

# STTM PARTICIPANT FEE STRUCTURE AND MAJOR GAS PROJECT DETERMINATION – ISSUES PAPER

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## Executive Summary

The Australian Energy Market Operator (AEMO) is establishing the Short Term Trading Market (STTM) and will operate that market upon its anticipated commencement on 4 June 2010. Under the National Gas Law (NGL) and the National Gas Rules (NGR) AEMO may determine, charge for and recover fees in respect of the costs of establishment and operation of the STTM.

AEMO proposes to determine that the establishment of the STTM is a major gas project in accordance with Rule 135CB of the NGR and commence recovery of the costs of the project on 1 July 2010.

This Issues Paper forms the first stage of the extended consultation process on:

- the proposed determination of STTM establishment as a major gas project;
- the participant fee structure for AEMO's STTM fees.

Most of AEMO's STTM costs, both for establishment and ongoing operation, are essentially fixed in nature and are not directly related to the number of participants or level of market activity. However, AEMO considers that cost recovery based solely on a fixed fee per participant may create a barrier to entry to the market for smaller retailers and end users, which in turn may potentially lead to a lowering of liquidity and lessening of competitive benefits expected from the STTM. Therefore, AEMO considers that it is appropriate to include both fixed and variable components in its STTM fee structure.

The fixed component of STTM fees will recover costs associated with registration, help desk and information services. AEMO considers that this is reflective of the costs of services provided to all registered participants, and one that is consistent with other relevant markets.

AEMO proposes that the variable component of its STTM fees would be charged based on gas withdrawals on a \$/GJ rate. This variable component will recover annual operating costs and an annual recovery of establishment costs over a 7-year period from 2010.

AEMO considers that this approach:

- is simple, clear and transparent;
- reduces barriers to entry;
- is consistent with other relevant markets such as the Victorian wholesale gas market;
- is efficient in terms of price for end consumers of natural gas as variable fees are allocated further down the supply chain; and
- aligns with incentives for sufficient gas to be delivered to the hub to match withdrawals, thereby assisting with incentives for reliability of supplies to end users.



AEMO seeks feedback on the following:

1. AEMO's proposal to determine the STTM establishment as a major gas project as defined under the NGR.
2. AEMO's proposed methodology for the annual resetting of fees with a fixed 5 year outlook to smooth fee changes from year to year with the initial period from 2010/11 to 2014/15.
3. AEMO's proposal for a single fixed fee to cover costs associated with STTM registration, help desk and information services.
4. AEMO's proposal for a variable fee component payable by STTM Users and STTM Shippers based on a \$/GJ rate for withdrawals only.

## 1. Introduction

The Australian Energy Market Operator (AEMO) is establishing the Short Term Trading Market (STTM) and will operate that market upon its anticipated commencement on 4 June 2010. In accordance with the National Gas Law (NGL) and National Gas Rules (NGR), AEMO may determine, charge for and recover fees in respect of establishment and operation of the STTM, as a regulated gas market which AEMO will operate as one of its statutory functions<sup>1</sup>. AEMO is required to apply the extended consultation procedures of Section 9A of the NGR when determining the structure (including the introduction and determination) of fees to be charged to Registered participants (see Rule 135CA of the NGR).

In addition, AEMO proposes to determine that the STTM is a major gas project in accordance with the provisions of Rule 135CB of the NGR. AEMO must also consult on this determination in accordance with the extended consultation procedures of the NGR. When AEMO determines a project to be a major gas project, it must determine the start date for recovery and the period or periods for recovery of the costs of the project. AEMO proposes that the start date for recovery of costs is 1 July 2010, and that the period for recovery of costs will be set in accordance with the methodology defined in this Issues Paper.

The extended consultation procedure to be followed by AEMO consists of three stages, which are described further in this paper. This Issues Paper represents the start of the first stage of consultation, providing information about the process, identifying key issues and points for discussion, and formally inviting comment from stakeholders and other interested parties.

The actual STTM fees for 2010/2011 and future years will be determined by the Board of Directors of AEMO under AEMO's normal budgeting and fee setting process. This determination will apply the approved methodology and utilise the budgets and forecasts for the STTM for 2010/11 and future years that will be prepared in the first quarter of 2010.

Details of the NGL and NGR provisions relevant to the structure and recovery of STTM fees are provided in Appendix 1 of this Issues Paper. Information on the design and operation of the STTM is available from the AEMO web site ([www.aemo.com.au](http://www.aemo.com.au)).

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<sup>1</sup> The National Gas (Short Term Trading Market) Amendment Act of South Australia has been passed and is expected to be proclaimed before the end of 2009. This will amend section 91A(1)(f) and insert a new section 91 BRB to include the operation and administration of a short term trading market.

## 2. Consultation Process

AEMO invites written submissions on:

- AEMO's proposal to determine the STTM establishment as a major gas project and commence recovery of the costs of the project from 1 July 2010, in accordance with the methodology defined in this Issues Paper; and
- AEMO's proposed participant fee structure for the STTM.

Feedback is requested on the following matters which are discussed further in this Issues Paper:

1. AEMO's proposal to determine the STTM establishment as a major gas project as defined under the NGR.
2. AEMO's proposal for a single fixed fee to cover costs associated with STTM registration, help desk and information services.
3. AEMO's proposal for a variable fee component payable by STTM Users and STTM Shippers based on \$/GJ rate for withdrawals only.
4. AEMO's proposed methodology for the annual resetting of fees with a 5 year outlook to smooth fee changes from year to year with the initial period from 2010/11 to 2014/15.

Comments are also invited on any other issues relating to the matters under consultation.

The following table outlines the consultation process that AEMO proposes to apply. Please note that the dates in this table are indicative only and may be subject to change following further consultation.

PROCESS	DATE
Publication of the Issues Paper and invitation to make submissions in response to the Issues Paper	18 November 2009
Closing date for submissions received in response to this Notice of First Stage of Rules Consultation	23 December 2009
Publication of the Draft Determination and Report and invitation to make submissions in response to the Draft Determination	20 January 2010
Closing date for submissions received in response to the Draft Determination and Report	4 February 2010
Publication of the Determination and Report	March 2010

## **Lodgement of Submissions**

Submissions must be provided in electronic format (both pdf and Word) to AEMO to facilitate publication on the AEMO website.

All submissions must be addressed to Ms. Karen Olesnicky, Executive General Manager, Financial and Business Services, and sent to [stm@aemo.com.au](mailto:stm@aemo.com.au).

Submissions must reach AEMO by 5:00pm Australian Eastern Daylight Savings Time on Wednesday, 23rd December 2009.

Only in exceptional circumstances and solely at its discretion will AEMO consider late submissions, due to the time constraints necessary meet the requirements of the extended consultation procedure and publish the participant fee structure no later than 3 months before it is implemented, consistent with rule 135CD.

All submissions will normally be published by placing on AEMO's website ([www.aemo.com.au](http://www.aemo.com.au)). Parties requesting that certain information in submissions be treated as confidential must provide reasons why this information should be treated in this manner. AEMO reserves the right to publish material that it does not consider to be confidential, subject to its obligations under the NGR in this matter.

## **Meetings**

Parties may request a meeting with AEMO. A meeting request must be in writing and specify the reasons for the meeting. Details of matters discussed at a meeting may be published or made available to other stakeholders and interested parties.

### 3. Major Gas Project Status

AEMO proposes to determine that the establishment of the STTM is a major gas project in accordance with the provisions of Rule 135CB of the NGR on the following basis:

1. The STTM is a major reform of the gas industry in the adoptive jurisdictions of New South Wales and South Australia, and represents the first regulated wholesale gas market in those jurisdictions. The establishment of this STTM will also represent a change to the existing regulated retail gas markets in those jurisdictions.
2. The operation and administration of the STTM in the adoptive jurisdictions represents a significant increase in AEMO's functions, responsibilities, obligations and powers under the Rules and Procedures.
3. The STTM entails a major investment in the design and establishment of computer software or systems that AEMO will use to carry out its STTM responsibilities, obligations and powers under the Rules and the Procedures for the STTM. It also includes substantial changes to existing computer systems and software in related retail gas markets.

#### **Matters for Consultation:**

AEMO's proposal to determine the STTM establishment as a major gas project as defined under the NGR.


### 4. STTM Revenue Requirements

Following the request of the Ministerial Council on Energy (MCE), and endorsed by the Gas Market Leaders Group (GMLG), AEMO has funded the establishment of the STTM from loans raised by AEMO on the understanding that it will recover the establishment costs and associated financing charges from STTM participants following commencement of the market.

The budget for establishment of the STTM was originally endorsed by the GMLG, which was tasked by the MCE with overseeing the establishment of the STTM prior to the establishment of AEMO. With the formation of AEMO, the responsibility for establishment of the STTM was transferred by the MCE to AEMO. The budget for establishment of the STTM has been approved by the AEMO Board.

The scope for establishment of the STTM has been increased significantly at times during the project, with changes to scope and consequential budget approved by AEMO after consultation with the GMLG.

The current budget for establishment of the STTM, as reported monthly to the GMLG, officials advising the MCE and participating jurisdictions, and the AEMO Board, is \$18.7M,



excluding financing charges. This does not include change requests which may be approved by the AEMO Board during the remainder of the programme to establish the STTM, should the need arise.

As agreed by the GMLG<sup>2</sup>, AEMO will also fund the additional costs incurred by relevant pipeline operators to perform MOS allocations and recover this through STTM participant fees. This decision was made by the GMLG on the basis that having pipelines undertake this role would facilitate implementation of the STTM by the target start date and result in cost savings overall compared to the costs of AEMO performing the service.

AEMO's longer term (post-1 July 2011) STTM fee structure will therefore need to recover expenditure by AEMO to compensate pipeline operators for MOS allocation service costs which will be provided for in the NGR<sup>3</sup>. The NGR will not permit these costs to be invoiced before the financial year commencing 1 July 2011.

Rule 135CA(6) of the NGR provides that AEMO is to recover its capital expenditure through the depreciation or amortisation of the assets acquired by the capital expenditure in a manner that is consistent with generally accepted accounting principles. AEMO currently intends to recover the establishment costs of the STTM over 7 years from 2010/11 to 2016/17 and the establishment costs of MOS allocation services from 2011/12 to 2016/17. On going MOS allocation services will be recovered annually in line with other ongoing operational costs.

As previously advised to the GMLG, participating jurisdictions and officials briefing the MCE, AEMO intends to start charging STTM fees from 1 July 2010, following the anticipated STTM commencement date of 4 June 2010.

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<sup>2</sup> Agreed by the GMLG on 28 July 2009.

<sup>3</sup> When amended by the National Gas (Short Term Trading Market) Amendment Rules.

**Indicative estimates of total establishment costs and operating costs are as follows:**

TYPE OF COST	INDICATIVE FORECAST (GST EXCLUSIVE)
Establishment costs	\$18.7M
Financing costs	\$4.9M
Operating costs 2009/10	\$0.6M
Ongoing operating cost 2010/11 (ongoing)	\$2.1M per annum

Note – these estimated costs are based on currently available forecast information and subject to change.

An indicative estimated annual cost for recovery in 2010/11 is \$5.95M.

AEMO has provided these initial estimates purely to aid participants and interested parties in the analysis of the proposed participant fee structure. They are not the subject of this consultation.

AEMO will provide to STTM participants a specific breakdown of the annual budgeted STTM costs prior to the commencement of the financial year as part of the AEMO annual budget process for 2010/11.

Participants and interested parties should also note that due to data estimation constraints, these estimations do not include ongoing operational costs for MOS allocation services provided by pipelines, to be recovered by AEMO in its fees from 1 July 2011 onwards.

## 5. Components of Participant Fees

The STTM fee structure proposed by AEMO satisfies the NGL requirements that AEMO's fees and charges for services be determined on a non-profit basis that provides for full recovery of the costs of providing the service (see section 91E of the NGL).

Section 91E of the NGL also requires that the fees and charges be consistent with the requirements of the NGR. AEMO will take into consideration the items outlined in 135CA of the NGR in the development of the STTM fee structure. Rule 135CA(4) of the NGR requires:

In determining the structure of participant fees, AEMO:

- a) must have regard to the national gas objective (NGO); and
- b) must have regard to the following principles:
  - i) the fee structure should be simple;
  - ii) the components of the fees charged to each Registered participant should be reflective of the extent to which the budgeted revenue requirements for AEMO involve that Registered participant
  - iii) the fee structure should not discriminate unreasonably against a category or categories of Registered participants; and
- c) must have regard to other fee structures that it thinks appropriate for comparison purposes.

The development of the STTM was directed by and addressed to satisfy the MCE policy principles and objectives, as augmented by GMLG and approved by the MCE. These principles are provided at Appendix 3 of this Issues Paper.

This section describes the approach to the setting of STTM fees, including the use of a 5 year fixed period for smoothing fee changes from year to year, considers the need for locational fees and a tiered structure, and outlines the proposed components of AEMO's STTM fee structure and how it addresses these principles. The discussion on each component includes consideration of the NGO, the GMLG revised principles and other fee structures as appropriate.

This section also outlines specific matters on which AEMO is seeking feedback.

### 5.1 Annual reset of fees and fee smoothing

AEMO's STTM fee setting process will be part of the normal budget process undertaken by AEMO each year. As part of this process, AEMO will publish final STTM fees prior to the commencement of each financial year. AEMO sets and recovers STTM fees based on forecast revenue requirements. There may be circumstances where AEMO recovers an

excess or shortfall of revenue over expenditure in a financial year. This section describes how AEMO proposes to manage this process.

Rule 135CA of the NGR sets out principles that AEMO is to take into account for the purposes of recovering recurrent expenditure. Specifically, rule 135CA(5) allows AEMO to:

- recover an excess of revenue as against expenditure for the provision of a particular service in a later financial year or later financial years;
- recover a shortfall of revenue as against expenditure for the provision of a particular service in a later financial year or later financial years;
- take any other action it considers desirable to smooth the impact of actual or anticipated cost variations on the users of a service provided by AEMO.

There are currently two approaches that apply across the energy markets operated by AEMO:

- **Approach 1:** AEMO sets the fees annually with a view to reach a break-even position over a 5-year fixed period. To manage and smooth the yearly cost variations between forecast and actual expenditure, this approach entails rolling over the excess or shortfall of fees recovered in a financial year within fixed interval periods of 5 years. This or a similar approach has been used in the Victorian wholesale gas and Victorian retail gas markets.
- **Approach 2:** AEMO sets the fees for the upcoming year with the objective of reaching a break-even position on an annual basis (i.e. any excess or shortfall of revenue against expenditure is rolled over into the next financial year). This approach is currently used in the South Australian and NSW gas retail markets and in the National Electricity Market.

AEMO proposes to apply Approach 1 to the STTM fees. In consulting on the approach in the Victorian wholesale and retail regulated markets, participants advised AEMO that even where they are able to pass on AEMO costs, they find it problematic to manage large changes in fees and pass-throughs may be delayed. Minimising changes by smoothing variability over a longer period is widely regarded as preferable as it allows participants to better manage risks arising from AEMO fees. This approach also ensures a consistent method across the gas wholesale market<sup>4</sup>.

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<sup>4</sup> Excluding PCF fees, which will be determined under a different methodology.

Under Approach 1, the initial 5 year outlook period is from 2010/11 to 2014/15. AEMO will revise its forecast STTM costs and forecast STTM demand for each financial year in the 5 year fixed interval period from 2010/11 to 2014/15 and will set its fees with a view to reaching a break-even position at the end of the 5 year period. For example, any excess or shortfall arising from the 2010/2011 financial year will be rolled over and recovered over the remaining financial years (2011/12-2014/15). Any excess or shortfall arising from the 2011/12 financial year will be rolled over and recovered over the remaining financial years (2012/13-2014/15). This process will continue on until the end of the initial 5 year period and then a further 5 year outlook period will be established. It is important to note that fees are only set for the upcoming financial year but the estimation of costs and demand for the outlook period are taken into account in setting those fees.

**Matters for Consultation:**

AEMO views on the proposed methodology for the annual resetting of fees with a fixed 5 year period to smooth fee changes for annual cost variations.

## **5.2 Locational Component**

Rule 135CC(2) provides that “if the costs of providing services related to gas market operation, or services related to achieving full retail contestability, vary materially from location to location, differential fees reflecting the difference in costs should be prepared for each location.”

The STTM consists of separate hubs, with each hub scheduled and settled separately, but all hubs operate under the same rules, utilise the same market systems, and will be administered and operated by the same operating personnel and arrangements. Any locational aspects will be better reflected by a fee structure applied on a per participant or market activity basis.

## **5.3 Tiered Fee Structures**

This type of model groups the fee paying users into two or more categories.

AEMO applies a two-tiered commodity based fee for the Victorian wholesale gas market, which segments between large and small customers to determine a unique commodity (\$/GJ) fee per end user customer size. The advantage of such an approach is that it may reduce the unfair impact of the fixed costs recovered on small Trading Participants.

It is proposed that a tiered fee structure not be used for the purposes of the STTM for the following reasons:

- The Victorian fee structure was based on the original Victorian tariff order which was also applicable in the access arrangement for the transmission pipeline which is regulated.

Neither the tariff order categorisation of end use customers nor the transmission pipeline regulation basis is relevant to the NSW and SA jurisdictions and the uncovered pipelines.

- It adds an additional level of complexity which is not justified for the STTM.

#### **5.4 Fixed Fee Component**

Fixed component fees are common in the energy markets that AEMO operates, including the Victorian Wholesale Gas Market, NSW and ACT, and SA Retail Gas Markets and the National Electricity Market. Details regarding the fee structures for these markets are included in Appendix 2 of this Issues Paper.

There are two types of fees per participant which are common in these energy markets. These are:

1. A once off registration fee
2. An ongoing annual service fee

These fees reflect the nature of the service costs associated with the operation and administration of the markets including registration, help desk services and other information services necessary for the efficient operation of the market. These costs, for the STTM, occur regardless of the level of activity in the market and regardless of the number of participants.

On going servicing of Registered participants in the STTM carries with it administrative costs and costs associated with the provision of a range of information services. These are provided by AEMO irrespective of a participant's level of market activity.

These costs are:

- Costs associated with registration
- Costs arising from the provision of a help desk service
- Costs arising from the provision of access to information services.

These costs are common to both STTM Users and STTM Shippers.

AEMO has also considered whether the STTM establishment costs, being fixed in nature, should be recovered on a fixed fee basis, but proposes to adopt a variable fee structure for these costs.

Each of these cost items is discussed below.

AEMO has also considered whether the STTM establishment costs, being fixed in nature, should be recovered on a fixed fee basis, but proposes to adopt a variable fee structure for these costs.

Each of these cost items is discussed below.

#### **5.4.1 Registration costs**

The STTM registration process will be incorporated into the current AEMO market registration process. Costs associated with registration for the STTM are common to all participants and are mainly associated with the primary registration of a participant, regardless of their market activity.

Participants who register in the STTM in more than one capacity (Shipper and User) are not expected to create any significant additional costs for AEMO on an incremental basis. As such, AEMO considers that fees based on the number of registered capacities or type of registrable capacities for the STTM would not be justified and would unnecessarily complicate the fee structure for little benefit. AEMO considers that these costs are best recovered as part of a fixed allocation per registered participant irrespective of whether they are participating in more than one registrable capacity.

#### **5.4.2 Help Desk**

Help desk services, like registration services, are provided regardless of a participant's level of activity within the market.

AEMO considers that charging fees for help desk services based on the level of help desk services used is inefficient and the additional complexity would likely of itself create an administration cost that could outweigh the benefits sought.

AEMO also considers that in a new market, such as the STTM, participants should be encouraged to utilise help desk services to facilitate the efficient use of market systems, and therefore enable the growth and development of the market. A fee based on the amount of use of this service may act as a disincentive and be counter productive to the achievement of the full benefits of the STTM.

AEMO therefore considers that these costs are best recovered as part of a fixed allocation per registered participant.

#### **5.4.3 Information Services**

The information services provided by AEMO are for the benefit of all market participants that will allow them access to vital information necessary for them to function within the market.

AEMO considers that charging a fee for information services based on the level of usage is inefficient, and highly problematic to track and account, which would therefore likely create an administration burden that would outweigh the benefits sought by the additional complexity.

AEMO therefore considers that a fixed cost allocation in the STTM fees is the most efficient and effective way of recovering these costs in a manner that does not impede development and expansion of participation in the STTM.

#### **5.4.4 Establishment Costs**

The establishment costs for the STTM are largely fixed in nature. These costs have occurred regardless of future market activity, are not easily attributable to individual or groups of participants, and are non-locational in nature. Accordingly AEMO has considered whether they should be recovered on a fixed fee per participant basis.

AEMO notes the requirement that the STTM fee structure should not discriminate unreasonably against a category or categories of participants. Further, in developing the STTM fee structure, AEMO must also have regard to the NGO, which includes provision to promote efficient investment in, and efficient operation of natural gas services.

AEMO considers it appropriate to apportion the costs of establishing the STTM to reflect the extent to which the market will be used by the respective participants. This principle is consistent with rule 135CA(4). AEMO considers that recovering its establishment costs solely on charging a single fixed fee per participant may discriminate against smaller retailers and end users by creating a substantial barrier to entry to the market for smaller retailers and end users, which in turn may potentially lead to lowering of liquidity and lessening of competitive benefits expected from the STTM.

#### **5.4.5 Conclusion**

AEMO considers that a fixed fee to recover costs associated with registration, help desk and information services is consistent with the NGR 135CA principles of having a simple fee structure that is reflective of the costs of services provided to registered participants and that is consistent with other relevant markets.

Although charging a fixed fee to recover the STTM establishment costs would be a simple method, AEMO considers that it is not appropriate due to the potential barriers to entry that this may create and the possibility of an allocation that is disproportionate to the extent to which the market will be used by different participants.

AEMO estimates that the cost of providing registration, help desk and information services will be approximately 5% to 10% of AEMO's ongoing STTM operational costs based on its experience with these services in its other markets and the estimated costs for operating the STTM. AEMO therefore proposes to set these costs as a fixed component of its STTM fees per participant, which is consistent with the Victorian gas market, allowing for smoothing as described earlier.

### **Matters for Consultation:**

- AEMO's proposal for a single fixed fee per participant to cover costs associated with registration, the help desk and information services.

## **5.5 Variable Component of Fees**

AEMO considers that the STTM fees should include a variable component to recover the following cost allocations annually:

- An allocation for annual operating costs, including costs of operating and administering the STTM and finance charges for ongoing loan facilities until the establishment debts are settled and the facilities are closed<sup>5</sup>;
- An annual allocation for recovery of establishment costs over a 7 year period from 1 July 2010, comprising depreciated capital and an annual amount for non capital establishment costs, including finance fees accumulated during establishment<sup>6</sup>.

AEMO considers that an STTM fee structure that recovers these costs as a variable fee component based on market activity is most appropriate, as it is more reflective of the extent to which individual participants use the STTM, will lessen barriers to entry, and is consistent with other relevant markets.

### **5.5.1 Comparison with other relevant markets**

All other energy markets that AEMO administers and operates incorporate a fee component based on some aspect of market activity or service usage<sup>7</sup>:

1. The Victorian wholesale gas market incorporates a two-tiered commodity fee levied on a \$/GJ rate for withdrawals, and a two-tiered metering fee based on a per meter per day rate for both distribution and transmission metering services provided.

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<sup>5</sup> And from 2011/12, ongoing MOS allocation service costs of pipelines.

<sup>6</sup> And from 2011/12, MOS allocation service establishment costs of pipelines.

<sup>7</sup> Details regarding each of these market fee methodologies are included in Appendix 2.

2. All three retail gas markets referenced for comparison purposes (SA, VIC, and NSW and ACT) incorporate a market share or transaction rate component based on a \$/MIRN or a percentage of total costs based on transaction rates respectively.
3. The Bulletin Board uses a \$/GJ shipped rate with no fixed or per participant components.
4. The NEM uses a \$/MWh rate for Customer load to recover costs associated with the administration and operations of the wholesale market and a \$/MWh rate for Retail Customer Load for Full Retail Contestability for recovery of costs for retail market administration and operation.

Contributions collected for the Participant Compensation Fund (discussed in section 6 of this Issues Paper), are also calculated using a \$/GJ rate on gas withdrawn from the hubs.

For the STTM, fees based on meters or the number of MIRNs or the number of delivery or withdrawal points are not appropriate as AEMO does not collect nor have the responsibility for meters within the STTM. Further, AEMO has no responsibility for the physical pipelines or network assets, and therefore the number or type of delivery and withdrawal points.

AEMO considers that the variable component of STTM fees would best be charged on a \$/GJ rate. AEMO considers such an approach to be simple and consistent with other relevant markets, such as the commodity tariff methodology used in the Victorian Wholesale gas market and the \$/MWh rates used in the NEM.

### **5.5.2 Basis for assigning variable fees to participants**

AEMO considers the most appropriate structure for the variable component of its STTM fees is to STTM Users and STTM Shippers, in \$/GJ of gas withdrawn only.

AEMO does not consider that setting fees for supply by STTM Shippers is appropriate for the following reasons:

- Charging fees for gas delivered to the hub may create a disincentive for supplying gas beyond what is accounted for under bilateral contracts. Importantly, at times of high demand or at times when physical constraints occur in areas of the pipeline, the market should not act as a disincentive for STTM Shippers to supply gas into the market. This would conflict with the NGO in relation to the efficient operation of natural gas services with respect to reliability and security.
- Fees for gas delivered to the hub is likely to introduce inefficiencies and increase overall costs, as STTM Shippers are likely to seek to pass any costs incurred on to STTM Users via other less efficient mechanisms with risk premiums to cover their costs of managing the additional risks. This would conflict with the NGO in relation to the efficient operation of natural gas services for the long term interests of consumers of natural gas with respect to price. AEMO considers that fees should be allocated as far down the supply chain as is possible and appropriate.

- Similarly charging a fee for MOS allocation services provided to the market may also introduce inefficiencies and increase overall costs, as STTM Shippers are also likely to seek to pass any costs incurred on to STTM Users via other less efficient mechanisms.

### **5.5.3 Conclusion**

Accordingly, AEMO considers that the variable component of its STTM fees is most appropriately based on market activity relative to gas withdrawals by STTM Users or STTM Shippers. AEMO considers the benefits of this approach are that it is:

- simple, clear and transparent
- reduces barriers to entry
- is consistent with other relevant energy markets
- is efficient as fees are allocated further down the supply chain, avoiding incremental pass through costs which is in the long term interests of end consumers of natural gas; and
- aligns with incentives for sufficient gas to be delivered to the hub to match withdrawals, thereby assisting with incentives for reliability of supplies to end users.

AEMO considers that this fee structure, together with the fixed fee component discussed in section 5.4, best aligns with the NGO and the principles outlined in NGR 135CA(4).

#### **Matters for Consultation:**

- AEMO's proposal for a variable fee component payable by STTM Users and STTM Shippers based on \$/GJ rate of withdrawals only.

## **6. Participant Compensation Fund**

The provisions relating to the participant compensation fund will be part of the STTM Rules within the NGR. These Rules will require that AEMO establish and maintain a Participant Compensation Fund for each STTM hub.

The participant compensation funds are to be established for the purpose of providing compensation to STTM Shippers and STTM Users if AEMO makes a scheduling error.

The size of the funds, applicability and the method for accumulating the funds from participants for each participant compensation fund was agreed by the GMLG<sup>8</sup> and has been publicly consulted on by the MCE Standing Committee of Officials as part of the STTM Rules consultation. As such, Participant Compensation Fund contributions are not part of the fee structure on which AEMO is required to consult under the NGR. However, this section has been included for information purposes because the contributions will be determined as part of AEMO's annual budget process.

The requirements and the methodology for determining funding arrangements are as follows:

### **6.1 Sydney Hub**

The funding requirement for the participant compensation fund for the Sydney hub each financial year is the lesser of:

- a) \$335,000; and
- b) \$670,000 minus the amount that AEMO reasonably considers will be the balance of the participant compensation fund at the end of that financial year.

### **6.2 Adelaide Hub**

The funding requirement for the participant compensation fund for the Adelaide hub each financial year is the lesser of:

- a) \$115,000; and

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<sup>8</sup> Agreed by the GMLG on 30 June 2009.

- b) \$330,000 minus the amount that AEMO reasonably considers will be the balance of the participant compensation fund at the end of that financial year.

### **6.3 Methodology**

No later than the commencement of each financial year, AEMO must publish the funding requirement and the contribution rate for each participant compensation fund for that financial year. This will be included in the budget and fees set by AEMO in 2010 prior to the start of the 2010/11 year.

The contribution rate for a financial year is to be calculated by dividing the relevant funding requirement determined for each hub (as applicable) by AEMO's reasonable forecast of the aggregate quantity of natural gas which it expects STTM Users and STTM Shippers will withdraw at the relevant hub during that financial year.

Each Participant registered at a hub must pay to AEMO, as part of the settlement amount payable by that Participant in respect of each billing period, an amount calculated by multiplying the contribution rate by the aggregate quantity of natural gas withdrawn from that hub by that Participant during the relevant billing period in accordance with its STTM facility allocation or STTM distribution system allocation.

## **7. Other Information**

### **7.1 Settlement**

Settlement in the STTM occurs monthly. The STTM fees will be included in monthly STTM settlement invoices to STTM Shippers and STTM Users.

### **7.2 Data to be used for calculating actual charges**

STTM fees are to be determined on an annual basis in accordance with the methodology and structure in AEMO's participant fee structure to be published at the conclusion of this consultation process, for the period to which that structure relates. The fee rates will be set by AEMO in its annual budget process provided for in Part 15A of the NGR, and calculated assuming annual budgeted costs and forecasts for future financial years. STTM fee rates will normally be set for the full financial year to which they apply however under NGR 135CA(5)(c) AEMO may take any further action to smooth the impact of actual or anticipated cost variations where it deems it necessary.

Actual STTM fee charges will be calculated using these fee rates and settlement quality actual allocated energy for deliveries, withdrawals, and numbers of participants, together with any other information relevant to the particular fee. These charges will be subject to the same settlement processes (preliminary, final, revisions etc) as all other settlement charges and payments, in accordance with the NGR and STTM Procedures.

## 8. Indicative Fees and Rates [ex GST] for 2010/11

Following are indicative STTM fees for 2010/11 based on AEMO's preferred option of having a fixed fee to cover registration, help desk and information services and a variable component based on withdrawals from the hub.

### Fixed component plus variable component based on withdrawals from the hub:

STTM FEE	STTM USERS/ STTM SHIPPERS (GST EXCLUSIVE)
Fixed fee (\$) per Registered participant (per annum)	10,000
Activity Fee (\$/GJ) for withdrawals	0.04059
PCF Fee – NSW (\$/GJ) for withdrawals	0.00353
PCF Fee – SA (\$/GJ) for withdrawals	0.00222

The assumptions applied in these calculations are:

1. Forecast total number of trading participants for commencement of the STTM is 14.
2. Total annual STTM hub<sup>9</sup> usage in 2010/2011 is forecast to be 146.6 PJ, split between NSW (94.8 PJ) and SA (51.8 PJ).
3. Revenue requirements to cover total annual costs (including establishment, operating and financing costs) are tentatively estimated as \$5.95M, excluding costs of establishment and operation of MOS allocation services by pipelines to be recovered from 2011/12 onwards.
4. The fixed fee to cover registration, help desk and information services is \$10,000 per Registered participant per year.

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<sup>9</sup> These estimates are based on historical gas usage data available to AEMO and have been scaled to provide an initial estimation of STTM forecast hub usage for 2010/11 which will be revised when AEMO develops a forecasting model based on STTM hub definitions in January 2010.

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5. As previously advised to the Gas Market Leaders Group, participating jurisdictions and official briefing the Ministerial Council on Energy, AEMO intends to commence the STTM on 4 June 2010 but start charging STTM fees from 1 July 2010.

## 9. Glossary

TERM	DEFINITION
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
GMLG	Gas Market Leaders Group
NGL	National Gas Law, also referred to as 'the Law'
NGO	National Gas Objective
NGR	National Gas Rules, also referred to as 'the Rules'. The version referred to in this document is version 2 which came into effect on 1 July 2009
Participant Fees	Fees payable by Registered participants
PCF	Participant Compensation Fund
Self-contracting user	A generic term that describes an STTM user who consumes the gas they buy from the STTM
STTM	Short Term Trading Market
STTM distributor	The operator of an STTM distribution system
STTM facility	A transmission pipeline, production facility or storage facility that is connected to a hub
STTM Procedures	The procedures to be made by AEMO for the operation of the STTM, to be provided for in the NGL.
STTM Rules	The rules to be included in the NGR in relation to the operation and administration of the STTM. . Version referred to in this document is dated 7 October 2009.
STTM Shippers	Participants in the STTM who will supply gas to a hub from a designated STTM pipeline, storage facility or production facility. An STTM Shipper may also withdraw gas from the hub on an STTM pipeline. See registrable capacity under Part 15A of the STTM Rules.
STTM Users	Participants in the STTM who will withdraw gas from a hub into the associated distribution system. See registrable capacity under Part 15A of the STTM Rules

## Appendix 1: Relevant NGL and NGR Provisions

AEMO has various statutory functions under the NGL in relation to energy markets. AEMO may determine fees and charges for the performance of AEMO's statutory functions and other services provided by it under the NGL, the NGR and Procedures, and may charge for and recover those fees and charges in accordance with the NGL and NGR.

For the purposes of this Issues Paper, it should be noted that:

- Amendments to the NGL to provide for the STTM have been passed by the South Australian Parliament and are expected to be proclaimed shortly. These amendments will include the operation and administration of the STTM as a statutory function of AEMO.
- Amendments to be made to the NGR in 2010 will establish the STTM and govern conduct in and operation of that market (the "STTM Rules"). Consultation on the STTM Rules has been undertaken and the Rules will be approved by the Ministerial Council on Energy. The STTM Rules are expected to be made by the South Australian Minister no later than early May 2010.

### Power to develop and charge fees

Section 91E of the NGL outlines AEMO's powers and obligations for setting its fees and charges. Section 91E states that AEMO may:

- determine fees and charges for services provided by it under this Law, the Rules or the Procedures; and
- charge for, and recover, the fees and charges in accordance with this Law and the Rules.

It also specifies that the fees and charges for a service are to be determined on a non-profit basis that provides for full recovery of the costs of providing the service, does not amount to taxation and is consistent with the requirements of the Rules.

### Requirement to Develop and Consult on Fee Structure

Rule 135CA of the NGR requires that AEMO "develop, review and publish, in consultation with Registered participants, interested parties and such other persons as AEMO thinks appropriate, the structure (including the introduction and determination) of participant fees for such periods as AEMO considers appropriate".

Rule 135CA also outlines the criteria to be applied in relation to the participant fee structure, and requires AEMO to consult on its proposed fee structure in accordance with the extended consultation procedure provided for in Rule 9A of the NGR.

## Principles for fee Structure

Rule 135CA(4) of the NGR requires that AEMO must, in determining the structure of its participant fees:

- a) must have regard to the national gas objective (NGO); and
- b) must have regard to the following principles:
  - i) the fee structure should be simple;
  - ii) the components of the fees charged to each Registered participant should be reflective of the extent to which the budgeted revenue requirements for AEMO involve that Registered participant
  - iii) the fee structure should not discriminate unreasonably against a category or categories of Registered participants; and
- c) must have regard to other fee structures that it thinks appropriate for comparison purposes.

In addition, the following principles apply to the recovery of recurrent expenditure under rule 135CA(5):

- a) if AEMO recovers an excess of revenue over expenditure from the provision of a particular service in a financial year, it may roll over the excess to a later financial year (or later financial years) so as to reduce revenue requirements in the later financial year (or later financial years);
- b) AEMO may recover a shortfall of revenue as against expenditure for the provision of a particular service in a later financial year or later financial years;
- c) AEMO may take any other action it considers desirable to smooth the impact of actual or anticipated cost variations on the users of a service provided by AEMO.

In relation to capital expenditure, Rule 135CA(6) requires that capital expenditure be recovered through the depreciation or amortisation of the assets acquired by the capital expenditure in a manner that is consistent with generally accepted accounting principles.

## National Gas Objective (NGO)

In determining a participant fee structure, AEMO must have regard to the NGO (Rule 135CA). Section 23 of the NGL provides that the NGO is to:

“...promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas.”

## Affected Participants

Rule 135CE of the NGR specifies that participant fees are levied on Registered participants. Participant fees are defined by the NGR as “fees payable by Registered participants under this Division [3 of Part 15A]” (Rule 135C).

The STTM Rules will outline the registrable capacities for the STTM. These are STTM Shippers and STTM Users. Under the draft Rules:

- a) An STTM Shipper is a person that:
  - i) is a person under a contract with a service provider for the transmission of natural gas to or from an STTM Hub;
  - ii) is a party to a contract with a storage provider or a producer for the delivery of natural gas from a storage or production facility to an STTM Hub;
  - iii) holds rights subcontracted from the party to a contract referred to in paragraph (i) or (ii) for the use of services provided under that contract; or
  - iv) is a producer who is entitled to deliver natural gas to an STTM Hub from its production facility on its own behalf.
- b) An STTM User is a user under a contract with the service provider for the distribution pipeline at an STTM Hub.

The owners and operators of transmission pipelines and distribution networks do not participate in a registrable capacity in the STTM<sup>10</sup>. Accordingly AEMO will not set market fees to these parties in the STTM.

## Chargeable / Recoverable Costs – General

Rule 135CC of the NGR outlines the components which AEMO may include as part of its participant fee structures in a relevant market. These components are:

- registration fees comprising an annual fee for each registrable capacity in which a Registered participant is registered;

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<sup>10</sup> Owners and operators of transmission pipelines and distribution networks are not required to register in the STTM. Their obligations and rights under the STTM are provided for directly by the STTM Rules.

- gas market fees to recover AEMO's budgeted revenue requirement for gas market operation;
- full retail contestability fees to recover AEMO's budgeted revenue requirement for effecting the transfer of customers between retailers and for administration and operation of the associated business procedures and systems;
- administration fees to recover the remainder of AEMO's budgeted revenue requirements.

When the STTM Rules are come into effect, this rule will be amended to include an additional point: "fees for administration and operation of the short term trading market". In the interim, however, AEMO may set fees to recover the associated costs since the operation and administration of the STTM will be one of AEMO's statutory functions under the NGL as amended.

### **Chargeable / Recoverable Costs – Major Gas Project**

AEMO proposes to determine that the establishment of the STTM is a major gas project in accordance with Rule 135CB(1) of the NGR. A major gas project must be either:

- a) a major reform or development (including an anticipated reform or development) of a regulated gas market;
- b) a major change (including an anticipated change) to any of AEMO's functions, responsibilities, obligations or powers under these rules or the Procedures;
- c) a major change (including an anticipated change) to any of the computer software or systems that AEMO uses in the performance of any of its functions, responsibilities, obligations or powers under these rules or the Procedures

AEMO is required by Rule 135CB(2) to consult on this determination in accordance with the extended consultation procedures of the NGR.

Rule 135CB(3) also provides that when AEMO determines a project to be a major gas project, it must also determine the start date for recovery and the period or periods for recovery of the costs of the project.

### **Variation of fees on a locational basis**

Rule 135CC(2) provides that "if the costs of providing services related to gas market operation, or services related to achieving full retail contestability, vary materially from location to location, differential fees reflecting the difference in costs should be prepared for each location."



## **Publication of fee structure**

Rule 135CD of the NGR specifies that at least 3 months before implementation, AEMO must publish "the participant fee structure, the methods used to determine the structure, and an assessment of the extent to which the participant fee structure complies with the principles set out in Rule 135CA".

## Appendix 2: Other Energy Market Participant Fee Structures

### National Gas Bulletin Board (NGBB)

Annual operating costs for the NGBB are recovered from fee paying users on a “user pays” basis using the following methodology:

- Each year AEMO estimates its costs of operating and maintaining the NGBB plus the difference between its actual costs and estimated costs for the previous invoice period (estimated NGBB costs);
- AEMO recovers from each fee paying user the percentage of the estimated NGBB costs that is equal to the total gas deliveries allocated to the fee paying user on all NGBB pipelines on which it received a pipeline service in the previous invoice period divided by the total gas delivered from all NGBB pipelines in the previous invoice period.
- At the end of the relevant year, a “true up” to actual costs and actual pipeline services during that year will occur.
- While, at its initiation, there were 4 fee paying users, there are currently 42 NGBB participants each of which pays a proportion of the total amount required to operate the NGBB function.

### Victorian Wholesale Gas Market

Fees for recovering costs associated with the Declared Wholesale Gas Market in Victoria are as follows:

SERVICE	MARKET FEE	WHO PAYS FEE	HOW FEE IS APPLIED
<b>Information Services</b>	Registration Fee	Each Market participant	A flat daily amount (\$) for each day or part thereof that the person is registered as a Market Participant
<b>Market and System Operational Services</b>	Tariff D Commodity Fee	Each Market Participant who withdraws gas or whose Customers withdraw gas at Tariff D Withdrawal Points	A flat rate (\$ per GJ) for each GJ of gas withdrawn daily at Tariff D Withdrawal Points
	Tariff V Commodity Fee	Each Market Participant who withdraws gas or whose Customers withdraw gas at Tariff V Withdrawal Points	A flat rate (\$ per GJ) for each GJ of gas withdrawn daily at Tariff V Withdrawal Points

<b>Meter Data Management Services</b>	Transmission Meter Data Management Fee	Each Market Participant who withdraws gas from or injects gas into the Transmission System, or whose Customers are connected to the Transmission System at a Connection Point at which there is a Metering Installation	A flat daily amount (\$) for each Transmission Delivery Point MIRN <sup>11</sup> for which Metering Data is managed by VENCORP associated with injections or withdrawals by the Market Participant and/or their Transmission Customers
	Distribution Meter Data Management Fee	Each Market Participant who is connected to a distribution system, or whose Customers are connected to a distribution system at a Connection Point at which there is a Metering Installation.	A flat daily amount (\$) for each Distribution Delivery Point MIRN for which Metering Data is managed by VENCORP associated with injections or withdrawals by the Market Participant and/or their Distribution Customers
<b>System Security Service</b>	System Security Fee	Each Market Participant who withdraws gas or whose customers withdraw gas at a System Withdrawal Point	A flat rate (\$ per GJ) for the daily GJ of gas withdrawn by the Market Participant and/or their Customers

The following table outlines the budgeted fees for 2009/10:

<b>Victorian Wholesale Gas Market Fees (GST Exclusive)</b>	
	<b>2009/10</b>
Tariff D Commodity Fee (\$/GJ)	0.03252
Tariff V Commodity Fee (\$/GJ)	0.08065
System Security Fee (\$/GJ)	0.00573
Distribution Meter Data Management Fee (\$/day/meter)	2.11220
Transmission Meter Data Management Fee (\$/day/meter)	7.00
Registration Fee (\$/day)	30.00
Participant Compensation Fund Fee (\$/GJ)	-

<sup>11</sup> MIRN means a metering installation registration number.

## Retail Gas Markets

### Victoria

Victorian Retail Gas Market Fees (GST Exclusive)	
	2009/10
FRC Fee (\$/Customer supply point/month)	0.11869
Service Fee (\$/Participant/Month)	208.00
Initial Registration Fee (\$/Participant)	5,760

### NSW and ACT

Fees for the New South Wales and ACT Gas Retail market are split into three components:

- Fees levied to recover costs from non self-contracting users:

Proportion of Total Costs (TC)	Method of Recovery
10% of TC (the Standing Charge)	From all Participants, in equal shares
X% of TC*	From each participant, based on the Transaction Rate for that Participant
(90-X)% x TC**	From each Participant based on the market Share for that Participant

\* The x% is the share (capped at a maximum of 45%) of the total monthly cost attributed to the transaction rate. X is calculated as follows:  $X = 4.5 * 12 * (\text{Total Transaction Rate})$

\*\* 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

- Fees levied to recover costs from self-contracting users:

Costs for Self-Contracting Users	Method of Recovery
\$2,500 + GST	From all self-contracting users, annually in advance.

- Special Market Operation costs – cost recovered from Market Participants who receive Specific Market Operation Services from AEMO in a calendar month.

AEMO estimates the amounts in the above tables at the beginning of each calendar month. Then, at the end of each calendar month to which the estimate related, AEMO calculates the actual amount referable to that calendar month and makes the necessary adjustments to the fees recovered to reflect the actual amounts. At this point, AEMO also calculates the amount of Special Market Operation Costs payable in respect to the services provided by AEMO during that month.

The amounts in the above tables are calculated on a pro rata basis for those Market Participants who become a Market Participant during a calendar month.

## South Australia

Fees for the South Australian Retail market are split into three components:

1. Market Share Fee – which is levied on a per MIRN per month basis
2. Registration Fee – a once off fee levied when the participant joins the market
3. Annual Service Fee – a fixed fee charged on a per participant basis annually

The following table outlines recent fees:

Description	Fee for period 1 November 2009 to 30 June 2010
Market Share Fee	\$0.3602 / MIRN / month
Registration Fee	\$11,300
Annual Service Fee	\$17,265

## National Electricity Market

The fee structure for the National Electricity Market for the period 1 July 2006 to 30 June 2011 was determined in consultation with industry participants. The structure is available on [AEMO's website](#). The following table outlines the budgeted fees:

National Electricity Market Fees		PARTICIPANT FEES FOR 2009/2010
DESCRIPTION		
Wholesale Specific Components	Allocated Costs (\$/MWh of Customer Load)	0.14997
	Establishment (\$/MWh of Customer Load)	0.0000
	General (\$/MWh of Customer Load)	0.11686
	Advocacy Panel (\$/MWh of Customer Load)	0.00949
Retail Specific Components	Full Retail Competition Establishment (\$/MWh of Retail Customer Load)	0.01722
	Full Retail Competition Operating (\$/MWh of Retail Customer Load in Full Retail Contestability Jurisdictions)	0.07053
Registration Applications (\$/application)		\$3,900

## Appendix 3: MCE/GMLG Revised Principles

1. Information on market and system operations and capabilities at all stages of the gas supply chain (subject to recognition of existing contractual confidentiality) should be publicly available and frequently updated.
2. Gas market structure to facilitate a competitive market in all sectors.
3. Gas market participants should be able to freely trade between pipelines, regions and basins.
4. There should be regulatory certainty and consistency across all jurisdictions.
5. The market design and institutional requirements should be responsive to and reflective of the needs of the market and market participants.
  - a) Take account of the physical characteristics of the network;
  - b) Recognise the fundamental importance of bi-lateral contractual arrangements which underpin gas market development;
  - c) Market rules may be imposed to vary existing contracts for operational issues. Other than changes, imposed by market rules for this purpose, the STTM;
    - will not involve changes to existing commercial arrangements without consent;
    - will allow contracts to evolve due to competitive forces to maximise the market benefits; and
    - the design of the initial market will facilitate the evolution of supporting services/products and contracts.
  - d) Take account of the interface with the National Electricity Market;
  - e) Minimise the need for Government intervention in the operation of the market;
  - f) Complement the work of the National Gas Emergency Response Advisory Committee (NGERAC); and
  - g) Maximise value and benefits.