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Istvan Szabo
Adviser
Australian Energy Market Commission
PO Box A2449
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13 March 2018

AEMC project number GPR0005

Dear Mr Szabo,

Biennial review into liquidity in wholesale gas and pipeline trading markets

AGL welcomes the opportunity to make a submission to the AEMC's *Biennial review into liquidity in wholesale gas and pipeline trading markets, Scoping Paper, 13 February 2018* (Scoping Paper).

AGL notes that the 10 metrics to monitor liquidity outlined in the Scoping Paper have been specified in the Terms of Reference.

AGL understands that some of the quantitative metrics may be difficult to assess at this time and data on OTC markets may not be readily available. The introduction of the gas market reforms has the potential to encourage more trading and improve transparency in the wholesale gas and pipeline markets. In any case, the collation of basic information such as traded volumes, number of trades and the number of active participants will be a useful starting point. However, AGL recommends caution in drawing firm conclusions from this limited data set.

In relation to the Scoping Paper, AGL would like to make the following general observations:

- Trading at the gas supply hubs at Wallumbilla and Moomba are voluntary and do not represent the overall market at these regions.
- Exchange-based trading is currently not "easier to execute quickly relative to bilateral trades". Bilateral and OTC trades fill a gap in the products required by market participants. Bilateral trades are typically traded under a 'Master Agreement' that has already been negotiated between two parties (similar to the Exchange Agreement for the GSH) which then allows a bilateral trade (a Transaction Notice) to be agreed by the parties to accommodate requirements such as more appropriate delivery points, a simple nomination framework or custom trade tenor.
- The STTM and the DWGM are more than just a balancing market. Trading can and is conducted by participants through competition on the supply stack (i.e. pricing of participants offers), against the quantum of their price taker withdrawals or demand submission.



In addition, in relation to the metrics, AGL has the following comments:

- While trade volumes will be useful to monitor, AGL believes the number of parties prepared and able to trade on both sides (buy and sell) is an important measure of liquidity. For instance, 5 trades of 1,000 GJ between three or more participants demonstrates greater liquidity than a single trade of 5,000 GJ between two participants.
- The bid-offer spread may not be accurate as some prices can be out of date.
- The churn rate (defined as the ratio of trades to the physical market) at the gas supply hubs will not be comparable to the measure used in futures and forward markets.

AGL anticipates that more appropriate measures of liquidity will be developed over time and that some metrics will be more relevant than others. AGL agrees that the focus in this review is to establish a baseline for future reviews and hopes that the AEMC will consult with market participants before any proposed changes.

Should you have any questions in relation to this submission, please contact me at mgoh@agl.com.au or (02) 9921 2221.

Yours sincerely,

A handwritten signature in black ink that reads 'Meng Goh'.

Senior Manager, Regulatory Strategy