



APGA
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Submission to the Initial Consultation Paper

**Structure of Participant Fees in
AEMO's Gas Markets**

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Introduction

The Australian Pipelines and Gas Association (APGA) welcomes the opportunity to respond to the Australian Energy Market Operator's (AEMO) Consultation Paper on the Structure of Participant Fees in AEMO's Gas Markets.

APGA is the peak body representing Australasia's pipeline infrastructure, with a focus on natural gas transmission, but also including transportation of other products. Our members include owners, operators, engineering companies, constructors and suppliers of pipeline products and services.

APGA's members build, own and operate the gas transmission infrastructure connecting the disparate gas supply basins and demand centres of Australia, offering a wide range of services to gas producers, retailers and users. The replacement value of Australia's gas transmission infrastructure is estimated to be \$50 billion.

APGA has an active interest in AEMO's process to develop a new structure for gas market Participant fees to apply from 1 July 2018. While broadly comfortable with AEMO's proposed approach towards Participant fees, one area where APGA would like to comment is regarding the future fee structure for the Gas Bulletin Board (GBB). APGA's key priority is to ensure that the new approach chosen will be as fair and as simple to administer as practicable, thereby incurring minimum administrative costs and providing the most efficient outcome to consumers.

Such an approach is consistent with the National Gas Objective and associated principles detailed in the NGL and the NGR – including that the structure of Participant fees should be simple.

Future Fee Structure of the Gas Bulletin Board

APGA considers that there are several viable options for recovering GBB costs after 1 July 2018 – but that these have varying degrees of administrative efficiency. The key issue, as already noted, is the degree to which the selected option is efficient and straightforward to administer, because additional complexity brings additional costs.

Options identified by APGA include:

Option 1: Reinstating the 'shipper' category

APGA considers that the reinstatement of the 'shipper' category – and consequent allocation of 100% of GBB costs to shippers – would be the fairest and most efficient solution. The necessity to explore options for a new approach to GBB cost recovery did not arise due to

flaws in the current approach, but because it is no longer feasible due to AEMC's decision to eliminate the shipper category for reasons that were unrelated to this issue. Indeed, it appears that the residual role of the shipper category in recovering GBB costs was simply overlooked by AEMC when it made the decision to remove it. The use of the category as a way to allocate fees for GBB cost recovery was not discussed in the AEMC Rule Determination 'National Gas Amendment (Improvements to Natural Gas Bulletin Board) Rule 2017'.

Reinstatement of the shipper category would effectively allow a return to the status quo (with regard to how GBB costs are allocated). APGA is of the view that this would not only be the simplest but also the fairest outcome because transmission pipelines, production facilities and storage facilities already make a strong contribution to the operation of the GBB through compliance with their data reporting requirements (and therefore supplying the bulk of the information) and do not tend to be users of the service.

Option 2: Recover 100% of GBB costs from production facilities

APGA considers that in the absence of a reinstatement of the shipper category, the next most efficient and straightforward GBB cost recovery option is to allocate 100% of costs to gas production facilities. All of the natural gas entering the East Coast market is provided by domestic gas producers. The most straightforward, and therefore least costly approach in administrative terms, is to apportion GBB costs at the point of injection to the transmission system.

APGA is of the view that such a distribution of GBB costs would not ultimately constitute an unfair (or discriminatory) imposition on production facilities as these companies should be able to pass on the costs to consumers as part of the wholesale gas price.

Option 3: Recover 100% GBB costs from transmission pipelines

APGA considers that the option to recover 100% of GBB costs from transmission pipelines, although preferable to Option 4, has significant drawbacks. First, Option 3 is more complex to administer than Option 2 due to the need to avoid double counting by netting out inter-pipeline flows. This includes the risk that that some double counting could inadvertently occur. APGA notes that Option 2 carries no such risk, as it is not possible to double-count the volumes entering the transmission system.

In addition to practical risks, APGA also notes that Option 3 leads to a disproportionate share of responsibility for the GBB falling squarely on the transmission pipelines (which are not GBB users). Transmission pipelines already incur significant costs to supply much of the data for the GBB service to AEMO – costs they are no longer be able to recover following the abolition of the relevant cost recovery provisions. A decision to also recover the GBB running costs from transmission pipelines would be a significant and unreasonable additional burden. This is compounded by the fact that not all transmission pipelines necessarily have 'change in law'

provisions in their supply contracts – meaning they would be unable to pass these direct additional costs on to shippers.

Option 4: Split recovery of GBB costs 50/50 between production facilities and transmission pipelines

A combined producer/pipeline or producer/pipeline/storage approach is the least desirable of all 5 options for GBB cost recovery discussed in this document. This option would combine the complexities of Options 2 and 3, while also necessitating the duplication of the administrative capabilities required to assess and apportion costs across the different parts of the natural gas sector. In other words, production companies, transmission companies and possibly storage facilities would all be required to develop and maintain such administrative capacity, rather than just production companies or transmission pipeline companies alone. This option would generate greater total costs than Options 1, 2 or 3.

Option 5: Move to a user-pays subscription model

APGA considers that one of the fairest options to recover GBB costs would ultimately be to charge the users of the GBB service a subscription fee to access the service. APGA acknowledges that this may present practical problems in terms of there being sufficient paying users to cover all costs, as well as conflict with the stated 'public good' aspect of the GBB. However, some sort of user pay element for commercial users that contributes at least partially to the cost of the service would be a fair and appropriate development.

Conclusion

APGA considers that the highest priority consideration when exploring options for how to recover GBB costs after 1 July 2018 is to select the fairest option (i.e. the option whereby the users of the GBB cover the majority of its costs) and, in conjunction with this, the option with the least administrative complexity – and therefore lowest additional cost to business overall.

Option 1 to reinstate the shipper category and effectively maintain the status quo is the fairest and simplest option in this regard, followed by Option 5 and Option 2. Although preferable to Option 4, Option 3 involves additional risk and complexity due to the need to avoid double counting, and entails transmission pipelines assuming a disproportionate share of the cost and responsibility for the GBB service.

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