

ACCC Gas Enquiry Interim Report July 2018

<https://www.accc.gov.au/system/files/Gas%20inquiry%20July%202018%20interim%20report.pdf>

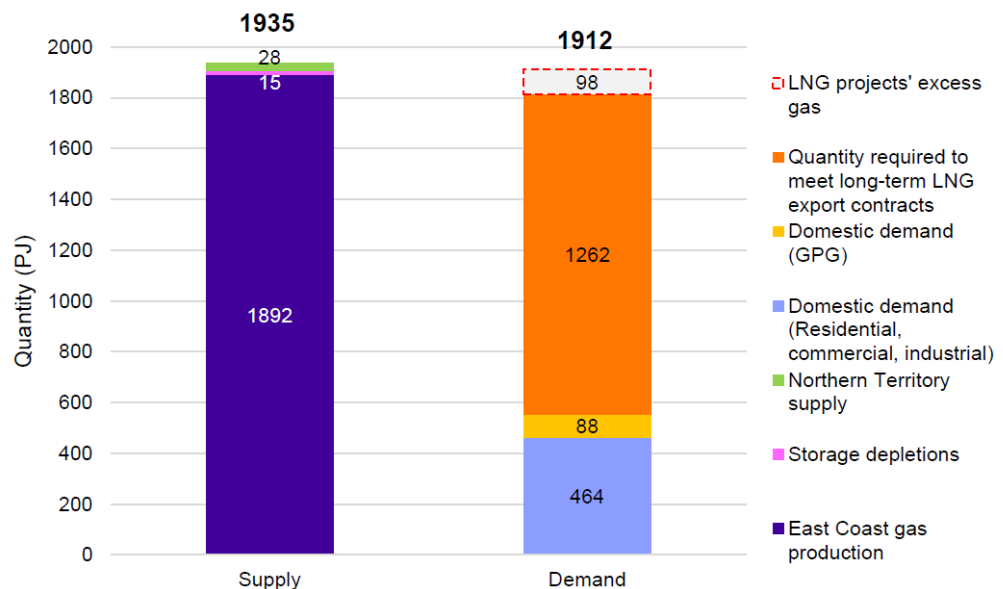
Extracts:-

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Sufficient gas supply is expected in 2019 to meet forecast demand in the East Coast Gas Market

Even if the demand for gas by GPG is higher than currently forecast, the likelihood that there will be a supply shortfall in 2019 remains low. The Queensland LNG producers are expecting to have **98 PJ** of gas in excess of what is required to meet their existing domestic and export contractual commitments. The Queensland LNG producers have identified this as gas that can be sold either domestically or overseas.

Chart 1: Forecast supply-demand balance in the East Coast Gas Market (including supply from the Northern Territory) for 2019



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Information recently provided to the ACCC by APA indicates that while there is uncontracted firm capacity westward on the SWQP, compression capacity at Wallumbilla (necessary to compress additional gas to send it south via the SWQP) is fully contracted. Shippers may need to rely on purchasing interruptible compression to move gas south using the SWQP.

The next 2 lines were emphasised in the report using an extra-large font.

After significantly exceeding export parity prices last year, gas prices for 2019 have now converged with expected LNG netback prices at Wallumbilla

Few contracts for 2019 gas supply have been struck in the early part of 2018, as **both sellers and buyers seem to be delaying contracting until later in 2018**. Prices offered in the market for gas supply in **2019 have remained mostly in the high-\$8 to \$11/GJ range**. This is similar to the range reported in April 2018, which followed a downward trend from the peak prices offered in early 2017.

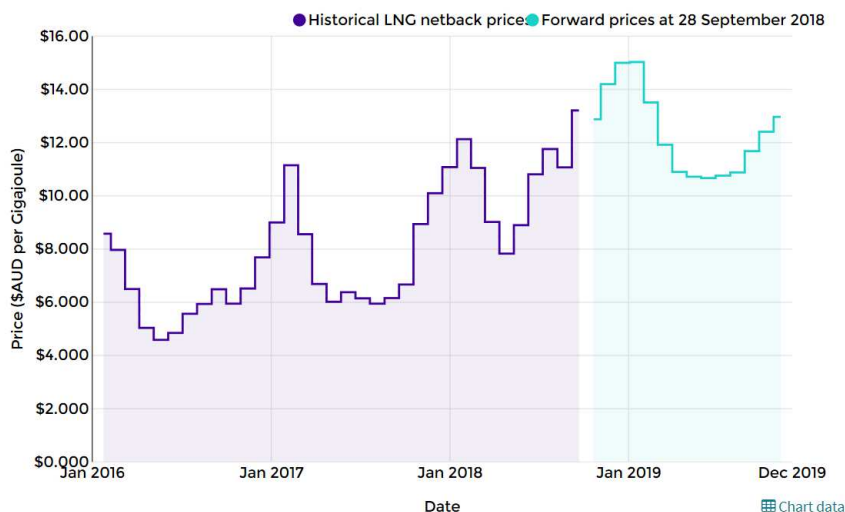
By the end of the first quarter of 2018, the prices offered in the domestic market for gas supply in 2019 had converged with export parity prices. This is in stark contrast to the gas prices that suppliers offered to domestic gas buyers in the first half of 2017, particularly in the Southern States. **LNG netback price:** A pricing concept based on an effective price to the producer or seller at a specific location or defined point, calculated by taking the delivered price paid for gas and subtracting or 'netting back' costs incurred between the specific location and the delivery point of the gas. **For example, an LNG netback price at Wallumbilla** is calculated by taking a delivered LNG price at a destination port and subtracting, as applicable, the cost of transporting gas from Wallumbilla to the liquefaction facility, the cost of liquefaction and the cost of shipping LNG from Gladstone to the destination port.

ACCC LNG netback price series 2 October 2018

<https://www.accc.gov.au/regulated-infrastructure/energy/gas-inquiry-2017-2020/lng-netback-price-series>

Extracts:-

LNG netback price chart



The report contains a number of cautions in relation to netback prices including:-

Users of the LNG netback price series or the accompanying information should consider whether the method, inputs and assumptions used by the ACCC are appropriate for their circumstances. Users should also seek professional advice appropriate to their circumstances.

As we have previously advocated in our reports, more supply and diversity of suppliers is needed, particularly in the Southern States, and the cost of any new gas will also determine the prices for gas in the Southern States.¹³

Importing gas via an LNG import terminal is an option and there are currently four potential LNG import terminals under consideration in the Southern States.

If one of these facilities is built, it could provide an additional source of supply into the Southern States, and under current market conditions, is likely to act as a ceiling or cap for domestic gas prices.