



Final report: biennial review into liquidity in wholesale gas and pipeline trading markets

Summary

The Australian Energy Market Commission (AEMC or the Commission) has completed a final report that contains the baseline measures of liquidity and the Commission's findings for the biennial review into liquidity in wholesale gas and pipeline trading markets.

A liquid market is often referred to as one in which market participants have access to a range of products and can reliably make transactions in a timely way, at a cost-reflective price. In a liquid market, changes in supply and demand have a relatively small impact on price.

Liquidity in a market is a multi-faceted concept that is difficult to measure with a single indicator. In the gas market assessing liquidity requires a broader approach than merely assessing the availability of gas volumes, as adding to the supply of gas may not necessarily result in more gas being traded between different parties.

In the final report published on 16 August 2018, the AEMC has found that liquidity on the Wallumbilla location of the gas supply hub (GSH) has increased over the past two years. This positive change was reflected in almost all quantitative and qualitative indicators of liquidity that formed part of the analysis.

The review

Background

In 2016, the AEMC completed a review of the gas markets and gas transportation arrangements on the east coast of Australia (the East Coast Gas Review). In the final report on the East Coast Gas Review, the AEMC recommended a number of metrics that would capture the characteristics of a liquid market and allow for the monitoring of liquidity in the Australian wholesale gas and pipeline capacity trading markets.

In the final report on the East Coast Gas Review the AEMC also recommended, that the Council of Australian Governments Energy Council (the COAG Energy Council) task it with reporting to energy ministers on a biennial basis on the growth in trading liquidity in these markets.

Scope

In December 2017, the COAG Energy Council directed the AEMC to conduct a review into liquidity in wholesale gas and pipeline trading markets. The COAG Energy Council recognised that a number of the key reforms set out in the east coast gas review will not be in place when the first biennial review is completed. Therefore, the initial review is relatively narrow in scope and focuses primarily on:

- the **development of the methodology** the AEMC intends to use to monitor the growth in liquidity over time and the information it requires to carry out this monitoring role
- establishing a **baseline measure** of liquidity that can be used in future reviews to assess the success of the reforms the Energy Council has agreed to implement
- **growth in liquidity** that has occurred in the Wallumbilla and Moomba locations of the GSH and the effect that the introduction of Optional Hub Services at Wallumbilla has had on liquidity in this market.

Key results

Methodology

A liquid market is often referred to as one in which market participants have access to a range of products and can reliably make transactions in a timely way, at a cost-reflective price. In a liquid market, changes in supply and demand have a relatively small impact on price.

Alongside a detailed methodology for each of the quantitative metrics, the AEMC conducted a qualitative survey with a range of market participants registered on the GSH. The purpose was to gather information about market participants' confidence in the GSH's past and future operations.

Baselines and growth in liquidity

The Commission recognises that the wholesale gas and pipeline markets are comprised of both the facilitated markets and the over-the-counter or bilateral contracts market. As such, any measure of liquidity arising from this review must be looked at in the broader context of the market in its entirety.

The Commission calculated baseline measures of liquidity for the Wallumbilla and Moomba locations of the GSH. In addition, where information was publicly available, metrics were calculated for the short term trading markets (STTMs), the Victorian DWGM and the pipeline capacity market. The Commission has found that almost all quantitative indicators of liquidity on the Wallumbilla location of the GSH have positively changed over the past two years.

Table 1 provides an overview of those changes.

Table 1: Trends of liquidity metrics at the Wallumbilla GSH

METRIC	TREND FROM 2016 TO 2017
Traded volumes	significant increase
Churn rate	increase
Bid-offer spreads	N/A ^a
Number of active participants	increase
Concentration of trade (buy side)	small increase
Concentration of trade (sell side)	decrease
Number of trades per product	significant increase

Note: a) Due to a change in tradeable products at the Wallumbilla GSH in March 2017, no yearly trend could be established from 2016 to 2017 in relation to the bid-offer spread metric.

With respect to the operations of the Wallumbilla location of the GSH, the Commission found that the majority of market participants:

- had confidence in the Wallumbilla location, and expected that confidence and liquidity to grow further in the next two years
- based their expectations of changing liquidity on a range of factors, including:
 - the availability of more physical supply from additional development of gas fields, new gas pipelines and liquefied natural gas terminals
 - the potential for a greater number, diversity and activity of market participants.

Because the Moomba location of the GSH has only been in operation since June 2016, the Commission saw less value in its associated metrics.

At the time of concluding this first review, it was too early to assess the operation of that location of the hub, therefore, more time should be given for any of the related liquidity metrics to develop.

Almost all quantitative indicators of liquidity on the Wallumbilla location of the GSH have positively changed over the past two years.

The AER is publishing more quantitative gas market liquidity indicators on their industry statistics webpage.

Also, these measures do not examine bi-lateral or over-the-counter (OTC) markets and in particular, the long-term gas and transportation contracts that underpin much of the market. As such, this review has not examined or commented on liquidity or trends on these aspects of the market. This is because the AEMC has no visibility of those markets and agreements at this time.

Without examining all aspects of the gas market, any trends or analysis is limited to just the particular facilitated market, rather than on the market overall.

Publication of liquidity indicators

From 16 August 2018, the Australian Energy Regulator (AER) will publish the quantitative indicators developed for the biennial liquidity review on their [Industry statistics](#) webpage.

This follows the AEMC's recommendation in our East coast gas review that the AER publish the indicators on a regular basis to promote market transparency.

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