

# DRAFT REPORT: AEMO GAS MARKET FEE METHODOLOGY

DRAFT REPORT

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# CONTENTS

<b>CHAPTER 1 – DRAFT REPORT OVERVIEW</b>	<b>3</b>
1.1 Key information	3
1.2 Guiding principles	4
1.3 Summary of key changes in the proposed fee structure to the existing structure	5
<b>CHAPTER 2 – PROPOSED GAS MARKET FEE METHODOLOGIES</b>	<b>6</b>
2.1 Period of fee methodology	6
2.2 Break-even period to recover costs	6
2.3 Victorian Declared Wholesale Gas Market (DWGM)	6
2.4 Short Term Trading Market (STTM)	7
2.5 AEMO’s FRC gas markets	7
2.6 Gas Statement of Opportunities	8
2.7 Gas Bulletin Board	8
<b>CHAPTER 3 – SUBMISSIONS RECEIVED FROM CONSULTATION</b>	<b>9</b>
3.1 List of respondents and issues commented on in submissions	9
<b>APPENDIX A – CURRENT GAS FEE STRUCTURES</b>	<b>13</b>
A.1 Victorian Declared Wholesale Gas Market	13
A.2 Short Term Trading Market	13
A.3 Victorian Full Retail Contestability Gas Market	14
A.4 Queensland Full Retail Contestability Gas Market	14
A.5 South Australia Full Retail Contestability Gas Market	14
A.6 NSW/ACT Full Retail Contestability Gas Market	15
A.7 Gas Statement of Opportunities	15
A.8 Gas Bulletin Board	15



# CHAPTER 1 – DRAFT REPORT OVERVIEW

Australian Energy Market Operator Limited (AEMO) is conducting a consultation on the structure of participant fees to apply from 1 July 2015.

This is the second stage of consultation. AEMO received 5 submissions in the first stage of the consultation. These submissions are published on AEMO’s website.

AEMO welcomes the opportunity for you to provide comments on the *Draft Report: AEMO gas market fee methodology*.

## 1.1 Key information

Purpose	<ul style="list-style-type: none"> <li>To present the proposed fee structures in each of the gas functions covered in the consultation.</li> <li>To seek further stakeholder comment on specifically the Full Retail Contestability (FRC) gas markets fee structure.</li> </ul>								
Date applicable	1 July 2015								
Gas functions covered in this consultation	<ul style="list-style-type: none"> <li>Victorian Declared Wholesale Gas Market (DWGM)</li> <li>Short Term Trading Market (STTM)</li> <li>Full Retail Contestability (FRC) Gas Markets in:             <ul style="list-style-type: none"> <li>Victoria</li> <li>NSW</li> <li>Queensland</li> <li>South Australia</li> </ul> </li> <li>Gas Statement of Opportunities (GSOO)</li> <li>Gas Bulletin Board ^</li> </ul> <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>								
Consultation 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"> <thead> <tr> <th><i>Milestone</i></th> <th><i>Date</i></th> </tr> </thead> <tbody> <tr> <td><b>Submission closing date for Draft report</b></td> <td><b>27 January 2015</b></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>	<b>Submission closing date for Draft report</b>	<b>27 January 2015</b>	Publication of Final Report	31 March 2015	New fee structure applicable	1 July 2015
<i>Milestone</i>	<i>Date</i>								
<b>Submission closing date for Draft report</b>	<b>27 January 2015</b>								
Publication of Final Report	31 March 2015								
New fee structure applicable	1 July 2015								



Submissions closing date and information	<p>We invite you to provide electronic submissions by <u>5.00pm AEDT 27 January 2015</u> to <a href="mailto:jack.fitcher@aemo.com.au">jack.fitcher@aemo.com.au</a>.</p> <p>All submissions will be published on the AEMO website unless specifically requested due to confidentiality reasons.</p>					
Inquiries	<p>Mr. Jack Fitcher          Chief Financial Officer          Australian Energy Market Operator Ltd          Level 22, 530 Collins St          Melbourne Vic 3000          Phone: (03) 9609 8506          Email: <a href="mailto:Jack.Fitcher@aemo.com.au">Jack.Fitcher@aemo.com.au</a></p>	<p>Ms. Sandra Chui          Group Manager – Commercial Services          Australian Energy Market Operator Ltd          Level 22, 530 Collins St          Melbourne Vic 3000          Phone: (03) 9609 8623          Email: <a href="mailto:Sandra.Chui@aemo.com.au">Sandra.Chui@aemo.com.au</a></p>				
Stakeholder feedback requested in the following areas	<p>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.</p> <table border="1" data-bbox="480 696 1396 810"> <thead> <tr> <th colspan="2">Key areas</th> </tr> </thead> <tbody> <tr> <td>Chapter 2</td> <td>Proposed gas market fee methodologies presented in Chapter 2 of this report.</td> </tr> </tbody> </table>		Key areas		Chapter 2	Proposed gas market fee methodologies presented in Chapter 2 of this report.
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Chapter 2	Proposed gas market fee methodologies presented in Chapter 2 of this report.					

## 1.2 Guiding principles

In determining the fee structure, AEMO must have regard to a number of principles that are prescribed in the NGR.

### Principle<sup>^</sup>

- 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.

<sup>^</sup> These principles are prescribed under the national gas objective (NGO) (section 23 of the National Gas Law (NGL)).

The principles may often be competing, for example a strong cost-reflective (user pays) structure is unlikely to be simple. AEMO’s objective is to find a balance between any competing principles.





## 1.3 Summary of key changes in the proposed fee structure to the existing structure

The table below summarises proposed changes to the existing gas fee structures of each function.

The existing fee structures for each function is detailed in Appendix A.

Function	Proposed fee structure to commence 1 July 2015
Victorian Declared Wholesale Gas Market	No change to the existing fee structure.
Short Term Trading Market	The daily fixed fee component is proposed to be removed from the fee structure.
<b>FRC Gas Markets</b> <ul style="list-style-type: none"> <li>• Victorian FRC Gas Market</li> <li>• NSW/ACT FRC Gas Market</li> <li>• Queensland FRC Gas Market</li> <li>• South Australian FRC Gas Market</li> </ul>	<p>The current NSW/ACT FRC fee structure differs from the Victorian, Queensland and South Australia FRC fee structures.</p> <p>Detail of the difference in the structures is listed on page 7 and also in the Appendix A of this document.</p> <p>AEMO is seeking feedback from stakeholders on whether the fee structures of the FRC gas markets should be aligned, and if so, to what structure they should be aligned to.</p>
Gas Statement of Opportunities	No change to existing fee structure.
Gas Bulletin Board	The Gas Bulletin Board fee methodology is prescribed in the National Gas Rules (NGR) and AEMO does not propose to indicate a rule change to the methodology at this point.



# CHAPTER 2 – PROPOSED GAS MARKET FEE METHODOLOGIES

## 2.1 Period of fee methodology

AEMO proposes a duration of three years, that is from 1 July 2015 to 30 June 2018, for the new structure of participant fees for its gas markets.

AEMO considers this time frame provides an appropriate balance between providing participants with some certainty around the fee structure and having the ability to respond to a changing environment.

## 2.2 Break-even period to recover costs

AEMO proposes that a rolling cost recovery/break-even period of three years be used to calculate fees for the gas functions covered in this consultation.

## 2.3 Victorian Declared Wholesale Gas Market (DWGM)

No changes are proposed to the DWGM gas market fee methodology.

Submissions received from stakeholders support the existing structure to reflect user pays and simplicity. Tariffs will continue to be recovered based on volume consumed to reflect user pays and simplicity.

**Table 1 DWGM proposed fee methodology**

Fee	Who pays	How fee is applied	
<b>Energy Tariff</b>	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 daily from the Declared Transmission System.	\$/GJ withdrawn daily
<b>Distribution meter fee</b>	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.	\$/each connection point which is an interval metering installation/daily
<b>Participant Compensation Fund</b>	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



## 2.4 Short Term Trading Market (STTM)

The draft STTM fee structure proposes a minor change to remove the fixed fee (daily fee) to simplify the structure and align it with the DWGM structure.

**Table 2 STTM proposed fee methodology**

Fee	Who pays	How fee is applied	
<b>Activity Fee</b>	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
<b>Participant Compensation Fund</b>	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

## 2.5 AEMO’s FRC gas markets

The FRC gas markets cover the following functions:

- Victorian FRC gas market
- New South Wales/Australian Capital Territory FRC gas market
- Queensland FRC gas market
- South Australia FRC gas market

The current fee structure for the NSW/ACT FRC gas market differs from the fee structure in the Victorian, Queensland and South Australian FRC gas markets.

The key difference is that the NSW/ACT fee structure includes a common charge to all participants, a churn charge and a market share charge, whereas the other FRC gas markets have a market share charge.

AEMO is seeking stakeholder views on whether the FRC gas market fee structures should be consistent across all markets, and if so, what that fee structure should be.

If it works, noting that AEMO is currently undertaking a project to harmonise the Business to Business (B2B) and Business to Market (B2M) processes in the NSW FRC gas market with other FRC gas markets.

This project is currently due for completion in April 2016.

This project will result in AEMO’s services being largely similar across all FRC gas markets.

The actual amount of the fees for each individual FRC gas market will continue to be independently calculated and charged.



## 2.6 Gas Statement of Opportunities

No changes are proposed to the GSOO fee methodology.

**Table 3 GSOO proposed fee methodology**

Fee	Who pays	How fee is applied	
<b>GSOO tariff</b>	Retailers and users, excluding self-contracting users in the Victorian, NSW/ACT, Queensland and South Australian FRC gas markets.	A flat rate	\$ per customer supply point

## 2.7 Gas Bulletin Board

The Gas Bulletin Board fee methodology is prescribed in the National Gas Rules (NGR).

AEMO does not propose to initiate a rule change to change the fee methodology in the NGR, and may review it at a later stage.





## CHAPTER 3 – SUBMISSIONS RECEIVED FROM CONSULTATION

### 3.1 List of respondents and issues commented on in submissions

Five submissions were received to the consultation paper. The respondents were:

- Stanwell
- Origin Energy
- Gas Multinet
- Epic Energy
- AGL

These submissions are published on AEMO’s website.

Summarised below in Table 5 are respondents comments on the issues addressed in the consultation paper.

**Table 4 Issues commented on in submissions**

Issue	Respondent	Response
Duration of new fee methodology	Gas Multinet	5 year period
	Origin Energy	5 year period
	Stanwell	2-3 year period
	<b>AEMO’s draft position:</b>	<b>3 years duration of this fee methodology</b>  Consideration was given to either a 3 year or 5 year structure. Considering the potential for change in our gas markets, a shorter term of 3 years was considered most appropriate.
Cost recovery/break-even period	Gas Multinet	5 year rolling period
	Origin Energy	5 year period
	Stanwell	2-3 year period
	<b>AEMO’s draft position:</b>	<b>3 years rolling break-even for cost recovery.</b>  AEMO considers that a 3 year rolling break-even period most appropriate in order to align with the proposed duration of the fee methodology.



Issue	Respondent	Response
<p>Similar gas market fees to be consolidated (e.g. DWGM and STTM)</p>	<p>Gas Multinet</p>	<p>Gas Multinet supports the consolidation of DWGM and STTM into a single tariff.</p>
	<p>Stanwell</p>	<p>Stanwell supports a long-term view in consolidation of DWGM and STTM into a single tariff, where infrastructure, design, operational efficiencies can be demonstrated by AEMO before consolidating the tariff.</p>
	<p>AGL</p>	<p>AGL notes that in principle Yes, however for AEMO to also consider whether rule obligations require them to be treated differently from a cost recovery perspective.</p> <p>AGL also noted if geographic coverage is taken into account, whether it is fair to smear costs across different markets, particularly if player composition is different.</p>
	<p><b>AEMO’s draft position:</b></p>	<p><b>No consolidation of DWGM or STTM in this fee methodology</b></p> <p>Consideration was given to the potential to consolidate the fees of the DWGM and STTM into one tariff, however this is not currently supported at present, and AEMO agrees the consolidation to one tariff in the short term is unwarranted and would be too far removed from the ‘user pays’ principle.</p>
<p>Distribution meter fees charged in the DWGM.</p>	<p>Origin Energy</p>	<p>Origin Energy supports absorbing the distribution meter fee into the energy tariff fees (D &amp; V) for simplicity.</p>
	<p><b>AEMO’s draft position:</b></p>	<p><b>Continue to recover the distribution meter fees via a separate fee to the energy tariffs.</b></p> <p>Although the distribution meters external costs are relatively small compared to the total DWGM function costs, it is proposed that a separate fee is maintained to recover the external cost of AEMO’s contractual arrangement for the capture and measurement of distribution meter information.</p> <p>These distribution meter costs are clearly identifiable and the level of these costs are directly linked to the number of distribution meters which reflects the ‘user-pays’ principle.</p>



Issue	Respondent	Response
Fixed fee component in the STTM.	Origin Energy	Origin supports removing the fixed fee in the STTM for simplicity.
	<b>AEMO's draft position:</b>	<b>Remove the current fixed fee in the STTM.</b>  STTM participants currently pay a daily registration fee. There is no initial registration fee in the STTM.  It is proposed to remove the current daily registration fixed fee in the STTM to simplify the structure, and to more align it with the DWGM structure.
FRC gas market fees - VIC - NSW/ACT - QLD - SA	Origin Energy	Origin commented that the transaction (churn) charge in the NSW fee structure could be removed to align with the other FRC markets.
	<b>AEMO's draft position:</b>	Refer to page 7 for comments regarding the FRC gas market fee structures.  It is proposed to retain an initial registration fee in each FRC gas market as there are additional identifiable costs that AEMO incurs when a new participant joins the FRC markets.
Gas Statement of Opportunities (GSOO)	Gas Multinet	Support the existing recovery method to be on 'per supply point'.
	<b>AEMO's draft position:</b>	<b>Retain the existing method of recovering the GSOO on a 'per customer supply point' across all FRC gas markets.</b>



Issue	Respondent	Response
<p><b>Gas Bulletin Board</b></p>	<p>Origin Energy</p>	<p>To reflect significant upcoming changes and large associated costs with the GBB upgrade, to encourage AEMO that it is timely to review the user base that will benefit from it, and to think broader than the shippers whom currently pay for it.</p>
	<p>Stanwell</p>	<p>Currently the GBB fee methodology is prescribed in the National Gas Rules (NGR). Origin suggests the GBB fee methodology be removed from the NGR and follow the same process as the other gas fees to ensure consistency across the markets.</p> <p>Stanwell comments that AEMO should consider the GBB platform to be similar to the ASX data, where fee paying subscribers can access live data, meanwhile website users is provided with delayed data.</p> <p>Stanwell also suggested AEMO consider whether GBB costs could be funded by a government grant or allocation, similar to that of the Australian Bureau of Statistics.</p>
	<p><b>AEMO’s draft position:</b></p>	<p><b>AEMO has considered the submissions received from respondents.</b></p> <p>AEMO does not propose to initiate a rule change to change the fee methodology in the NGR, and may review it at a later stage.</p>
<p><b>General comments</b></p>	<p>Epic Energy</p>	<p>Epic Energy’s submission was supportive to changes to the gas market fee methodology where NGR guiding principles can be demonstrated for each proposed change.</p>
	<p><b>AEMO’s comment:</b></p>	<p><b>Comments from Epic Energy noted by AEMO.</b></p>





## 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	
<b>Energy Tariff</b>	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 daily from the Declared Transmission System.	\$/GJ withdrawn daily
<b>Distribution meter fee</b>	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 delivery point which is an interval metering installation/daily
<b>Participant Compensation Fund</b>	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	
<b>Activity Fee</b>	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
<b>Fixed Fee</b>	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
<b>Participant Compensation Fund</b>	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 Victorian Full Retail Contestability Gas Market

Fee	Who pays	How fee is applied	
<b>FRC tariff</b>	Victorian FRC gas market participants who are retailers.	A flat rate	\$ per customer supply point
<b>Initial registration fee</b>	Each new Victorian FRC gas market participant who is registering in the category of Market Participant – Retail or Market Participant – Other.	A once-off fee (\$) at a set amount.	

### A.4 Queensland Full Retail Contestability Gas Market

Fee	Who pays	How fee is applied	
<b>FRC tariff</b>	Queensland FRC gas market participants who are retailers.	A flat rate	\$ per customer supply point
<b>Initial registration fee</b>	Each new Queensland FRC gas market user and self-contracting user.	A once-off fee (\$) at a set amount.	

### A.5 South Australia Full Retail Contestability Gas Market

Fee	Who pays	How fee is applied	
<b>FRC tariff</b>	South Australian FRC gas market participants who are retailers.	A flat rate	\$ per customer supply point
<b>Initial registration fee</b>	Each new South Australian FRC gas market user and self-contracting user.	A once-off fee (\$) at a set amount.	



## A.6 NSW/ACT Full Retail Contestability Gas Market

Fee	Who pays	How fee is applied
<b>Standing charge</b>	NSW/ACT gas market user and network operator.	The amount to be recovered is calculated as 10% of the total revenue requirement. The fee is applied equally to gas market user and network operator.
<b>Transaction fee</b>	NSW/ACT gas market users on the following basis:  Participant transaction count/total market DPI count.	The amount to be recovered is calculated as X% of the total revenue requirement where:  $X = 4.5 * 12(\text{total transaction rate})$ where:  Total transaction rate = total transaction count/total market DPI count  X is capped at 45%.
<b>Market share fee</b>	NSW/ACT gas market users on the following basis:  Participant DPI count/total market DPI count.	The charge is the remaining amount to be recovered (i.e. 45% of total revenue requirement) after the standing charge and the transaction fee (i.e. total revenue requirement 10% standing charge, less 45% transaction fee, less X%).

## A.7 Gas Statement of Opportunities

Fee	Who pays	How fee is applied
<b>GSOO tariff</b>	Retailers and users, excluding self-contracting users in the Victorian, NSW/ACT, Queensland and South Australian FRC gas markets.	A flat rate  \$ per customer supply point

## A.8 Gas Bulletin Board

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