

6 March 2018

Mr Jack Fitcher
Australian Energy Market Operator
GPO Box 2008
MELBOURNE VIC 3001

(via email to: jack.fitcher@aemo.com.au)

Dear Mr Fitcher

RE: DRAFT REPORT – STRUCTURE OF PARTICIPANT FEES IN AEMO’S GAS MARKETS: APPEA COMMENTS

The Australian Petroleum Production & Exploration Association (APPEA) is the peak national body representing Australia’s oil and gas exploration and production industry. It has about 60 full member companies. These are oil and gas explorers and producers active in Australia. APPEA members account for an estimated 98 per cent of the nation’s petroleum production. APPEA also represents about 140 associate member companies that provide a wide range of goods and services to the upstream oil and gas industry.

Both directly and through its membership of the (former) Gas Market Leaders Group, APPEA has been involved since 2005 in the establishment of AEMO and the development of the various gas markets, the *Gas Statement of Opportunities* (GSOO) and the Gas Bulletin Board (GGB) and has participated in previous consultations on gas market cost recovery and fee arrangements.

APPEA welcomes the opportunity to provide comments on AEMO’s Draft Report – *Structure of participant fees in AEMO’s gas markets 2018* (the Draft Report) released on 20 February 2018. These comments follow on from APPEA’s comments on AEMO’s December 2017 Consultation Paper, provided to AEMO on 5 February 2018 (a copy of which can be found at [Attachment 1](#)).

In addition to the APPEA submission, a number of APPEA members have made individual submissions to the Draft Report, that are generally aligned with the position expressed in this submission, though some of the specifics regarding the precise nature of the apportionment may differ.

APPEA’s comments are focused on cost recovery arrangements for the GGB, as outlined on page 5 and pages 13-15 of the Draft Report, and makes the following observations:

- While the proposed approach outlined in the Draft Report has adopted some elements of APPEA’s (and producers) recommended approach to participants fees for the GGB, amendments to the AEMO’s proposed approach are still required to ensure the approach more appropriately reflects AEMO’s cost recovery principles and is consistent with the National Gas Objective and the fee structure approach used since the GGB was first established.

- The proposal to levy a \$/GJ fee on gas producers for the actual quantities of gas produced to fund 50% of AEMO's GBB budget appears to place a disproportionately high emphasis on the 'reflective of involvement' principle and underemphasises an overarching 'user pays' principle, that recognises the ultimate beneficiaries of the GBB and GSOO are the users of the information provided by the GBB and GSOO.
 - To more appropriately balance the 'reflective of involvement' and 'beneficiaries pay' approaches, **APPEA recommends (as it did in its 5 February 2018 submission) that 30% of the revenue be recovered from producers and 70% from users of the information** (represented, in the AEMO proposal, by DWGM market participants that withdraws gas and STTM users (retailers and Direct Customers in the DWGM and STTM markets)).
- Such an approach provides a more balanced recognition of the various fee structure principles and recognises that benefits derived through the GBB are ultimately enjoyed by GBB users and that those required to provide information and incur costs in doing so (and so are already making their contribution to the 'reflective of involvement' principle) are not significant users of the GBB.
 - APPEA's approach recognises that it is therefore inappropriate to levy fees on those that have provided the GBB's information in the first place, while maintaining the 'reflective of involvement' (producers will still face fees to fund 30% of the AEMO GBB budget) and 'simplicity' principles highlighted in AEMO's Draft Report.
- The approach also aligns with cost recovery options used by AEMO for other aspects of its gas market operations (and is consistent with a requirement to consider 'other similar fee structures').
 - APPEA notes the reference to the Western Australian approach on page 15 of the Draft Report. In doing so, it is also important to note the various differences between the approach proposed in the Draft Report and the Western Australia GBB (WA GBB) fee arrangements:
 - the WA GBB's Gas Services Information Rules¹ place fewer data requirements (and therefore cost) on registered participants,
 - as APPEA understands it, there is no consideration, at this stage, to remove the requirement for Shippers to be registered GBB participants in WA and hence alter the cost recovery methodology,
 - LNG facilities are not included on the WA GBB (noting domestic production facilities associated with an LNG project are included), and
 - unlike the proposed approach in the AEMO Draft Report, the fee arrangements cover both the WA GBB and WA GSOO.
 - This means reference to the approach taken in Western Australia does not provide support for the proposal outlined in the AEMO Draft Report.
- In addition, given the revenue collected from the industry would, in effect, be 'locked-in' at 30% under this approach, AEMO should be largely indifferent to the approach used to charge registered participants (producers, in this case) their share of that fixed amount.
 - APPEA would welcome the opportunity to discuss further with AEMO a possible industry agreed approach to allocating amongst producers their share of that fixed amount.

¹ Gas Services Information Act 2012; Gas Services Information Regulations 2012; Gas Services Information Rules (3 January 2018), available at www.erawa.com.au/rule-change-panel/gas-services-information-rules.

APPEA and its members would welcome the opportunity to work with AEMO and other gas market participants to further develop this proposal and establish a sustainable structure for gas market fees. We would welcome the opportunity to meet with you to further discuss this approach.

Beyond this consultation process, APPEA would also welcome the opportunity to discuss with AEMO the development of more equitable and sustainable fee structures (including different approaches that utilise a subscription-based fee structure) that are will be required as the GBB undergoes further development in coming years.

Please feel free to contact me via e-mail on ddwyer@appea.com.au or telephone at (02) 6267 0902 if you wish to discuss any aspect of our submission.

Yours sincerely



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5 February 2018

Mr Jack Fitcher
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Dear Mr Fitcher

**RE: CONSULTATION PAPER – STRUCTURE OF PARTICIPANT FEES IN AEMO’S GAS MARKETS:
APPEA COMMENTS**

The Australian Petroleum Production & Exploration Association (APPEA) is the peak national body representing Australia’s oil and gas exploration and production industry. It has about 60 full member companies. These are oil and gas explorers and producers active in Australia. APPEA members account for an estimated 98 per cent of the nation’s petroleum production. APPEA also represents about 140 associate member companies that provide a wide range of goods and services to the upstream oil and gas industry.

Both directly and through its membership of the (former) Gas Market Leaders Group, APPEA has been involved since 2005 in the establishment of AEMO and the development of the various gas markets, the *Gas Statement of Opportunities* (GSOO) and the Gas Bulletin Board (GBB) and has participated in previous consultations on gas market cost recovery and fee arrangements.

APPEA welcomes the opportunity to provide comments on AEMO’s Consultation Paper – *Structure of Participant Fees in AEMO’s Gas Markets* (the Consultation Paper) released on 21 December 2017.

APPEA’s comments are focused on cost recovery arrangements for the GBB, as outlined on pages 10-11 of the Consultation Paper, and makes the following observations:

- GBB cost recovery/fee arrangements, first developed in 2006, have been placed on gas shippers (while generally appropriate at the time, the evolution of the gas market has meant that more recently this model was not aligned to the ‘user pays’ concept due to the arrangement being throughput-based rather than fee-based). The arrangement did, however, recognise:
 - The ultimate beneficiaries of the GBB and GSOO are the users of the information provided by the GBB (and GSOO).
 - Shippers are not required to provide information for the GBB, but derive benefit from the information provided (by contrast all other key participants are required to provide information and face costs associated with complying with these obligations).
 - The total costs of operating the GBB and GSOO are not significant in the context of the east coast natural gas market.

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- While, as the Consultation Paper notes on page 11, the Rule Change process pursued by the AEMC in 2017 has changed the list of GBB registered participants by removing shippers from the list of participants required to register (while still accommodating voluntary registration), this administrative change has not altered the points outlined above and so should not change the overall approach taken by AEMO to the structure of participant fees.
 - Discussions with the AEMC have indicated that part of the intent of the Rule Change was to remove the restrictions the current approach place on AEMO in imposing fees and allow AEMO more flexibility in determining its fee setting arrangements. As APPEA understands it, this flexibility was also designed to allow AEMO to more easily respond to changes in the gas market that may impact on the appropriate fee structure.
 - APPEA also understands from discussions with AEMO there are no legal/regulatory impediments to the inclusion of others who are not registered participants in any fee structure arrangements.
- APPEA recognises, however, that the Rule Change (along with market developments) does mean a new fee structure is required, to ensure a more appropriate and proportionate allocation of the costs across those who use/benefit from the GBB.
 - This includes gas producers, who like other GBB users, should be charged a fee that represents an appropriate share proportionate with the benefit they derive (noting, as above, GBB participation is already costing producers in terms of resources to collate and upload the data and the benefit they receive from GBB use is likely to be marginal).

While APPEA does not at this stage have a fully developed model, this submission outlines a fee structure that can form the basis for further consultation to develop an appropriate approach.

- This proposed new model is outlined at [Attachment 1](#). It uses the principles outlined by AEMO in the Consultation Paper and is consistent with the National Gas Objective and the fee structure approach used since the GBB was first established.
- The proposed new model (a “fixed and variable cost allocation model”) would levy a fixed fee on as wide a possible range of market participants (shippers, pipeline operators, producers and storage operators and other users that access the data for more than informational purposes¹) and a variable fee based on usage of the GBB (this variable fee² would recognise that GBB users are the ultimate beneficiaries of the information provided through the GBB).

The approach recognises that benefits derived through the GBB are ultimately enjoyed by GBB users and that those required to provide information and incur costs in doing so are not significant users of the GBB and that it is inappropriate to levy fees on those that have provided the GBB’s information in the first place.

APPEA and its members would welcome the opportunity to work with AEMO and other gas market participants to further develop this proposal and establish a sustainable structure for gas market fees. We would welcome the opportunity to meet with you to further discuss this approach.

¹ This would include gas consumers, analysts and consultants.

² This could include a differentiation between GBB viewing and downloading of the GBB data, such that if users are downloading the data (for example, reports), hence gaining greater value from the data, then there is a charge that is reflective of this benefit.



Please feel free to contact me via e-mail on ddwyer@appea.com.au or telephone at (02) 6267 0902 if you wish to discuss any aspect of our submission.

Yours sincerely

A handwritten signature in black ink that reads "Damian Dwyer". The signature is written in a cursive style with a long, sweeping underline.

DAMIAN DWYER
Director – Economics

STRUCTURE OF PARTICIPANT FEES IN AEMO'S GAS MARKETS: FIXED AND VARIABLE ALLOCATION APPROACH

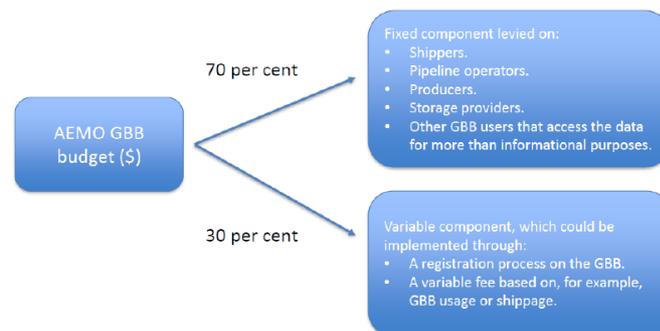
This fixed and variable cost allocation model would levy a fixed fee on as wide a possible range of market participants (shippers, pipeline operators, producers and storage operators and other users that access the data for more than informational purposes³) and a variable charge⁴ based on usage, which would recognise that gas users are the ultimate beneficiaries of the information provided through the GBB.

The ultimate allocation between the fixed and variable levy approach should be the subject of further discussion, but (as an example) a 70 : 30 split is one possible allocation.

- 70 per cent of the total fees collected through the fixed component (with the split of that 70 per cent between the various “classes” of market participants to be the subject of further consultation (this would include a methodology to ensure market participants that fit multiple “classes” are not charged multiple times)).
- 30 per cent through the variable component (which could be implemented through a registration process on the GBB which could then impose a variable fee based on, for example, GBB usage or shippage).

This new proposed model recognises that benefits derived through the GBB are ultimately enjoyed by gas users and that those required to provide information and incur costs in doing so are not significant users of the GBB and that it is inappropriate to levy fees on those that have provided the GBB’s information in the first place. The approach also aligns with cost recovery options used by AEMO for other aspects of its gas market operations.

STRUCTURE OF PARTICIPANT FEES: FIXED AND VARIABLE ALLOCATION APPROACH



³ As noted above, this would include gas consumers, analysts and consultants.

⁴ As noted above, this could include a differentiation between GBB viewing and downloading of the GBB data, such that if users are downloading the data (for example, reports), hence gaining greater value from the data, then there is a charge that is reflective of this benefit.