



AGL Energy Limited

ABN: 74 115 061 375
Level 24, 200 George St
Sydney NSW 2000
Locked Bag 1837
St Leonards NSW 2065
t: 02 9921 2999
f: 02 9921 2552
agl.com.au

Mr Prabpreet Calais

Australian Energy Market Commission

PO Box A2449

Sydney South NSW 1235

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GRC0050 DWGM Forward Trading Market

AGL Energy Limited (AGL) welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) draft determination on the Declared Wholesale Gas Market (DWGM) forward trading market rule change.

AGL is one of Australia's leading integrated energy companies and the largest ASX listed owner, operator and developer of renewable generation. AGL has a long history of involvement in Eastern Australian gas markets and aside from delivering gas to over 1.4 million customers, AGL also owns and operates gas power generation, is a gas shipper and owns gas facilities across the east coast.

This rule change is considering the introduction of a gas trading exchange over the Victorian Declared Transmission System (DTS) to provide market participants with an additional avenue to manage the spot price risks associated with the DWGM. The AEMC's draft determination is to not introduce a forward trading market, as on balance a forward trading market is unnecessary and there is not currently a clear market failure to address.

Draft determination

AGL supports the draft determination.

As noted in our previous submission, the market conditions have changed since the completion of the AEMC's DWGM review, which recommended the introduction of a forward trading market. There is now a growing financial derivatives market with DWGM-linked products that can be used by participants to manage spot price risk. Standard financial products can be traded through the ASX. More bespoke financial products (as described in our previous submission) are available to trade OTC or through a broker. Participants have more risk management options now compared to previous years.

In addition, there are costs involved for AEMO and industry to expand the gas trading exchange to another market, particularly if the reform requires integration with the DWGM.

Given that there are now more ways to manage price risk, combined with the costs involved in introducing a forward trading market, we agree with the draft determination. The incremental benefits of the forward trading market are unlikely to outweigh the costs.



Improvements to bilateral physical trading

While AGL is not supportive of introducing a forward trading market for standardised physical products, we acknowledge that there could be minor and low-cost improvements to AEMO's existing processes that may assist with bilateral physical trading outside the DWGM, for those market participants who wish to secure physical gas. For example:

- The accreditation process is slow to set up.
- The sub-allocation process contains unnecessary restrictions by only allowing for one sub-allocation per participant ID.

Should there be industry support to improve these processes, AGL would be happy to work with AEMO to identify these opportunities.

Other comments

The AEMC's analysis found that the shorter-term forward trading market products may have complemented the longer-term physical GSAs and financial products, as it would enable participants to adjust their long-term position. While this did not impact the draft determination, AGL would like to make the following comments on this point.

The value of shorter-term products should be considered alongside all of the other risk management tools that are available, which includes the daily spot market (the DWGM). Customers with take-or-pay contracts are able to sell excess gas on the DWGM spot market to recoup their costs. The price of shorter-term products on a forward trading market would be likely to approach the market's expectation of the spot price, which diminishes the value of shorter-term trades.

The Wallumbilla gas supply hub, in which shorter-term products are available to complement long term GSAs, is not a true comparison for the forward trading market. There is no daily spot market on the gas supply hub.

If you have any queries about this submission, please contact Jenessa Rabone on (02) 9921 2323 or JRabone@agl.com.au.

Yours sincerely,

Chris Streets

Senior Manager Wholesale Markets Regulation