

24 February 2020

Australian Energy Market Commission
Level 6
201 Elizabeth Street
Sydney NSW 2000

Dear Commissioners,

Thank you for the opportunity to comment on the scoping paper of the 2020 Biennial Review into Liquidity in Wholesale and Gas Pipeline Trading Markets.

APA wishes to focus on two aspects of the scoping paper:

- The impact of frequent and significant recent changes to market to liquidity
- The importance of matching analysis to data (facilitated market vs market).

Changes to the market.

APA strongly supports the caution that the AEMC has included in the scoping paper that:

“We note that a number of changes are still too recent to thoroughly assess their effectiveness...as such it may be too early to consider further reforms”

Table 2 and 3 of the scoping paper highlight the extraordinary level of change the gas industry in the last 5 years has been subject to:

- four major reviews,
- two concluded and two ongoing processes for significant changes to the legislative framework, and
- 8 rule changes completed or in progress (two of which would have to be characterised as significant to the operation of the market).

In light of the observed relationship between change and slow adoption of new discretionary technologies¹ it can be expected the high level of change has adversely impacted uptake in new facilitated markets such as the capacity auction or pipeline capacity trading platforms.

Facilitated market vs market

In its scoping paper the AEMC refers to markets as per its terms of reference. “Gas Markets” as in bi-lateral contract markets for the trading of gas and pipeline capacity in Australia were part of the introduction of the natural gas industry to Australia and predate all the facilitated markets by decades.

This distinction between markets and facilitated markets may be assumed but it is not explicitly reflected in the scoping paper. The inputs to many of the metrics the AEMC have identified in the scoping paper are much more accessible for the facilitated markets. However, in the context of the gas market those metrics for the facilitated market are in no way indicative of the functioning of the broader gas market. It is important that when relying on facilitated market based information the AEMC communicate its relevancy only to consideration of the functioning of the facilitated market to avoid confusion amongst other policy makers and community groups.

¹ Change leads to uncertainty, uncertainty leads to risk aversion and risk aversion leads to cautious patterns of behaviour.

Specifics

The metrics that the AEMC are proposing are widely recognised and utilised for the purpose of measuring liquidity in competitive markets. Data availability is going to be a significant challenge for the AEMC. Data availability has an impact in the calculation of a number of metrics and how the results should be interpreted. For example, the churn rate on the facilitated market goes to insights only on the facilitated market as it relates to price discovery, not to effectiveness of price setting in the broader market reflective of economic cost. As a consequence there will be limitations to the conclusions that can be drawn.

Thank you for the opportunity to provide these brief comments on the AEMC's scoping paper.

Sincerely

A handwritten signature in blue ink, appearing to be 'Mark Allen', with a stylized flourish at the end.

Mark Allen
Regulatory Manager
APA