

## AN IMPORTANT NOTE TO ALL USERS OF PRICE INFORMATION PUBLISHED BY GAS TRADING

One of the features of the gasTrading Spot Market™ of which we are most proud is the transparency we provide with respect to gas pricing. However, we have recently become concerned that the data we publish may be being used by some parties to benchmark gas contracts negotiated outside the gasTrading Spot Market™ with the unintended consequence of driving up the price of gas in all sectors of the market. This may be only one of the forces at work in the market at any time which may be affecting price. This note explores what we think may be happening, clarifies how users should understand the price information published by gasTrading, and asks for feedback from spot market participants about steps we might consider to mitigate any distortion of the market.

Like all those engaged in the gasTrading Spot Market™ we saw the average gas price decline to \$2.13 per GJ in May 2020, only to see that price rise rapidly to \$4.85 per GJ for the current month, June 2021. That is an increase of 130% in 14 months.

While we understood that the \$2.13 per GJ gas price would be transitory, we have observed the price spiral up in the last 14 months and have been trying to understand the forces that would drive a rising trend in price in a market with no sustained shortage of supply. Our deliberations lead us to believe that the price information we publish may be misunderstood by, and may thus be distorting, the gas market at large.

*On reflection ....  
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the market.*

Therefore, we are providing this note to ensure that all parties who might be using the price information published by gasTrading understand the nature of that information and how we think its use may be unintentionally distorting the market.

gasTrading publishes price information three times each month. In the last days of each month gasTrading publishes the price and volume data from the Bidding Round for the upcoming month. Then, at the beginning of each month, the final results for the month just concluded are uploaded to gasTrading's web site. Finally, gasTrading publishes, in the middle of each month, a price outlook, in the Market Update segment of its Invitation, for gas supply in the coming month.

The distortion we think may be affecting the market derives from the product the gasTrading Spot Market™ offers which, in turn, relates to the fact that Agora Gas underwrites the liquidity of the gasTrading Spot Market™. To underwrite market liquidity Agora Gas puts in place a complex multi-layered portfolio of Firm and As Available gas supply arrangements, and additional measures, designed to enhance the security of gas supply in the gasTrading Spot Market™. When calculating the price at which it is prepared to sell gas, Agora Gas equates the weighted average cost of its anticipated spot sales (including an **Agora's Seller's Margin**) with its anticipated average spot market gas price. Agora's Seller's Margin includes:

- a provision to cover the gasTrading Brokerage Fee of 4% (paid by all sellers in the market);
- the cost of maintaining and managing a multi-layered gas supply portfolio (over and above the commodity cost); and
- a margin to compensate it for underwriting market liquidity relating to, among other things;
  - meeting the credit enhancement requirements of gas sellers; and

- ❑ taking the volume and revenue risk it accepts when contracting long and selling short, and when contracting firm and selling spot.

When gas buyers use prices published by gasTrading to derive a benchmark (the **Buyer's Benchmark**) to evaluate/negotiate alternative simple, one-on-one gas purchase opportunities (outside the gasTrading Spot Market™), most of Agora's Seller's Margin (the gasTrading Brokerage Fee and the cost of maintaining a multi layered supply portfolio, in particular) have no relevance to the Buyer's Benchmark. Even the inclusion of the Agora credit enhancement charge in the Buyers Benchmark price may result in double counting the cost of credit enhancement, since the buyer will inevitably have to satisfy the sellers' credit requirements directly in any agreement.

The simple fact is that the product being offered in the gasTrading Spot Market™ is a complex product with multi-layered supply enhancement arrangements (supported by a high calibre team in real time) in a very dynamic environment. This is a very different product to a simple, one-on-one gas purchase agreement. Nevertheless, if the prices published by gasTrading are used uncritically to derive the Buyer's Benchmark there is a real risk that, over time, Agora's Seller's Margin will be captured, and enshrined, in the price of all gas purchase transactions. That is the case, whether or not the elements making up Agora's Seller's Margin are relevant to a particular transaction or not.

Thus, our concern is that the gas market generally may be distorted if gas buyers use the price information published by gasTrading to benchmark and negotiate gas supply arrangements outside the gasTrading Spot Market™ without considering the products being benchmarked. When buyers use the prices published by gasTrading in this way, the underlying gas price is inflated by any "captured" portion of Agora's Seller's Margin, even though much of that margin relates only to transactions occurring in, or to products comparable to those offered in, the gasTrading Spot Market™. Over time, if buyers use gasTrading prices to benchmark the purchase of "gas products" which are not comparable to the product offered by the gasTrading Spot Market™, gas prices will ratchet up. When the prices buyers pay for gas purchased outside the gasTrading Spot Market™ each month increase (by all or part of the previous month's Agora's Seller's Margin), these prices cycle back to Agora Gas in subsequent months and get reflected in the next generation price published by gasTrading. The process repeats month on month, and the price rises each month as all or part of Agora's Seller's Margin is captured by, and built into, the next month's market price offerings.

If this explanation of recent market trends is valid, the gasTrading Spot Market™ price will continue to ratchet upward. It would be unfortunate if this should happen simply because the data that gasTrading provides to the market is not properly understood.

We have considered whether this problem might be addressed by delaying the publication of our price information (for two to three months) and by refraining from providing a price outlook in our invitation. Our preference is to maintain the market transparency we have worked so hard to provide, but we would appreciate your feedback on this suggestion and invite any other comments or suggestions you may have regarding the content of this notice. Notwithstanding these concerns, we are committed to serving the market so long as we have willing buyers and willing sellers, even if the market were to undergo a period of contraction in the near term.

***We are committed to serving the market so long as we have willing buyers and willing sellers, even if the market should undergo a period of contraction.***