



23 October 2023

Our Reference: APLNG - COR - 1042355

Daniel Westerman  
Chief Executive Officer & Managing Director  
Australian Energy Market Operator  
Level 22, 530 Collins St  
Melbourne VIC 3000

Via email to: [reformdevelopmentandinsights@aemo.com.au](mailto:reformdevelopmentandinsights@aemo.com.au)

Dear Mr Westerman,

**Re: Submission on Draft Report Gas Fee Structures**

Australia Pacific LNG Pty Ltd (Australia Pacific LNG) welcomes the opportunity to make a submission to the Australian Energy Market Operator (AEMO) in relation to its *Structure of Gas Participant Fees (September 2023): draft report and determination* (draft report). The draft report responds to feedback received on the August discussion paper regarding gas fee structures for gas market participants from 1 July 2024 (consultation paper).

Australia Pacific LNG is an incorporated company and one of Australia's leading gas production companies and the largest net contributor of gas supply to Australia's domestic east coast gas market. As noted in our submission to the consultation paper, Australia Pacific LNG supports a fee approach that aligns with the guiding principles under rule 135CA of the National Gas Rules (NGR). We consider that the fee structure of the Gas Statement of Opportunities (GSOO), Gas Bulletin Board (GBB) and East Coast Gas System (ECGS) reforms should:

- ensure fair and appropriate sharing of fees between market participants that demonstrates 'user pays' and 'reflective of involvement' principles, such that all industry participants that derive benefit from the services provided by AEMO contribute equitably to the costs of these services
- ensure that the fee structures do not discriminate unreasonably against a category or categories of registered participants
- have regard to other fee structures that are appropriate for comparison purposes.

**ECGS Reform Program fees**

In the draft report, AEMO has proposed a third fee structure option—recovery of 30 per cent of ECGS reform costs from producers on a \$/GJ produced basis and 70 per cent from retailers on a \$/GJ withdrawn basis (option 3).

Australia Pacific LNG does not agree that this fee structure best satisfies AEMO's guiding principles, irrespective of whether it has been adjusted to exclude gas production for LNG export purposes (see comments below). Option 3 trades the cost reflectiveness of an adjusted option 2 (i.e. excluding LNG export demand from the cost base) for the simplicity of implementation. However, we acknowledge there is merit in adopting option 3 over the other two options. This is because:

- as AEMO has identified, there are significant barriers associated with implementing option 2

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- option 3 is a more appropriate cost assignment methodology than option 1, as it more closely recognises consumers as the ultimate users and beneficiaries of the ECGS reforms.<sup>1</sup>

We agree with AEMO's assessment of the advantages of option 3 outlined in table 9<sup>2</sup> of the draft report and note that the disadvantages AEMO identified could be rectified by recovering a larger proportion of costs from retailers. Of the options proposed by AEMO, Australia Pacific LNG considers option 3 to be the better cost allocation methodology for ECGS reforms.

### Exclusion of LNG Export demand

In the event that option 2 is considered to assign ECGS reform costs, Australia Pacific LNG considers that all gas produced to meet LNG export demand should be excluded from the calculation used to allocate ECGS reform program fees in line with the reflective-of-involvement and non-discrimination principles. LNG export customers are not a class of end-use customer that should be captured by the gas market fees. They do not benefit from the ECGS reforms, nor do they interact with the domestic market.

Under the NGR, gas produced by LNG exporters to meet long-term LNG export contracts is not subject to the AEMO direction powers enabled by the ECGS reforms:

*'AEMO must not give an east coast gas system direction in relation to natural gas owned or controlled by a relevant entity that exports natural gas as LNG unless the natural gas is not long-term contract gas within the meaning of guidelines made under regulation 13GF of the Customs (Prohibited Exports) Regulations 1958 of the Commonwealth.'*<sup>3</sup>

Australia Pacific LNG notes that this appears to be an acknowledgement that gas produced by LNG exporters to meet long-term LNG contract demand is not part of the domestic market supply.

AEMO also noted in the consultation paper that there would need to be '*consideration given to export demand to avoid exporters unfairly subsidising costs of the reform program without benefiting them.*'<sup>4</sup> We note that this disadvantage has been omitted from the options analysis included in the draft report.<sup>5</sup> Australia Pacific LNG considers it to remain a relevant and material consideration.

If option 2 were to be used to assign ECGS reform costs, Australia Pacific LNG is not opposed to gas produced for the domestic market being assigned a reasonable portion of costs for ECGS reforms and associated directions or actions taken by AEMO, where appropriate. However, it seems clear that the volumes associated with long-term LNG demand contracts was not intended to be treated the same way and should therefore be excluded from the relevant fee calculations.

### GBB fees

In the draft report, AEMO has maintained its GBB fee recovery position—an equal allocation between producers, on a \$/GJ produced basis, and wholesale gas market participants on a \$/GJ withdrawn basis.

It is Australia Pacific LNG's view that such an allocation of costs to producers does not adequately reflect the principles AEMO is obliged to consider, including having regard to other fee structures, and the reflective-of-involvement principle.

AEMO notes in the draft report, that as of 15 March 2023, the GBB has expanded the set of participants required to provide information through the *National Gas Amendment (Market Transparency) Rule 2022* from BB reporting agents, BB reporting entities and BB shippers<sup>6</sup> to also include production facilities, transmission pipelines and storage facilities.<sup>7</sup> APLNG notes that AEMO's

<sup>1</sup> Option 1: a separate fee consistent with GBB fee structure approach.

<sup>2</sup> AEMO, *Structure of Gas Participant Fees*, Draft report and determination, September 2023, pp.28-29.

<sup>3</sup> National Gas Rules, rule 701(2).

<sup>4</sup> AEMO, *Structure of Gas Participant Fees*, Consultation paper, August 2023, p.34.

<sup>5</sup> AEMO, *Structure of Gas Participant Fees*, Draft report and determination, September 2023, p.28.

<sup>6</sup> AEMO, *Structure of Gas Participant Fees*, Draft report and determination, September 2023, p.7.

<sup>7</sup> AEMO, *Structure of Gas Participant Fees*, Draft report and determination, September 2023, p.39.

interpretation of the reflective-of-involvement principle as stated in the draft report is to allocate costs across all participants that use, receive, benefit and interact with the output.<sup>8</sup>

In our previous submission on the consultation paper Australia Pacific LNG noted that *'[t]he information published on the GBB therefore benefits a broad range of participants across the east coast gas market, including retailers, large users and government bodies'*, through providing information on supply-demand balance, providing further transparency around pricing and facilitating informed decision making around consumption, production and infrastructure services.

Australia Pacific LNG considers that given the increased number of market participants and the wide range of beneficiaries of the GBB, it is more appropriate to revise the allocation of costs for GBB fee recovery so that they reflect these changes and a more equitable cost sharing regime among such beneficiaries.

Finally, Australia Pacific LNG considers that the function and scope, as well as the beneficiaries, of the GBB are similar to GSOO. AEMO has proposed that the most appropriate fee structure for GSOO is for 30 per cent of costs to be allocated to producers and Australia Pacific LNG considers that the same approach should be adopted for GBB fees.

Australia Pacific LNG resubmits that our previously outlined position—that gas producers should pay no more than 30 per cent in aggregate of the GBB costs—is a more appropriate cost assignment methodology than the existing approach. Our proposed fee structure would bring it in line with the current GSOO fees and AEMO's proposal for the ECGS reforms. We believe this also aligns better to the National Gas Objective (NGO) and AEMO's interpretation of the associated principles it is required to consider as cited in the draft report.

### **GSOO fees**

AEMO has proposed to retain the existing structure for determining GSOO costs; that being an allocation to producers of 30 per cent in aggregate of the existing costs. Australia Pacific LNG does not consider that the current fee structure captures all end-use consumers as envisaged by the guiding principles.

In the draft report, AEMO responded to Australia Pacific LNG's submission on the split of GSOO costs, noting *'allocation to wholesale gas market participants would result in geographical discrimination between retail customers (some consumers have the potential for pass through of GSOO fees while others do not) which is inconsistent with the NGO.'*<sup>9</sup>

Australia Pacific LNG understands that AEMO is concerned such an outcome would be incongruent with the NGO, however, AEMO's own interpretation of the cost reflectivity fee structure principle acknowledges that AEMO should consider the degree to which registered participants:

- interact with AEMO in relation to the output
- use the output
- receive the output
- benefit from the output.

Australia Pacific LNG believes that more can be done to strike a balance between AEMO's concerns and keeping the fee structure in line with the guiding principles. This includes further consultation with participants—both GSOO registered and those not currently registered for GSOO—to determine an equitable allocation of costs that does not unfairly discriminate between end users. We believe that more can be done to achieve a fairer and more appropriate sharing of fees across market participants.

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<sup>8</sup> AEMO, *Structure of Gas Participant Fees*, Draft report and determination, September 2023, p.32.

<sup>9</sup> AEMO, *Structure of Gas Participant Fees*, Draft report and determination, September 2023, p.35.

Thank you for the opportunity to provide feedback on the draft report. Should you have any queries relating to this submission, please contact Courtney Czechowski, Regulatory and Assurance Lead, at [courtney.czechowski@originenergy.com.au](mailto:courtney.czechowski@originenergy.com.au) or via phone on (07) 3867 0461.

Yours sincerely

A handwritten signature in black ink, appearing to read 'S Houghton'.

**Stuart Houghton**  
CSG Marketing Manager  
Origin Energy on behalf of Australia Pacific LNG Pty Ltd