



CONSULTATION PAPER – STRUCTURE OF PARTICIPANT FEES IN AEMO’S GAS MARKETS

INITIAL CONSULTATION PAPER

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EXECUTIVE SUMMARY

Australian Energy Market Operator (AEMO) invites you to provide a submission on the structure of participant fees in AEMO's gas markets.

Consultation scope

AEMO is conducting a consultation on the structure of Participant fees to apply from 1 July 2018 for:

- Victorian Declared Wholesale Gas Market (DWGM)
- Short Term Trading Market (STTM)
- Full Retail Contestability (FRC) Gas Markets in:
 - Victoria
 - New South Wales / Australian Capital Territory
 - Queensland
 - South Australia
- Gas Statement of Opportunities (GSOO)
- Gas Bulletin Board (GBB)
- The Energy Consumers Australia (ECA) fees collected by AEMO from gas participants

The current structure of Participant fees expires on 30 June 2018.

The objective of the consultation is to provide stakeholders with the opportunity to have input into the development of the structure of Participant fees to apply from 1 July 2018.

Out of scope of this consultation

- Western Australia Full Retail Contestability (FRC) Gas Market
- Western Australia Gas Services Information (GSI)

These fee structures are prescribed in their respective market rules.

The closing date for submissions responding to this paper is 1 February 2018.

This consultation only applies to the methodology in regard to the structure of fees. The actual amount charged for each fee will be determined on an annual basis, via the AEMO budgeting process.

In determining the structure of Participant fees, AEMO must have regard to the National Gas Objective (NGO). In addition, the National Gas Law (NGL) and the National Gas Rules (NGR) detail principles that need to be considered when determining the structure of Participant fees:

- The structure of Participant fees should be **simple**.
- 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.
- Participant fees should **not unreasonably discriminate** against a category or categories of registered participants.
- 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 **provide for the recovery of AEMO's budgeted revenue requirements** on a specified basis.

The principles may often be competing, for example, a strong cost reflective structure is unlikely to be simple. AEMO's objective is to find a balance between any competing principles.

To help stakeholders respond to this paper, AEMO has highlighted a number of areas that stakeholders may wish to comment on. Submissions are not restricted to these areas and comments are welcome on any relevant issue, regardless of whether it is detailed in this document.

Summary of areas for your comment:

- The **length of time** over which the new structure of Participant fees from 1 July 2018 should apply.
- The **cost recovery/break even period** that is used to calculate fees.
- The method of recovering costs for the **DWGM function**
- The method of recovering costs for the **STTM function**.
- The method of recovering costs for the **Gas FRC functions**.
- The method of recovering costs for the **GSOO function**.
- The method of recovering costs for the **GBB function**.
- The current method of recovering costs on behalf of the **ECA**.
- The current method of recovering costs for the **DWGM and STTM Participant Compensation Funds (PCF)**.
- **Other issues** you wish to raise.

Future gas markets – Capacity trading and auction mechanisms

A Capacity Trading and Auction mechanism was approved by Council of Australian Governments (COAG) in late November 2017 and direction given to AEMO to implement and commence in March 2019. These markets are voluntary markets and initial considerations of a cost recovery model could be similar to the Gas Supply Hub fee model that has a combination of a fixed fee and transaction volume fee.

If required, AEMO will conduct a separate fee structure consultation prior to these markets go-live date.

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1. CONSULTATION OVERVIEW

The Australian Energy Market Operator Limited (AEMO) invites you to provide a submission.

1.1 Key information

Table 1 Key information on gas fee structure consultation

Purpose	To provide stakeholders with the opportunity to have input into the development of the structure of Participant fees to apply from 1 July 2018.												
Date applicable to new structure	1 July 2018												
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 – New South Wales / Australian Capital Territory – Queensland – South Australia • Gas Statement of Opportunities (GSOO) • Gas Bulletin Board (GBB) • The Energy Consumers Australia (ECA) fees collected by AEMO from gas participants 												
Timetable	<p>The following table contains an outline of 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>Submission closing date for this initial consultation paper</td> <td>1 February 2018</td> </tr> <tr> <td>Publication of Draft Report for stakeholder comment</td> <td>By 13 February 2018</td> </tr> <tr> <td>Submission closing date for Draft report</td> <td>By 27 February 2018</td> </tr> <tr> <td>Publication of Final Report</td> <td>By 31 March 2018</td> </tr> <tr> <td>New fee structure applicable from</td> <td>1 July 2018</td> </tr> </tbody> </table>	<i>Milestone</i>	<i>Date</i>	Submission closing date for this initial consultation paper	1 February 2018	Publication of Draft Report for stakeholder comment	By 13 February 2018	Submission closing date for Draft report	By 27 February 2018	Publication of Final Report	By 31 March 2018	New fee structure applicable from	1 July 2018
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Submission closing date for this initial consultation paper	1 February 2018												
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Submission closing date for Draft report	By 27 February 2018												
Publication of Final Report	By 31 March 2018												
New fee structure applicable from	1 July 2018												
Meetings	Stakeholders may request a meeting in their submission. Please specify why you would like a meeting. Matters discussed at a meeting may be made available to other stakeholders.												

Submissions closing date and information	AEMO prefers that submissions be forwarded in electronic format as they will be published on the AEMO website Please provide electronic submissions by <u>5.00pm AEDT 1 February 2018</u> to jack.fitcher@aemo.com.au or to Jack Fitcher Australian Energy Market Operator Limited GPO Box 2008 MELBOURNE VIC 3001 AEMO plans to publish all submissions on its website. Please identify any part of your submission that is confidential and you do not wish to be published.
Inquiries and meetings	Ms. Sandra Chui Group Manager Commercial Services Phone: (03) 9609 8623 Email: sandra.chui@aemo.com.au

1.2 Background

The current structure of Participant fees in AEMO's gas markets commenced on 1 July 2015 for a duration of three years, ending 30 June 2018.

See Structure of Participant Fees in the Gas markets – Determination and Report – published 10 March 2015 on AEMO's website.

<http://www.aemo.com.au/Stakeholder-Consultation/Consultations/Structure-of-participant-fees-in-AEMOs-Gas-Markets>

1.3 Guiding principles

In determining Participant fees, AEMO must have regard to the National Gas Objective (NGO). In addition, the NGL and NGR detail a number of principles that need to be considered when determining the structure of Participant fees, including:

- The structure of Participant fees should be **simple**.
- **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.
- Participant fees should **not unreasonably discriminate** against a category or categories of Registered Participants.
- 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 **provide for the recovery of AEMO's budgeted revenue requirements** on a specified basis.

This structure implies trade-offs between competing principles. For example, a strongly cost-reflective structure is unlikely to be simple.

When presenting preferred structures, respondents are encouraged to identify any trade-offs between competing principles and, where possible, describe how the trade-off should be approached having regard to the NGO.

2. CURRENT GAS FEE STRUCTURES

Table 2 Existing fee structure by function (1 July 2015 to 30 June 2018)

	Who pays	How fee is applied	Fee metric
DWGM			
DWGM Energy Tariff	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.
DWGM 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.	\$/each connection point which is an interval metering installation/daily.
DWGM 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.
STTM			
STTM 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 STTM Hubs.	\$/GJ withdrawn per day per hub per ABN.
STTM Participant Compensation Fund	Each market participant who withdraws gas, or whose customers withdraw gas, from a STTM Hub	A flat rate (\$ per gigajoule) for each gigajoule of gas withdrawn from a STTM Hub.	\$/GJ withdrawn per hub per ABN.
VIC FRC Gas			
VIC FRC Gas Tariff	Victorian FRC gas market participants who are retailers.	A flat rate	\$ per customer supply point.



	Who pays	How fee is applied	Fee metric
VIC FRC Gas Initial Registration Fee	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.	
QLD, SA & NSW FRC Gas			
QLD, SA & NSW FRC Gas Tariff	FRC gas market participants who are retailers.	A flat rate.	\$ per customer supply point.
QLD, SA & NSW FRC Gas Initial Registration Fee	Each new FRC gas market user and self-contracting user.	A once-off fee (\$) at a set amount.	
GSOO			
GSOO Tariff	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.
Gas Bulletin Board			
GBB Fee	Shippers	Total flows shipped by the shipper against Total flows shipped in the market (%) X annual budget revenue requirement.	
Energy Consumers Australia (on-charge)			
ECA fee	FRC gas market participants	A flat rate	\$ per customer supply point.

3. AREAS FOR YOUR COMMENT

To help assist your response, AEMO has highlighted a number of areas for comment. Your submissions are not restricted to these areas, you may comment on any other relevant issue.

3.1 Period of fee structure

The NGR permits AEMO to set a structure of Participant fees for such period of time as AEMO considers appropriate.

The 2012 and 2015 final determinations fixed the term of the structure at three years, with the exception of the Short Term Trading Market (STTM). The fee structure term for the STTM from market go-live was five years from 2010 to 2015 to allow a longer period to recover market establishment costs.

Having a structure that applies over a longer period, for example 5 years, provides certainty and predictability. This needs to be balanced against having the ability to change a fee structure if circumstances change.

A three year gas structure period will align the expiry of the gas market fee structure with the electricity fee structure that expires 30 June 2021. This may provide some efficiencies for AEMO and participants.

Question

1. **AEMO welcomes comments on the length of time over which the structure of participants fees from 1 July 2018 should apply.**

3.2 Break-even period to recover costs

Currently, a three year rolling break-even period is used to recover costs in each market. This was most appropriate at the time of the last consultation to align with the duration of the fee structure, while providing a balance between reducing year to year variability and maintaining the 'user pays' principle.

Question

1. **AEMO welcomes comments on the break-even period to recover operating costs.**

3.3 Declared Wholesale Gas Market (DWGM) fee structure

3.3.1 Background

The purpose of the DWGM is to enable competitive dynamic trading based on injections and withdrawals from the transmission system that links producers, major users and retailers.

The DWGM function provides the following broad services:

- Gas system security, market operations and systems.
- Power system reliability and planning.
- Wholesale metering and settlements.
- Prudential management.

3.3.2 How market fees are currently charged in the DWGM

The energy tariff for this function is levied on a \$/GJ withdrawn basis to registered participants. Registered participants are found in Appendix A of this consultation paper.

A distribution meter fee is charged at a flat rate to each market participant who is connected to a Declared Distribution System where there is an interval metering installation.

The distribution meter fee recovers the cost of AEMO's contractual arrangement for the capture and measurement of distribution meter information.

The energy tariff recovers the balance of costs to provide the DWGM services.

Question

1. AEMO welcomes comments on the DWGM fee structure.

3.4 Short Term Trading Market (STTM) fee structure

3.4.1 Background

The purpose of the STTM is to enable market-based wholesale gas balancing mechanism established at gas hubs – Sydney, Adelaide and Brisbane.

The market is a day ahead market for each hub, and the market sets a daily market price.

The STTM function provides the following broad services:

- Market operations and systems
- Market Operator Service (MOS) – AEMO recovers the pipeline operators' market operator service costs for their portion of operating costs in relation to the STTM and recovers this from participants.
- Wholesale metering and settlements
- Prudentials management.

3.4.2 How market fees are currently charged in the STTM

The activity fee for this function is levied on a \$/GJ withdrawn basis to registered market participants. The activity fee includes the market operational cost and the MOS costs.

Question

1. AEMO welcomes comments on the STTM fee structure.

3.5 FRC gas markets fee structure

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 purpose of the FRC gas markets is to provide the services and infrastructure to allow gas consumers to choose their retailer while also providing the business to business interactions to support efficient operation of the market.

The FRC gas functions provide the following broad services:

- Support retail market functions and customer transfers
- Manage data for settlement purposes
- Implement market procedure changes
- Operate the central IT systems that facilitate retail market services.

3.5.1 How market fees are currently charged in the FRC gas markets

The fee structure is the same across all of AEMO’s gas FRC markets. There is an initial registration fee upon a participant joining the market and the fees are levied on a \$ per customer supply.

In previous fee structure consultations, whether to consolidate the FRC gas market tariffs into one single tariff across all gas FRC markets has been considered, but not adopted.

Questions

1. **AEMO welcomes comments on the current fee structure for the FRC gas functions, including any comments on the suitability of consolidating all tariffs for the different FRC markets into a single tariff.**

3.6 Gas Statement of Opportunities

The purpose of the GSOO is to report the supply adequacy of eastern and south-eastern Australian gas markets to meet energy needs. AEMO publishes reports on demand and supply, and delivery constraints projected for the next 20 years.

Retailers across the FRC gas market jurisdictions are currently charged for GSOO costs at a flat rate per customer supply point.

Questions

1. **AEMO welcomes comments on the current fee structure for GSOO and whether the GSOO fee should be retained as a separate fee or whether the GSOO costs be recovered via the FRC fees.**

3.7 Gas Bulletin Board

The Gas Bulletin Board (GBB) is a communications system that provides information relating to gas production, transmission, storage and usage for facilities that are connected to the east coast gas market.

GBB provides market participants timely data to assist in decision making. This includes capacity outlooks, nominations and forecasts, actual flows, linepack adequacy, additional information for maintenance planning.

3.7.1 Recent rule changes

On 26 September 2017 the Australian Energy Market Commission (AEMC) published a final rule determination (Determination) pursuant to a rule change request from the COAG Energy Council. The rule change request sought changes to enhance the breadth and accuracy of information provided to the market through the GBB.

One aspect of the Determination (which takes effect from 1 July 2018) removed the existing cost recovery provisions relating to the GBB from Part 18 of the NGR and provided AEMO with the power to determine the structure of participant fees.

3.7.2 How market fees are currently charged for GBB

GBB costs are currently recovered from shippers based on the volumes of gas shipped.

3.7.3 Exploring options of how GBB could be recovered from 1 July 2018

Under the Determination, shippers are no longer required to be 'registered participants'. This will require AEMO to develop an alternative approach to cost recovery, to be implemented by 1 July 2018.

Organisations required to remain registered with the GBB in the future are:

- Production facilities
- Transmission pipelines
- Storage facilities

The GBB could be recovered from production facilities, transmission pipelines, storage facilities or a combination of the three. For example, the recovery of costs associated with the Western Australian Gas Bulletin Board is 50% from producers and 50% from shippers.

Questions

1. **AEMO welcomes comments on the future fee structure for the GBB.**

3.8 Energy Consumers Australia (ECA) fees

The Council of Australian Governments (COAG) Energy Council approved the establishment of Energy Consumers Australia (ECA) in 2015 to provide a focus on national energy market matters of strategic importance for energy consumers, in particular residential and small business consumers.

In October 2014, AEMO conducted a consultation process, prior to the commencement of the ECA, and it was determined that the gas component of ECA fees be recovered from FRC gas markets based on 'customer supply points'.

Questions

1. **AEMO welcomes comments on the method to recover Energy Consumers Australia costs.**

3.9 Participant Compensation Funds

Under the NGR, AEMO is required to maintain the Participant Compensation Funds (PCF) for the DWGM and STTM.

The purpose of the funds are to pay compensation to market participants for scheduling errors as determined by the Dispute Resolution Panel.

The NGR prescribes:

- the funding requirements for each financial year, and
- the method to charge PCF fees, as outlined below:
 - **DWGM**: Market participant who withdraws gas, or whose customers withdraw gas, from the Declared Transmission System.
 - **STTM**: Market participant who withdraws gas, or whose customers withdraw gas, from a hub.

Question

1. **AEMO welcomes any comments on the structure of the PCF fees for the DWGM and STTM.**

3.10 Other comment and issues

Questions

1. **AEMO welcomes your comments on any other issues relating to the structure of Participant fees in AEMO's gas markets.**

APPENDIX A. REGISTERED PARTICIPANTS

Market	Registered participants*
DWGM	<p>Market participant</p> <ul style="list-style-type: none"> • Retailer • Trader • Distribution customer • Producer • Storage provider • Transmission customer <p>Other participant roles</p> <ul style="list-style-type: none"> • Declared transmission system service provider (DTSSP) • Interconnected transmission pipeline services provider (ITPSP) • Distributor • Producer • Storage provider • Transmission customer
STTM	<p>STTM trading participants</p> <ul style="list-style-type: none"> • Shippers • STTM user

Market	Registered participants*
FRC Gas	<p>NSW / ACT</p> <ul style="list-style-type: none"> • Network operator • Retailer user • Self-contracting user <p>QLD</p> <ul style="list-style-type: none"> • Distributor • Retailer • Self-contracting user <p>SA</p> <ul style="list-style-type: none"> • Network operator • Retailer user • Self-contracting user • Transmission system operator • Shipper <p>VIC</p> <ul style="list-style-type: none"> • Distributor • Retailer or self-contracting user • Transmission service provider • Market participant other
GBB**	<ul style="list-style-type: none"> • Production facility • Transmission pipeline • Storage facility

*AEMO can only charge fees to registered participants.

** Shippers will no longer be required to be registered as a result of a recent rule change by the AEMC dated 26 September 2017.