



# INFORMATION

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## DWGM Forward Trading Market

### Summary

The Australian Energy Market Commission (AEMC) has made a final rule determination and decided not to make a 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.

### 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](#) (DWGM Review).

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 voluntary market was intended to:

- 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.

### Final 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 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.

In the current environment, although the FTM has the potential to introduce some efficiencies, these are likely to be smaller in scale compared to the time of the DWGM Review. The FTM may create benefits for the market including additional transparency, and integration with AEMO systems and markets. However, for any net benefit to be realised, the scale of benefits and level of participation needs to be sufficient to outweigh the implementation costs.

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.

Discussions with market participants suggest that, on-balance, there is not a high level of demand for an additional spot-price risk management market.

Additionally, there is not a clear case of market failure. 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 final rule determination is not to make a rule as it considers the proposal does not satisfy the National Gas Objective.

### **Moving forward**

The Commission supports other developments that may remove barriers to trading gas contracts in the DWGM.

The COAG Energy Council is currently considering improvements to transparency of short-term gas contracts including introducing mandatory reporting of contracts with a tenure of less than 12 months on the Gas Bulletin Board.

Additionally, the Commission recommends the Gas Wholesale Consultative Forum consider other improvements to administrative processes that may act as a barrier to short-term trading.

Finally, the Commission will also continue to monitor the liquidity of the Victorian gas contract market through its [Biennial review into liquidity in wholesale gas and pipeline trading markets](#).

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