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Media release – ACCC Netback Pricing Draft Report

The voice of the oil and gas industry today said the Australian Competition and Consumer Commission's (ACCC) report on netback pricing confirmed the current mechanism appropriately reflects the Australian market.

APPEA Chief Executive Andrew McConville said, as the ACCC has previously stated, the netback price was an indicator and not an actual price in the market.

"The current mechanism accurately reflects the massive investment and commercial risk taken by producers to develop more gas resources, which in turn has underpinned ongoing supply to domestic customers," Mr McConville said.

"The review found, consistent with APPEA's advice, that for LNG producers on the east coast, exporting to Asia remains their main market, meaning Asian LNG prices are the most relevant benchmark in calculating LNG netback prices for the east coast gas market."

Very importantly, the ACCC again emphasised:

The published prices do not represent the ACCC's view of a fair price for sellers or buyers, or a regulated price cap.

"With more than 100 agreements to supply gas to major domestic customers since 2012, and independent advice finding that local prices are not higher than those paid by overseas customers, our markets are working," he said.

"Even greater transparency measures are on the way with the further development of the Australian Gas Hub at Wallumbilla and new gas market transparency measures recently endorsed by COAG.

"The report also found there is no basis for any linking of a netback price to the Henry Hub in the US. US gas prices have no relevance to the cost of producing gas in Australia. The US and Australian markets are very different, with the US many times larger. The Henry Hub services 330.1m people and is connected to 485,000 kilometres of pipeline compared to Australia's population of just 25.7m with around 40,000km of pipelines."

Background: the ACCC's draft decision is to:

- continue to publish historical and short-term forward LNG netback prices extending to two years, based on the Japan Korea Marker (JKM), a measure of Asian LNG spot prices
- publish longer-term forward LNG netback prices extending to five years based on an oil index with estimates of the appropriate percentage to apply to oil indexes to calculate LNG prices sourced from a consultant
- maintain the current approach to estimating export costs in calculating LNG netback prices
- source longer-term LNG freight cost estimates from a consultant.

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