netback price series can be used as an indicator for near-term LNG spot market pricing trends but AGL believes that it has been misunderstood by some users as the price series representing a forward curve for trading purposes or a price marker which would be representative of Australian domestic market pricing. As the ACCC has noted in its issues paper, the LNG netback price (as calculated by the ACCC), is not the only factor considered in domestic gas purchase negotiations if it is in fact considered at all. The series has considerable shortcomings and is based upon spot market pricing that is wildly volatile and illiquid and is not actually representative of the gas pricing in the contracts which LNG producers in Queensland are entering into. The divergence between Platts JKM Asian spot pricing and the spot prices of gas being traded at Wallumbilla was evident in the volatility experienced between mid to late 2020 and January-February 2021. JKM LNG spot price reached a record level in January 2021 and the ACCC quoted the Wallumbilla netback at approximately \$2/GJ in mid-2020 to \$19/GJ in February 2021.¹ The Wallumbilla hub price did not reflect these wild price fluctuations further highlighting the disconnect between the LNG netback prices quoted by the ACCC and the prices being traded by participants in Australia.

AGL has not used the ACCC LNG netback price series as a buyer of gas as it is not reflective of the medium or long-term contracts offered by LNG producers in Queensland and is not a price marker that AGL considers useful. AGL notes that many large users and buyers may have access to broker reports and pricing platforms which do assist in understanding global market dynamics and AGL believes that is more beneficial, accurate and reflective of market forces to base any pricing series on physical forward trades within Australia.

A forward price for Wallumbilla gas would better represent Australian gas prices and provide customers with more accurate price expectations for gas supply negotiations and agreements whether short or long term. AGL is supportive of a current reform to create a financial product with physical delivery at Wallumbilla. This financial product will be traded and managed through the ASX and expires 5 business days prior to the first gas delivery day of the given month. At this point the financial product becomes a Wallumbilla physical product with gas delivery obligations and is managed by AEMO as the market operator. This new product will facilitate more transparent, longer dated physical trading, and provide an observable forward price curve, decreasing reliance on the LNG netback price as being a reflective Australian gas price.

¹ Energy Quest (2021) *EnergyQuarterly Report March 2021*, p.12.



If you have any queries about this submission, please contact Marika Suszko at MSuszko@agl.com.au or 0499 015 614.

Yours sincerely,

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