



*Public Comment on **the Australian Government Energy White Paper***

**Argus Media's response to the Australian Government
Consultation on measures to promote greater price transparency in
Australia's gas markets**

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Argus Media (Argus) welcomes the opportunity to comment on the Australian Government Energy White Paper. Argus focuses its comments on the request for recommendations for "*promoting greater price transparency in gas markets*". There are three brief sections to our response:

1. **About Argus** - an introduction to Argus as an independent Price Reporting Agency.
2. **International gas markets** – providing context for the Australian market.
3. **Australia's gas markets** – recommendations for promoting greater price transparency.

1. About Argus

- Argus is an independent media organisation with almost 600 full-time staff and whose activities include publication of price assessments for physical energy and related commodities. Data provided by Argus are widely used for indexation for physical trade. Companies, governments and international agencies use Argus for analysing and planning purposes.
- Argus' services are created by an international editorial operation with news bureaus located in the world's principal energy centres under the editorial direction of an editor-in-chief, who reports to the chief executive and who has responsibility for the quality of content. Its well-trained journalists operate according to a rigorous and transparent Editorial Code of Conduct and an Ethics Policy (available at: www.argusmedia.com/About-Argus/How-We-Work) that align with the highest standards of journalistic best practice, including the avoidance of conflicts of interest. The company began operations over 40 years ago, and has been active in Asia-Pacific for more than 24 years.
- Argus is not a financial services company. It is an independent media organisation that reports on energy and commodity markets, but is not a participant in the markets and has no vested interest whatsoever in the level of prices in those markets. Its worldwide reputation and continued business success depend on maintaining that independence.

- Argus' prices are used extensively in energy supply contracts and derivatives markets around the world. For example, the Argus Sour Crude Index (ASCI) is the price benchmark for Middle East crude exports to the US, and Argus is used as an official oil price reference by many governments around the world. Argus is the principal provider of price indexation for physical and derivative coal markets internationally. Increasingly, European companies are signing gas supply contracts based on gas hub indexation, rather than oil indexation. Argus' prices for the Dutch gas market (TTF) now form the basis of several key European gas supply contracts.
- Argus' publishing business faces competition from other specialist commodity media agencies. Commodity market participants are able to choose which information agency to use, and which prices reported by such agencies to use as benchmarks. The high level of competition in this marketplace drives standards relating to the integrity of an organisation's services.
- Argus is committed to transparency in its own operations including through making public its submissions and responses to public consultations. As a corporate function, Argus maintains an active public policy programme to keep abreast of relevant public policy developments internationally. Argus undertakes advocacy on public policy issues principally to promote transparent and efficient wholesale commodity markets, and to ensure that independent media organisations such as itself can continue to bring transparency to these markets through effective media reporting.
- Argus has made a significant commitment to ensure the requirements of the "Principles for Oil Price Reporting Agencies" are met. These PRA Principles were published in October 2012 after two years of consultation led by the International Organisation of Securities Commissions (IOSCO), in collaboration with several international organisations (the International Energy Agency (IEA), the International Energy Forum and the Organisation of Petroleum Exporting Countries (OPEC), and consultations with a broad group of industry stakeholders. Argus was the first Price Reporting Agency to successfully complete an independent external assurance review. This was conducted by PwC and published in October 2013.

2. International gas markets

- Growing seaborne natural gas trade has created links between once entirely isolated pricing structures. Major Asia-Pacific economies are dependent on LNG to meet their natural gas demand, and consumers in Europe, the Middle East and Latin America compete for cargoes to supplement existing regional supply and meet growing demand. Hydrological conditions in Brazil, the winter weather in South Korea, and most acutely in recent years, the state of Japan's nuclear reactors, have all exerted more influence on regional gas prices than ever before, all because of the growth of LNG trade. But regional gas prices continue to trade at huge differentials, and the LNG market currently lacks the liquidity and depth to fully bridge these gaps.
- Price interconnectivity will increase however when the US begins exporting the first LNG from its contiguous states next year. Forecasts for US LNG exports vary substantially, but volumes could be around 50mn t/yr by 2020. The Asian marketplace is hungry for this gas, especially given the perception that it will be cheap compared with LNG from countries like Australia, where LNG is linked to oil. US LNG exports will be linked to the Henry Hub, which is currently trading at a massive discount to the Asian LNG spot and long-term contract prices. Ultimately, this could lead to a paradigm shift, as the old order of oil indexation is challenged by a move to hub-based, or gas-to-gas pricing.
- Japanese LNG buyers are coming under pressure from the government to buy more competitively and find alternative pricing methods. This is leading to greater price

diversification in supply contracts, with the US' Henry Hub, the UK's NBP and global LNG spot indices now all used in LNG price indexation. Perhaps most significantly, portfolio players, such as BP and BG, are signing Henry Hub linked deals with Japanese and Chinese companies for LNG that will not be sourced from a specific US project.

- But the shift away from oil indexation towards gas-to-gas pricing has so far been concentrated in Europe. Weak demand resulting from the recession, and surplus LNG no longer required by the US, are two factors that have contributed to the move away from oil indexation in Europe. Gas sold under oil indexation now only accounts for around half of the gas sold in Europe.
- "In Europe, the clear trend is towards more widespread adoption of hub-based pricing, more use of spot trading and a shorter duration of long term contracts," the IEA said in a recent report. "In the Asia-Pacific region, we expect alternatives to oil indexation to gain ground and the contracting structure to become more flexible, albeit at a slower pace."
- Oil indexation is a weak instrument for generating a competitive natural gas price, undermining gas' ability to compete with other fuels. The LNG industry will continue to question the validity of oil-price linkage, as it seeks a reliable reference, capable of reflecting supply and demand fundamentals in the gas markets themselves. But it is important to recognise that gas-to-gas pricing will not automatically deliver cheaper LNG than equivalent oil-index formulas.
- LNG producers often argue that oil indexation is needed to underpin the huge investments in LNG infrastructure. But some large gas infrastructure projects in Europe have been built on the basis of the UK's NBP prices, highlighting that it is a liquid price reference, rather than an oil indexed formula, that is a prerequisite for investment purposes.
- A move away from oil indexation to gas-to gas-pricing in Asia is likely to be driven by evolving approaches to risk management. These include the development of financial markets, increased cross participation of buyers in upstream projects and sellers in downstream projects, and a growing number of portfolio players with flexibility.

3. Australia's gas markets

- Argus publishes over 8,000 price assessments on a daily basis, many of which have become established as a leading price reference in the market, bringing transparency to otherwise opaque markets. Argus frequently produces new price assessments in markets where there is a clear need for independently published, transparent pricing for commodities.
- One such example is in the Australian domestic gas market where many fixed price long-term gas contracts on the east coast will expire over the next few years, leaving scope to replace these with contracts indexed to transparent price references. Oil-indexed LNG netback pricing is starting to work its way into east coast gas supply contracts, but this is not a long-term answer. As oil indexation continues to fade out in Europe, and comes under increasing pressure in Asia, Australia's domestic gas market needs to look at alternative pricing structures. Wallumbilla could become a key gas pricing point for the east coast, given its position between Gladstone, Brisbane and more southerly Australian demand centres.
- In October 2013, Argus launched the first month-ahead index for Australia's east coast Victoria natural gas market in the *Argus LNG Daily* market report. The index, known as the Argus Victoria Index, or AVX, addresses the need to improve price transparency in the east coast gas market, ahead of an impending gas supply crunch. It is designed to offer the Australian gas industry a reliable weekly price reference for natural gas traded on the Victoria Declared Transmission System (DTS) for delivery on a month-ahead basis. It appears

in a weekly east coast Australian markets page in *Argus LNG Daily*. Please see Appendix 1 attached.

- The AVX has been developed in close co-operation with a range of companies involved in the east coast gas markets, all of which are looking for increased transparency to assist them in their price negotiations. By giving Australian gas market participants a transparent reference point on which to base a transaction, Argus is helping to develop liquidity in the east coast gas markets.
- Argus will track liquidity in the east coast gas markets closely, and continue to build products in accordance with market developments. Argus produces extensive forward curves for gas markets in Europe and the US, and is keen to develop further price indexation for the Australian domestic gas markets. We are watching progress at the Australian Energy Market Operator (AEMO) Wallumbilla supply hub in southeast Queensland with interest, and would expect liquidity to develop in this region when the state's first LNG export plants begin production later this year.
- Regular discussions with both Australian domestic gas traders and international LNG traders allow Argus to understand the complex relationship between the domestic east coast gas market and international LNG export markets.
- Argus' LNG coverage includes weekly Gladstone netback pricing, designed to provide a reference point for the value of LNG fob cargoes traded at Gladstone on both a spot and oil-indexed basis. A weekly east coast gas market commentary focuses on supply and demand fundamentals in the region, and the increasing interplay between the global LNG market and the Australian domestic gas market.
- Argus produces daily and monthly publications covering all aspects of global LNG pricing, including a key spot index, known as the Argus northeast Asia (ANEA) delivered price. We speak to the global LNG trading community on a daily basis, enabling us to provide price discovery in a very opaque market place.

4. Conclusion

- Price transparency can best be promoted by encouraging independent media organisations such as energy Price Reporting Agencies to produce price assessments that most accurately reflect the supply and demand fundamentals of a freely operating, non-price regulated market. A good example of this is the AVX, an independent price assessment of Victoria's east coast natural gas market.
- Argus urges the Australian government to be aware of the role that independent Price Reporting Agencies such as Argus perform in bringing transparency to otherwise opaque energy markets. These organisations should be left to function without government interference, oversight or regulation.
- Moreover the government and government agencies should have an important role to play in enhancing price transparency by:
 - publicly encouraging market participants to report comprehensive transactional and market information to Price Reporting Agencies
 - avoiding the adoption of legislation that might deter the flow of information to Price Reporting Agencies (i.e. which might have a chilling effect on the market)
 - adopting independent price assessments such as the AVX for tax reference purposes
- Argus is available to provide further information and details as required to support the Australian Government's Consultation.