

## THE EVOLUTION OF A MARKET

*(This position statement was incorporated in the gasTrading Invitation to the market issued to the market in 17 July 2017)*

Many of you will remember what the gas market looked like before 2008, in particular you will probably recall that there was no spot market for most gas buyers. The gasTrading Spot Market™ was scheduled to launch in the middle of 2008 but, events at that time demanded our total commitment to attend to the needs of clients and it was not until Quarter 3 2008 that gasTrading Spot Market™ went live.

Things were slow to begin with but over time the gasTrading Spot Market™ has established a stable base trading volume. We thank the market for their support in achieving that. At the same time opportunities have grown for gas buyers to source spot gas from a number of gas producers and secondary market participants. The gasTrading Spot Market™ is now only a small part of the total traded spot gas volume. We use the term “spot” in this instance a little loosely since the terms offered by different sellers vary and the degree of “spot” flexibility ranges widely.

In recent Invitations we have indicated that some gas sellers, armed with the knowledge of our published prices, have been approaching buyers in the gasTrading Spot Market™ with targeted spot gas offers. This is not the first time this has happened and, provided the behaviour is not predatory, we are comfortable with the competition.

That said, these recent approaches have led gasTrading to carefully consider how it should react to such behaviour and the purpose of this note is to provide the market with our thoughts on the issue.

First, we need to say that the total spot market is now a prize worth having, even for the larger corporates. One economic theory (Hotelling’s solution or the prisoner’s dilemma) tells us that one of the likely responses in this market is for sellers to endeavour to capture the whole market, because for the successful seller the prize will be greater. Of course the theory also tells us that it is unlikely any one seller will be successful. This conceptual framework explains the behaviour we are seeing in the market.

Thus the question, what is gasTrading going to do? The obvious response would be for gasTrading to take action to defend the gasTrading Spot Market™. That will not be our response. If we were to go down that path the actions we would take would inevitably destroy the very spot market we have created. No, instead, we have taken the view that we will stand in the market offering a real and flexible alternative way of buying, selling, and contracting for, gas. If that means, for a time, or from time to time, there are no gasTrading Spot Market™ trades, then so be it. We do not think that will be the case. The market may, however, contract and expand over time.

The question is, what does the Western Australian gas market look like in the long term? Many of the sellers, who are now focused on cornering the spot sales market, will lose interest when their base levels of uncommitted gas dwindle and their production capacity is running near full capacity. Then the “spot” nature of their offerings will look much less spot. We would like to paint an alternative picture of the gas market in Western Australia in the future. That is a gas market where a substantial portion of the market (greater than 50%) is traded spot. Real spot not almost or sort of spot. But we

are unlikely to realise that view of the market from where we are now. If gasTrading acted to protect its market, that possibility would be even further off.

For now, be assured that irrespective of the trading volumes in the gasTrading Spot Market™, gasTrading is as committed as it has ever been to providing the market with a real alternative way to buy and sell gas. But we would like you to know that our decision, not to take action to defend our traded volumes (should that be necessary), is not taken lightly.