

INITIAL CONSULTATION PAPER: AEMO GAS MARKET FEE METHODOLOGY

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CHAPTER 1 – CONSULTATION OVERVIEW

Australian Energy Market Operator Limited (AEMO) invites you to provide a submission on the *Initial Consultation Paper: AEMO gas market fee methodology*.

1.1 Key information

Purpose	To consult with stakeholders towards developing the structure of participant fees in AEMO's gas markets from 1 July 2015.												
Date applicable	1 July 2015												
Gas functions covered in this consultation	<ul style="list-style-type: none"> • Victorian Declared Wholesale Gas Market (DWGM) • Short Term Trading Market (STTM) • Full Retail Contestability (FRC) Gas Markets in: <ul style="list-style-type: none"> ○ Victoria ○ NSW ○ Queensland ○ South Australia • Gas Statement of Opportunities (GSOO) • Gas Bulletin Board [^] • Energy Consumers Australia (currently Consumer Advocacy Panel) <p>[^] The Gas Bulletin Board fee methodology is prescribed in the National Gas Rules (NGR) which falls out of scope for this 1 July 2015 applicable date. AEMO is however seeking comments as part of this consultation.</p>												
Timetable	<p>The following table contains an outline for the consultation process, including key dates. Please note the key dates are proposed and may change.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"><i>Milestone</i></th> <th style="text-align: left;"><i>Date</i></th> </tr> </thead> <tbody> <tr> <td>Submission closing date for this Issues paper</td> <td>17 October 2014</td> </tr> <tr> <td>Publication of Draft Report for stakeholder comment</td> <td>15 December 2014</td> </tr> <tr> <td>Submission closing date for Draft report</td> <td>20 January 2015</td> </tr> <tr> <td>Publication of Final Report</td> <td>31 March 2015</td> </tr> <tr> <td>New fee structure applicable</td> <td>1 July 2015</td> </tr> </tbody> </table>	<i>Milestone</i>	<i>Date</i>	Submission closing date for this Issues paper	17 October 2014	Publication of Draft Report for stakeholder comment	15 December 2014	Submission closing date for Draft report	20 January 2015	Publication of Final Report	31 March 2015	New fee structure applicable	1 July 2015
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Publication of Final Report	31 March 2015												
New fee structure applicable	1 July 2015												
Meetings	Interested persons may request a meeting in their submission. Please specify why you would like a meeting.												
Submissions closing date and information	Please provide electronic submissions by <u>5.00pm AEDT 17 October 2014</u> to jack.fitcher@aemo.com.au .												



	All submissions will be published on the AEMO website. Please identify any part of your submission that is confidential and cannot be shared.																					
Inquiries	Mr. Jack Fitcher Chief Financial Officer (Acting) Australian Energy Market Operator Ltd Level 22, 530 Collins St Melbourne Vic 3000 Phone: (03) 9609 8506 Email: Jack.Fitcher@aemo.com.au	Mr. Alex Steenberg Manager – Corporate Finance Australian Energy Market Operator Ltd Level 22, 530 Collins St Melbourne Vic 3000 Phone: (03) 9609 8511 Email: Alex.Steenberg@aemo.com.au																				
Issues for consultation	The following key areas are intended as guidance. You are welcome to comment on these issues as well as any other aspect of the gas participant fee structure. Chapter 3 provides more information and guidance.																					
	<table border="1"> <thead> <tr> <th colspan="2">Key areas</th> </tr> </thead> <tbody> <tr> <td>3A</td> <td>Are current fee-paying participant groups the beneficiaries of AEMO’s services?</td> </tr> <tr> <td>3B</td> <td>Could similar gas market fees be consolidated?</td> </tr> <tr> <td>3C</td> <td>Can the number of fees within each gas market be reduced for simplification?</td> </tr> <tr> <td>3D</td> <td>Is the current manner for calculating and charging the Gas Bulletin Board fees still relevant?</td> </tr> <tr> <th colspan="2">Other general areas</th> </tr> <tr> <td>3E</td> <td>Comparison with other fee structures</td> </tr> <tr> <td>3F</td> <td>Period of fee structure length</td> </tr> <tr> <td>3G</td> <td>Break-even period to recover costs</td> </tr> <tr> <td>3H</td> <td>Other comment and issues</td> </tr> </tbody> </table>		Key areas		3A	Are current fee-paying participant groups the beneficiaries of AEMO’s services?	3B	Could similar gas market fees be consolidated?	3C	Can the number of fees within each gas market be reduced for simplification?	3D	Is the current manner for calculating and charging the Gas Bulletin Board fees still relevant?	Other general areas		3E	Comparison with other fee structures	3F	Period of fee structure length	3G	Break-even period to recover costs	3H	Other comment and issues
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1.2 Guiding principles

To help develop fee structures for gas markets, input must be consistent with the guiding principles below:

Principle[^]

- Fees and charges are to be determined on a non-profit basis that provides for full cost recovery.
- The structure of the participant fees should be simple.
- Participant fees should not unreasonably discriminate against a category or categories of registered participants.
- The components of participant fees charged to each registered participant should be reflective of the extent to which AEMO’s budgeted revenue requirements involve that registered participant.
- The structure of the participant fees should provide for the recovery of AEMO’s budgeted revenue requirements on a specified basis.

[^] These principles are prescribed under the national gas objective (NGO) (section 23 of the National Gas Law (NGL)).

This structure implies trade-offs between competing principles. For example, a strongly cost-reflective structure is unlikely to be simple. When proposing fee structures, please identify any trade-offs between competing principles and, where possible, describe how the trade-off might be approached.



1.3 Energy Consumers Australia / Consumer Advocacy Panel fees

The Council of Australian Governments' (COAG) Energy Council (formerly Standing Council on Energy and Resources) approved the establishment of the Energy Consumers Australia (ECA). The purpose of the ECA is to provide focus on national energy market matters of strategic importance for energy consumers and in particular residential and small business consumers.

From 1 July 2015, the performance funding is expected to be in place, and all current Consumer Advocacy Panel (CAP) functions will be absorbed into ECA.



CHAPTER 2 – THE CHANGING GAS LANDSCAPE

2.1 Current and future gas environment and organisations

The east coast gas market is currently facing a period of unprecedented change. This is being driven by the development of a substantial liquefied natural gas (LNG) export program that is significantly increasing demand, potentially linking Australian domestic gas prices to international prices.

The vast majority of the forecast demand growth is due to the expansion to supply LNG exports. Domestic gas consumption in eastern and southern Australia is forecast to rise at less than 1% per annum to 2020. Domestic demand could even decline, as higher prices may cause residential users to seek other available energy sources. For example, consumers may increase their uptake of solar hot water heating and potentially electric heating.

Large industrial consumers without alternative energy sources nearby, may opt to relocate their production/site. This is likely to be more relevant when new facilities are deciding where to locate.

Organisations involved in gas production and supply are also changing. Stanwell has announced plans to mothball its Swanbank E power station from October 2014; and BP is closing its Brisbane refinery in mid-2015. These are just two examples of large users exiting the market and contributing to the changing supply/demand landscape.

2.2 Why is this relevant to AEMO market fees?

As a result of the changing gas landscape and participants, the guiding principles, in particular 'user pays' of AEMO's operating costs, need to be reviewed for relevance. The revised principles will need to be balanced against the practicalities of AEMO's gas-related charges and their recovery.



CHAPTER 3 – CONSULTATION AREAS FOR YOUR FEEDBACK

To help direct your response, AEMO has highlighted a number of areas for feedback in Figures 3A-H. Your submissions are not restricted to these areas: you may comment on any other relevant issue.

KEY AREAS FOR CONSULTATION

3A. Are current fee-paying participant groups the beneficiaries of AEMO’s services?

What	<p>We acknowledge:</p> <ul style="list-style-type: none"> • The make-up of the gas landscape is changing at a rapid pace, involving changes to participating organisations as well as products. • Energy consumption within Australia is declining
Why	<p>Current gas tariffs are mainly charged on volume (or units):</p> <ul style="list-style-type: none"> • Energy consumed (DWGM, STTM) • Volume shipped by shippers (Gas Bulletin Board) • Customer supply points (Gas Full Retail Contestability (FRC) markets, GSOO, Consumer Advocacy Panel (CAP)) • Fixed charges, churn and customer supply point (NSW FRC market)
Who	<ul style="list-style-type: none"> • Depending on the gas market, current fees are mainly recovered from retailers.
Your feedback	<ul style="list-style-type: none"> • Are current participants being charged fees by AEMO, also the beneficiaries of AEMO’s services? • Is energy consumed (DWGM, STTM) still relevant as the unit of measure for fee recovery? • Is customer supply point still relevant as the unit of measure for recovery of Energy Consumers Australia (currently CAP)? • The current NSW FRC fee structure includes a transaction (churn) charge. This churn fee is not charged in any of AEMO’s other gas markets (i.e. SA, VIC, QLD). Is it more appropriate to include a transaction (churn) charge, for those FRC gas markets outside NSW? • Any other comments?



3B. Could similar gas market fees be consolidated?

What	<ul style="list-style-type: none">• AEMO charges a separate fee in each gas function, and has similar participants in each function.• Gas information and reporting functions, such as Gas Statement of Opportunities Reports and Gas Bulletin Board, are separate fees.
Why	<ul style="list-style-type: none">• Multiple fees across gas functions that share common operating costs could be streamlined for simplicity.• In the short term, costs to operate each gas market are likely to remain largely distinct and separate. AEMO is looking for ways to interlink processes and systems to group, simplify and reduce the number of different fees charged in the long-term, such as the DWGM and STTM.
Who	<ul style="list-style-type: none">• Similar participants are found within each FRC gas market, as well as STTM and DWGM markets.
Your feedback	<ul style="list-style-type: none">• Is there any basis for having a single fee for both the DWGM and STTM?• Can the recovery of costs for information and reporting functions (Gas Statement of Opportunities and Gas Bulletin Board) be incorporated into the existing market fees?



3C. Can the number of fees within each gas market be reduced for simplification?

What	<ul style="list-style-type: none">• Within each gas market, the fee structure differs. Fees charged within each function include:<ul style="list-style-type: none">○ Activity fee –representing the costs to operate this market, i.e. a large proportion of total costs○ Ancillary fees – fixed fees, distribution meter fees, and registration fees that predominately relate to the recovery of specific costs within a function.• Appendix 1 lists the current fee structure within each gas market.
Why	<ul style="list-style-type: none">• During the last methodology review, the fixed fee charges were removed from DWGM and FRC gas markets.<ul style="list-style-type: none">○ The fixed fee in the STTM mainly relates to support costs, such as IT.• The DWGM distribution meter charge represents the charge for each market participant who is connected to a Declared Distribution System with an interval metering installation.
Who	N/A.
Your feedback	<ul style="list-style-type: none">• Could the fixed fee in the STTM be removed for simplicity?• Could the separate distribution meter fees in the DWGM be removed?



3D. Is the current manner for calculating and charging the Gas Bulletin Board fees still relevant?

What	<ul style="list-style-type: none"> The fee methodology for the Gas Bulletin Board is prescribed in the NGR and outside the scope of this review. AEMO is seeking comments on whether or not the manner for calculating and charging bulletin board fees should be amended.
Why	<ul style="list-style-type: none"> The Gas Bulletin Board is undergoing a major upgrade. It is a good opportunity to consider the information users, and whether the current recovery methodology is relevant.
Who	<ul style="list-style-type: none"> Currently, shippers are the fee payers of the Gas Bulletin Board. Charges are based on the volume shipped.
Your feedback	<ul style="list-style-type: none"> Is there a more efficient method of recovering Gas Bulletin Board costs? Is it appropriate to recover the Gas Bulletin Board costs via other gas functions?

OTHER AREAS FOR CONSULTATION

3E. Comparison with other fee structures

What	<ul style="list-style-type: none"> The NGR requires AEMO to consider the structure of fees in other markets, domestic and international.
Why	<ul style="list-style-type: none"> Comparisons of other markets, such as the National Electricity Market and others, allow an opportunity to review for best practice.
Who	<ul style="list-style-type: none"> N/A
Your feedback	<ul style="list-style-type: none"> We invite your comments on the relevance of any other fee structures as points of comparison and possible models to draw on.



3F. Period of fee structure length

What	<ul style="list-style-type: none"> The NGR permits the structure of participant fees for a time period AEMO deems appropriate.
Why	<ul style="list-style-type: none"> A longer period provides certainty and predictability for participants. However, it needs to be balanced against maintaining the flexibility to respond to future changes in circumstances.
Who	<ul style="list-style-type: none"> All gas functions, excluding STTM and Gas Bulletin Board, had a 3-year structure, from 2012 to 2015. The STTM fee structure is in place for 5 years from 2010 to 2015. The methodology for charging fees for the Gas Bulletin Board is prescribed in the NGR, and amendments require rule changes.
Your feedback	<ul style="list-style-type: none"> We invite your comments on the proposed fee structure period.

3G. Break-even period to recover costs

What	<ul style="list-style-type: none"> Currently the fees are calculated to achieve a break-even position over the following periods: <ul style="list-style-type: none"> DWGM – 3 years STTM – 5 years All FRC Gas Markets – 3 years GSOO – 3 years Gas Bulletin Board – annually
Why	<ul style="list-style-type: none"> Setting multiple years of break-even structure could smooth the impact of revenue or expense variations on participants, over a longer period of time.
Who	<ul style="list-style-type: none"> All gas market participants
Your feedback	<ul style="list-style-type: none"> We invite your comments on the break-even period to recover operating costs.

3H. Other comment and issues

We welcome your comments on any other issues relating to the structure of participant fees.



APPENDIX A – CURRENT GAS FEE STRUCTURES

The existing gas fee structures for each gas market under consultation is tabled below for your information.

A.1 Victorian Declared Wholesale Gas Market

Fee	Who pays	How fee is applied	
Energy Tariff D	Each market participant who withdraws gas, or whose customers withdraw gas, from the Declared Transmission System for use at tariff D connection points. Note: Tariff D and Tariff V have aligned rates which commenced from 1 July 2014.	A flat rate (\$ per gigajoule) for each gigajoule of gas withdrawn daily from the Declared Transmission System for use at tariff D connection points.	\$/GJ withdrawn (Tariff D)
Energy Tariff V	Each market participant who withdraws gas, or whose customers withdraw gas, from the Declared Transmission System for use at tariff V connection points. Note: Tariff D and Tariff V have aligned rates which commenced from 1 July 2014.	A flat rate (\$ per gigajoule) for each gigajoule of gas withdrawn daily from the Declared Transmission System for use at tariff V connection points.	\$/GJ withdrawn (Tariff V)
Distribution meter fee	Each market participant who is connected to a Declared Distribution System, or whose customers are connected to a Declared Distribution System, at a connection point at which there is an interval metering installation.	A flat rate (\$) for each connection point which is an interval metering installation.	\$/distribution MIRN/day
Participant Compensation Fund	Each market participant who withdraws gas, or whose customers withdraw gas, from the Declared Transmission System.	A flat rate (\$ per gigajoule) for each gigajoule of gas withdrawn from the Declared Transmission System.	\$/GJ withdrawn daily



A.2 Short Term Trading Market

Fee	Who pays	How fee is applied	
Activity Fee	Each STTM Shipper and STTM User who withdraws gas at any STTM Hub	A flat rate (\$ per GJ) for the actual quantities of gas withdrawn daily at the relevant STTM Hubs by the Registered trading participant (ABN)	\$/GJ withdrawn per day per hub per ABN
Fixed Fee	All STTM Shippers and STTM Users	A flat rate (\$) per day, per hub, per ABN, for each day or part thereof that the person is registered as a Trading Participant	\$/day per hub per ABN
Participant Compensation Fund	Each market participant who withdraws gas, or whose customers withdraw gas, from a hub	A flat rate (\$ per gigajoule) for each gigajoule of gas withdrawn from a hub.	\$/GJ withdrawn per hub per ABN

A.3 Full Retail Contestability Gas Markets – Victoria, South Australia & Queensland

Fee	Who pays	How fee is applied	
FRC gas tariff	Market participants who are retailers	A flat rate	(\$ per customer supply point)
Initial registration fee	Each new gas market participant	A once-off fee (\$) at a set amount	
Gas Statement of Opportunities	Market participants who are Retailers	A flat rate	(\$ per customer supply point)
Gas Advocacy Panel	Market participants who are Retailers	A flat rate	(\$ per customer supply point)



A.4 Full Retail Contestability Gas Market – New South Wales / Australian Capital Territory

Fee	Who pays	How fee is applied	
Standing charge	All Members (Market Participants (i.e. Retailers & Network Operators))	10% of Total Costs (TC) applied equally to each member.	10% * TC
Transaction fee	Market Participants	X% of TC applied to each participant based on transaction rate.	Market Participants
Market share fee	Market Participants	The Market Share Factor is the remaining amount to be recovered after the Member's Contribution and Transaction Rate charge. As such, it is defined as (90% - X%). The 90% is the remaining amount once the Members Contribution of 10% of Total Cost is deducted.	Market Participants
Annual fee	Self-Contracting Users (SCUs)	An annual amount (\$)	\$2,500 pa

A.5 Gas Statement of Opportunities

Fee	Who pays	How fee is applied	
GSOO tariff	Market participants who are retailers	A flat rate	\$ per customer supply point

A.6 Gas Bulletin Board

Fee	Who pays	How fee is applied	
Bulletin Board charges	Shippers	Total flows shipped by the shipper against Total flows shipped in the market (%) X Annual budget revenue requirement.	Market share % X revenue requirement.