



2020 Biennial review into wholesale and gas pipeline trading markets

The AEMC has published a final report for the 2020 gas market liquidity review that finds liquidity is growing in a number of Australia's wholesale gas and pipeline capacity trading markets.

Overview

The gas industry on the east coast of Australia has undergone a structural change over the last decade. Largely isolated point-to-point pipelines have evolved into an interconnected network, supporting a series of increasingly interlinked markets.

Improving liquidity makes these markets more efficient and supports outcomes where gas is supplied to those consumers who value it the highest, at the lowest possible cost, over time.

The COAG Energy Council has made a number of reforms to encourage liquidity in gas markets in response to the structural changes in Australia's east coast gas industry.

In December 2017, the COAG Energy Council tasked the AEMC with conducting a biennial review into liquidity in wholesale and gas pipeline trading markets (gas markets liquidity review).

The role of this review is to take a longer term view of how liquidity is developing and the impact of reforms. Specifically, the terms of reference provided by the COAG Energy Council require the AEMC to:

- Monitor changes in liquidity in gas markets
- Report on the effectiveness of reforms implemented
- Identify the need for further reforms, if appropriate.

The markets to be examined by the review cover the wholesale gas and pipeline capacity trading markets on the east coast of Australia. The AEMC is also expected to monitor developments in the Northern Territory and Western Australia, where it is relevant to do so.

Methodology and approach

This is the second biennial gas markets liquidity review following on from the review conducted in 2018. The final report tracks changes in liquidity since 2018 using a set of quantitative and qualitative metrics.

Quantitative metrics were assessed for markets where data is publicly available, which includes the following east coast facilitated markets:

- the Gas Supply Hubs (GSH) at Wallumbilla and Moomba
- the Short Term Trading Markets (STTM) in Sydney, Adelaide, and Brisbane
- the Victorian Declared Wholesale Gas Market (DWGM)
- the pipeline capacity Day Ahead Auction (DAA) and the Capacity Trading Platform (CTP).

The AEMC also assessed qualitative metrics via a survey of market participants and one-on-one interviews.

A qualitative assessment is presented for each of the facilitated markets along with financial and physical bilateral contract markets, Western Australia and the Northern Territory.

The AEMC has found that liquidity is growing in a number of Australia's wholesale gas and pipeline capacity trading markets.

Impact of the COVID-19 pandemic on this review

The information used by the review largely predates the impacts of the COVID-19 pandemic. Most surveys and interviews occurred in early March when there was limited information on the impacts of the COVID-19 pandemic. The review does not aim to predict the impact of the pandemic on liquidity.

The AEMC understands that the pandemic may affect the assessment of liquidity in a number of ways. The economic effects of the pandemic may affect domestic and international demand, prices and the confidence of market participants in gas markets and views on the future development of liquidity.

This review, however, provides a useful analysis of liquidity at a point prior to any large impacts of the pandemic. The 2022 review will be able to assess the effects of the pandemic from this baseline.

Key findings

In this final report, the AEMC has found that liquidity is growing in a number of Australia's wholesale gas and pipeline capacity trading markets.

Overall the Commission considers that progress is being made towards increased liquidity that can contribute to achieving the COAG Energy Council's gas market vision, which is:

*"...the establishment of a liquid wholesale gas market...where an efficient reference price is established...and that enables participants the opportunity to readily trade between locations and arbitrage trading opportunities."*¹

Survey results show stakeholders to be optimistic that liquidity will either increase or stay about the same in each of the facilitated markets over the next two years. Stakeholders indicated an intention to either increase or remain at current levels of activity over the next two years across the facilitated markets.

Specific findings on liquidity are summarised below:

- The Wallumbilla GSH has shown significant liquidity growth with positive indicators across quantitative and qualitative metrics. However significant trading is yet to emerge on the Moomba GSH.
- The DWGM and STTMs as compulsory markets continue to enjoy relatively higher levels of liquidity and stakeholder confidence.
- While only introduced in 2019, the pipeline capacity DAA appears to have had a substantial effect on the secondary trade of pipeline capacity and contributed to liquidity growth in east coast wholesale gas markets. The complementary CTP is not yet liquid as it has recorded one trade to date.
- Stakeholders reported increasing liquidity in bilateral physical and financial markets for gas and were optimistic about future liquidity in these markets.
- Stakeholders were positive about liquidity in wholesale gas and pipeline capacity markets in WA, noting that a significant number of suppliers are competing to sell gas and pipeline capacity was available to ship that gas. Liquidity conditions in the Northern Territory were found to be more challenged, with some stakeholders raising concerns over pipeline access.

A number of regulatory changes to gas markets are still too recent to thoroughly assess their effectiveness and that others are yet to be implemented. As such, the Commission considers it is too early to consider further major reforms.

¹ For the complete version of the vision, refer to COAG Energy Council, *Australian Gas Market Vision*, December 2014.

Changes between draft and final report

This final report is largely unchanged when compared with the draft report, including the qualitative and quantitative metrics. However, it includes some additional material on the following topics:

- Preliminary impact of COVID-19 on gas prices and demand
- Summary of submissions to draft report
- Update on the COAG Energy Council's reforms on measures to improve transparency in the gas markets
- AEMO's recent consultation on changes to the Gas Supply Hub
- Changes to active participant categories.

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