INFORMATION

DWGM Forward Trading Market

Stakeholder submissions invited on draft determination

The Australian Energy Market Commission (AEMC) has published a draft rule determination and decided not to make a draft rule to introduce a forward trading market to operate alongside the Victorian declared wholesale gas market (DWGM), as given recent changes in the market, the potential benefits of the market are likely insufficient to justify the costs of creating the market. Submissions are due by 22 August 2019.

Context and rule change request

On 5 November 2018, the AEMC received three rule change requests from the Victorian Minister for Energy Environment and Climate Change to amend the National Gas Rules. The rule change requests proposed the following changes:

- introduce a simple wholesale gas price for the DWGM in Victoria (*DWGM Simpler wholesale price*)
- establish a forward trading exchange which will make it easier for buyers and sellers to trade gas and lock in a future price in the Victorian gas market (*DWGM Forward trading market*)
- improve the allocation and trading of pipeline capacity rights (DWGM Improvement to AMDQ regime).

These requests were based on recommendations made by the AEMC in June 2017, as part of the Review of the Victorian declared wholesale gas market final report (DWGM Review).[1]

In this rule change request, the proponent put forward the introduction of a forward trading market for physical gas to operate across the Declared Transmission System. The market would:

- be voluntary
- be based broadly on the design of the gas supply hubs, currently operating in Wallumbilla and Moomba
- operate on the same Trayport platform as the Gas Supply Hubs
- offer a range of contract tenures (e.g. daily, weekly, monthly, seasonal)
- settle any variances between traded and scheduled quantities for forward products at the 6AM DWGM price on the gas delivery day specified in the forward product.

The proposed forward trading market would operate alongside several existing tools used by participants to manage spot price risk in the DWGM, including:

- purchasing bilaterally negotiated contracts such as gas supply agreements (GSAs) and over-the-counter (OTC) contracts
- using financial products on the Australian securities exchange (ASX) currently quarterly and annual swaps
- trading physical gas through line-pack accounts at trade-points just outside the declared transmission system (DTS).

Draft determination

At the time of the DWGM review there was limited trading of ASX futures, OTC contracts, and physical gas at trade-points. However over the past year, there has been increased

1 AEMC, *Review of the Victorian declared wholesale gas market*, final report, 30 June 2017.

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trading of all these risk management tools. Several brokers have also entered the Victorian gas market in the past year which is expected to facilitate more trading on the OTC market. Information transparency of gas contracts has also improved due to the increased public trades on the ASX, data in the ACCC gas inquiry interim reports and, at a cost, through brokers.

In light of these developments, and after consulting with market participants, the Commission found there is no longer a clear need for an additional forward trading market to help manage spot-price risk. Industry-led mechanisms are likely to best placed to manage the risk of low demand for these risk management products.

The Commission found that the potential benefits achieved by making the rule are unlikely to outweigh the costs. The forward trading market has the potential to create some small efficiencies by:

- reducing search and transaction costs for short term gas contracts
- reducing some barriers involved in trading gas between the gas supply hubs and the DWGM
- creating some flexibility over injection points, compared to trading gas through trade-points.

While these efficiencies could be beneficial to the market, the relative scale of savings that would be passed on to consumers is likely to be peripheral.

There will be costs incurred by establishing a forward trading market. For example, AEMO would need to update its IT systems and settlement processes, and market participants would need to update their internal strategies, systems and processes. The level of participation in the new market would need to be sufficient to outweigh these implementation costs — and it is not clear this would occur.

Additionally, the case of market failure is not clear. Industry has developed similar services such as trade-points and brokerage services for OTC contracts, and trading has increased. While an AEMO-operated FTM may have some efficiency benefits over these existing markets, it also involves a transfer of risk from shareholders in privately operated markets to AEMO and ultimately to end consumers in the event the market is not utilised.

Accordingly, the Commission's draft rule determination is not to make a rule.

Consultation process

Stakeholders are invited to provide written submissions on the draft determination by **Thursday 22 August 2019**.

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