

**From:** Mike Lauer  
**Sent:** Monday, 17 July 2017 6:18 PM

**Subject:** gasTrading Spot Market Gas Available August 2017

Good afternoon all,

For the month of **August** 2017 we anticipate having the quantities of gas set out below available for sale. You are invited to submit your offer, before **close of business** (Perth Time) on **Wednesday the 26<sup>th</sup> of July**, if you wish to purchase all or part of this gas quoting the volume of gas that you wish to purchase and the price at which you are prepared to complete the purchase. We will advise successful buyers by **midday** (Perth Time) on **Thursday the 27<sup>th</sup> of July** at the latest and complete contracts from the **27<sup>th</sup>** to the **31st** of **July**.

### **THE EVOLUTION OF A MARKET**

Many of you may remember what the Western Australian gas market looked like before 2008, in particular you may 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 three 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 market participants 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 of spot gas 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 that 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 that individual sellers will 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™ traded volumes. That will not be our response. If we were to go down that path the actions we would take would inevitably involve some measure of locking buyers into the market, and that would effectively 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, or, 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

## Market Dynamics

As at the 15<sup>th</sup> of **July** we are on track to trade 222 TJ of gas (On Market) for the month of **July**. This volume is down on the final volumes traded in **June** 2017 (237 TJ) and is up 10% on the anticipated **July** sales volume of 202 TJ. There have been no Off Market sales in **July**. Agora Gas is the only seller active in the market in **July**.

The sales volumes in **July** reflect the continuing dampened “shoulder season” market conditions which emerged in April. We anticipate traded volumes will continue to hover around 200 TJ per month and, given the current market balance, prices are expected to remain stable. There are no supply side disturbances anticipated in **August** of which we are currently aware.

The offer price range in **July** was \$0.18 per GJ, from \$4.15 to \$4.33 per GJ. This narrow offer price range is a feature of periods of market stability. The Back Up Gas Price was not called in **July**. No contract was written in **June** below \$4.15 per GJ. The **July** Back Up Gas Price is \$4.30 per GJ. There were no buyers expecting/bidding to pick up cheap gas in **July**.

The currently anticipated average **July** On (Spot) Market price is \$4.27 per GJ (as at the 15<sup>th</sup> of **July**). This average is down on the \$4.30 per GJ average **June** price and is one cent up on the anticipated **July** average price.

Buyers and sellers appear to be using the gasTrading Spot Market as part of their everyday gas supply planning. In the foreseeable future the average spot market price looks stable. Market disruptions, such as the sudden tightening of the supply side of the market in September and October 2016 and the unexpected demand contraction over Christmas and New Year are still likely to destabilise the market.

The table below summarises Agora Gas’ On Market and Off Market spot gas sales since **July** 2016. As noted above, recent market traded volumes reflect the mild shoulder season weather conditions.

Month	On (Spot) Market (TJ)	Off Market (TJ)	Total (TJ)	Comment
Jul-16	243.774	99.389	343.163	
Aug-16	186.240	144.356	330.596	
Sep-16	232.338	115.235	347.573	
Oct-16	332.791	45.284	378.075	

Nov-16	359.063	109.425	468.488
Dec-16	370.279	43.200	413.479
Jan-17	196.744	0.000	196.744
Feb-17	258.818	0.000	258.818
Mar-17	308.747	0.000	308.747
Apr-17	190.083	0.000	190.083
May-17	173.800	0.000	173.800
Jun-17	237.450	0.000	237.450
Jul-17	123.800	0.000	123.800 :to 15 July

Agora Gas will continue to seek out the most attractive sources of Backup Gas to ensure the market remains liquid. Agora Gas is currently expected to be the only market seller in **August** as a result of recent changes to seller participation in the market.

We will publish the summary results of the **August 2017 Bidding Round** on or before the 4<sup>th</sup> of **August** on the web site link below.

### Market Update

The results of the **July 2017 Bidding Round**, and the gasTrading Spot Market history to **June 2017**, can be found at <http://www.gastrading.com.au> and at <http://www.gastrading.com.au/spot-market/historical-prices-and-volume.html> in particular.

We have continued strong supply side support for the market. This support is now looking for Buyer offer prices at and above \$4.30 per GJ.

At this time the indicated volumes available for **August 2017** are comparable to the volumes offered in the **July 2017** Invitation. Given that most of this gas will be procured for the market by Agora Gas' Off Market purchases, these volumes are very price sensitive and will increase or decrease in response to offers received.

The table below shows the percentage of the daily contract volumes for the period 1 **July** to 15 **July** filled in each price quartile of the market.

## The Spot Market

<b>Highest Price</b>	<b>\$4.33</b> per GJ	<b>Percentage of Contracts filled From 01 Jul 17 to 15 Jul 17</b>
Price Quartile 4	From \$4.30 to \$4.33 per GJ	100%
Price Quartile 3	From \$4.25 to \$4.29 per GJ	No Sale
Price Quartile 2	From \$4.21 to \$4.24 per GJ	No Sale
Price Quartile 1	From \$4.15 to \$4.20 per GJ	100%
<b>Lowest Price</b>	<b>\$4.15</b> per GJ	



Regards

Mike Lauer

Phone Perth: 08 9228 1930

Fax Perth: 08 9228 1932

Phone Melb: 03 9614 8489

Fax Melb: 03 9614 3786  
Mobile: 04 1788 4670

E-mail: [mike@gastrading.com.au](mailto:mike@gastrading.com.au)

Perth: Suite 1, 160 Newcastle Street Perth WA 6000

Melb: Level 8, 10 Queen Street, Melbourne Vic 3000

*Notice: This email (including attachments) is solely for the intended recipient's use. This email may contain information that is confidential or privileged. If you are not the intended recipient, please do not read, copy or use your knowledge of this email or the information contained in this email, or take any action which relies on the information contained in it. If you are not the intended recipient of this email, please delete all record of this email and its contents from all electronic systems and notify us via return email. Confidentiality and privilege are not waived or lost if you receive this email and are not the intended recipient. Although we use virus scanning software, we do not warrant that is email, or any of its attachments, are free from viruses or malicious code and we do not accept liability for any consequences to the recipient of receiving, opening or using this email. If you are the intended recipient of this email, please check any attachments prior to use.*