Gas Fee Structures

November 2020

Draft Report

Proposed determinations on the gas fee structures to apply to Participant and Pipeline Capacity Trading Auction and Exchange fees from 1 July 2021

Important notice

PURPOSE

AEMO consults on its proposed fee structure for participant fees, exchange fees and auction fees in accordance with the extended consultative procedure under clause 135CA(3) of the National Gas Rules (NGR).

This document has effect only for the purposes set out in the Rules, and the National Gas Law (Law) and NGR prevail over this document to the extent of any inconsistency.

This publication has been prepared by AEMO using information available at 13 November 2020.

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Executive summary

Introduction

AEMO sought stakeholder views on the terms and fee structures to apply to gas participant fees, and the Pipeline Capacity Trading (PCT) Exchange Fees and Auction Fees, from 1 July 2021, through the release of its Gas Fee Structures Consultation Paper (Consultation Paper) on 20 August 2020. AEMO has carefully considered the National Gas Rules (NGR) requirements, stakeholder feedback on the Consultation Paper and its own internal analysis, and set out its proposed determinations in this Draft Report.

The closing date for submissions to this Draft Report is Monday 4 February 2021.

Background

The current structure for:

- Participant Fees Structures came into effect on 1 July 2018 and expire on 30 June 2021; and
- Pipeline Capacity Trading (PCT) services (comprising Exchange Fees and Auction Fees) came into effect on 1 March 2019 and will also expire on 30 June 2021.

The two sets of fee structures are being considered in parallel through this consultation process given the alignment in end dates, requirement to consult in accordance with the extended consultative procedure under the NGR, and other potential interdependencies.

Consultation scope

AEMO is seeking stakeholder views on the fee structures to apply from 1 July 2021 for participant fees and PCT fees. Specifically, this relates to fee structures applying to the following markets and services:

Participant fees:

- Declared Wholesale Gas Market (DWGM)
- Short Term Trading Market (STTM)
- Retail markets
  - Vic
  - NSW/ACT
  - Qld
  - SA
- Gas Bulletin Board (GBB)
- Gas Statement of Opportunities (GSOO)
- Energy Consumers Australia (ECA) Fees.

PCT fees:

- Capacity trading platform (CTP)
- Day-ahead auction (DAA)
- Operational Transportation Service (OTS) Code Panel.

Note that fee structures for the following services are out of scope for this consultation:

- Gas Supply Hub (GSH)
- Western Australia Full Retail Contestability (FRC) Gas Market
- Western Australia Gas Services Information (GSI).

Stakeholder feedback

Five submissions were received in response to the Consultation Paper. One submission was made by GLNG on a confidential basis and as such the feedback provided by this submission is not set out in this determination. Four public submissions were lodged by:

- AGL
- Australia Pacific LNG (APLNG)
- Origin Energy
- Red Energy / Lumo Energy

These submissions are published on the consultation page of AEMO's website: https://aemo.com.au/en/consultations/current-and-closed-consultations/gas-markets-participant-fee-structure-review.

AEMO appreciates, and is thankful for, the time and effort that stakeholders have taken to respond to its Consultation paper. AEMO has considered the views and comments raised in the submissions, which have informed the proposed determinations in this Draft Report.

Proposed changes

In developing this Draft Report AEMO has carefully considered the issues raised in its Consultation Paper; stakeholder views raised through submissions to the Consultation Paper; further internal analysis and discussion; and the NGR fee structure requirements. AEMO now seeks stakeholder views on the determinations proposed by its Draft Report. Further discussion of these requirements can be found in section 2.1.3 and Appendix A1.

The following changes are proposed through this Draft Report:

- Registration fees for DWGM and STTM
  AEMO proposes to introduce upfront registration fees into the DWGM and STTM gas wholesale markets.
- Disaggregation of registration fees by participant category
  AEMO proposes to disaggregate registration fees by registrable capacity in each market to be more reflective of involvement (and by extension transparency) and comparable with the NEM.
- Disaggregation of PCT fees into component services
  AEMO proposes to disaggregate fees for transportation services traded on the CTP and DAA into compression service fees and transmission service fees.
- Introduction of PCT 'deficit safety net'
  AEMO proposes to retain the status quo for recovery of PCT fees, but introduce a 'deficit safety net' of $900,000, which will give AEMO the right to recover any amount exceeding this threshold from the DWGM and STTM wholesale markets.
- GSOO fees – shared recovery
  AEMO proposes to recover GSOO fees on the basis of 50% from producers on a $/GJ produced basis; and 50% from retailers on a $ / supply point basis.

Current versus Proposed Gas Fee Structures

The current fee structures developed through the last gas participant fees and the PCT and Auction fees consultation processes are set out below in Table 1, against the proposed fee structure to apply from 1 July 2021.

In addition, AEMO proposes to retain the three-year term for the fee structure to apply from 1 July 2021, along with a three-year rolling average period. This is intended to provide a balance between fee certainty for participants with flexibility to consider and respond to developments through the next fee structure review.

Table 1 Current versus proposed Gas Fee Structures

	Existing Liable registered participants	Existing Fee structure	Proposed Liable registered participants	Proposed Fee structure
DWGM				
Energy Tariff	Each Market Participant withdrawing gas from the Declared Transmission System.	$ / GJ withdrawn	No change	No change
Distribution Meter Fee	Each Market Participant connected to a Declared Distribution System, or whose customers are connected to a Declared Distribution System, at a connection point at which there is an interval metering installation.	$ / connection point with interval metering installation / day	No change	No change
Participant Compensation Fund (PCF)	Each Market Participant withdrawing gas from the Declared Transmission System.	$ / GJ withdrawn	No change	No change
Initial **registration fee**	Not applicable	Not applicable	Each new DWGM market registered participant.	$ / registration / registrable capacity
STTM				
Activity Fee	Each STTM Shipper and STTM User withdrawing gas at any hub.	$ / GJ withdrawn / hub / ABN	No change	No change, however description to be reworded for clarity: $ / GJ withdrawn
PCF	Each STTM Shipper and STTM User withdrawing gas at any hub.	$ / GJ withdrawn / hub / ABN	No change	No change, however description to be reworded for clarity: $ / GJ withdrawn / hub
Initial registration fee	Not applicable	Not applicable	Each new STTM market registered participant.	$ / registration / registrable capacity
Retail				
Vic Gas Tariff	Each Victorian retail gas market participant participating in the registrable capacity of market participant – retailer.	$ / customer supply point	No change	No change
Vic Gas initial registration fee	Each new Victorian retail gas market participant registering in the capacity of market participant – retailer or market participant – other.	$ / registration	No change	$ / registration / registrable capacity

Qld, SA, NSW & ACT Gas Tariff	Each retail gas market participant participating in the registrable capacity of retailer.	$ / customer supply point (by jurisdiction)	No change	No change
Qld, SA, NSW & ACT Gas initial registration fee	Each new retail gas market participant registering in the registrable capacity of retailer or self-contracting user.	$ / registration	No change	$ / registration / registrable capacity
GSOO				
GSOO Tariff	Each retail gas market participant participating in the registrable capacity of market participant – retailer in Vic or retailer in NSW/ACT, Qld and SA.	$ / customer supply point	Not applicable	Not applicable
Producer fee	Not applicable	Not applicable	Each BB facility operator registered as the BB reporting entity for a BB production facility.	$/GJ produced (to allocate 50% of GSOO costs)
Retailer fee	Not applicable	Not applicable	Each retail gas market participant participating in the registrable capacity of market participant – retailer in Vic or retailer in NSW/ACT, Qld and SA.	$/customer supply point (to allocate 50% of GSOO costs)
GBB				
Producer fee	Each BB facility operator registered as the BB reporting entity for a BB production facility.	$ / GJ produced (to allocate 50% of GBB costs)	No change	No change
Wholesale gas markets participant fee	Each Market Participant withdrawing gas in the DWGM or each STTM Shipper or STTM User withdrawing gas at any hub.	$ / GJ withdrawn (to allocate 50% of GBB costs)	No change	No change
Registration fee[1]	Each new BB participant registering in the registrable capacity of: • BB allocation agent; • BB transportation facility user; and • BB capacity transaction reporting agents.	$ / registration	No change	No change

[1] Registration fees were introduced via determination on PCT fees – AEMO Final Report Gas Pipeline Capacity Trading and Day Ahead Auction 2019 Fee Structure, 12 February

ECA				
Energy Consumers Australia (ECA) On-Charge	Each retail gas market participant participating in the registrable capacity of market participant – retailer in Victoria or retailer in NSW/ACT, Qld and SA.	$ / customer supply point	No change	No change
PCT				
CTP fee	Each trading participant - buyer and seller.	$/GJ of traded capacity	Not applicable	Not applicable
CTP transmission fee	Not applicable	Not applicable	Each transmission capacity trading participant - buyer and seller.	$/GJ of traded transmission capacity
CTP compression fee	Not applicable	Not applicable	Each compression capacity trading participant - buyer and seller.	$/GJ of traded compression capacity
CTP licence fee	Each trading participant - buyer and seller.	$ / licence / annum	No change	No change
DAA fee	Each auction participant.	$/GJ of auction capacity	Not applicable	Not applicable
DAA transmission fee	Not applicable	Not applicable	Each transmission capacity auction participant.	$/GJ of transmission auction capacity
DAA compression fee	Not applicable	Not applicable	Each compression capacity auction participant.	$/GJ of compression auction capacity
Registration fee	Each new participant, including: • Part 24 Facility operators; and • Day ahead - Auction participants.	$ / registration	No change	No change
OTS Code Panel	Each trading participant.	$/GJ on CTP and DAA trades	No change	No change

Contents

1. Notice of second stage of consultation

AEMO is seeking stakeholder views on its Draft Report for the fee structures to apply to gas participant fees, and the Pipeline Capacity Trading fees, from 1 July 2021.

1.1 Consultation timetable

The closing date for submissions to this Draft Report is Thursday, 4 February 2021. The following table contains indicative timeframes for the consultation process, based on the extended consultation process requirements. Additional time has been provided for stakeholder submissions on the Draft Report in response to recent feedback from stakeholders regarding consultation timeframes in the current environment, and to provide participants with more time to respond over the Christmas and New Year period.

Table 2 Consultation process indicative timeframes

Milestone	Date
Draft Report & Notice of second stage consultation published	Monday, 16 Nov 2020
Submissions on Draft Report due	Thursday, 4 Feb 2021
Final Report published	Thursday, 18 Mar 2021
Final Report required (no later than)	Wednesday, 31 Mar 2021
New fee structures take effect	Thursday, 1 Jul 2021

1.2 Second stage submissions closing date

AEMO intends to publish all submissions on its website. Please identify any part of your submission that is confidential, and you do not wish to be published. Respondents should note that if material identified as confidential cannot be shared and validated with other interested persons then it may be accorded less weight in AEMO's decision-making process than published material. AEMO prefers that submissions be forwarded in electronic format in order to be published on the AEMO website.

Please provide submissions by 5.00pm Thursday, 4 February 2021 to: StakeholderRelations@aemo.com.au .

1.3 AEMO contact for inquiries

Inquiries and/or meeting requests should be directed to:

Mr Kevin Ly

Group Manager Regulation

Email: kevin.ly@aemo.com.au

2. Consultation overview

AEMO is seeking stakeholder views on the proposed fee structures to apply to gas participant fees, and the Pipeline Capacity Trading fees, from 1 July 2021. Through this process AEMO is seeking opportunities to improve fee structures and respond to emergent issues.

2.1 Background

2.1.1 Participant Fees

The current structure for participant fees came into effect on 1 July 2018 and expires on 30 June 2021.[2] AEMO is required to review and publish, in consultation with registered participants, interested parties and such other persons as AEMO thinks appropriate, the structure and term of participant fees to apply from 1 July 2021.[3] AEMO must consult on the fee structure in accordance with the extended consultative procedure under the National Gas Rules (NGR).

2.1.2 Pipeline Capacity Trading Fees and Auction Fees

The current fee structure for Pipeline Capacity Trading (PCT) services came into effect on 1 March 2019 and will expire on 30 June 2021. This term was intended to align with the term of the gas participant fees structures as well as existing electricity fee structures.

Fee structures for PCT were introduced after AEMO's last determination on participant fees and were necessary to support new services introduced in early 2019 resulting from gas pipeline capacity trading reform.[4] These fees are recovered as Exchange Fees and Auction Fees under the NGR but are considered together with participant fees through this consultation given the similar consultation requirements, term expiry dates, and benefits of taking a holistic view of gas fees.

2.1.3 Fee structure principles

In determining the structure of Participant Fees, Exchange Fees and Auction Fees, AEMO must have regard to a range of matters (referred to as the fee structure principles)[5] and these are set out below with some examples of how these requirements may be applied to reviewing the gas fee structures. Appendix A1 provides further detail about the fee structure principles and their application.

Table 1: Description and application of fee structure principles.

Fee structure principle	Requirements and application
National Gas Objective (NGO)	…"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." The long term interest of consumers of gas requires the economic welfare of consumers, over the long term, to be maximised. If gas markets and access to pipeline services are efficient in an economic sense, the long term economic interests of consumers in respect of price, quality, reliability, safety and security of natural gas services will be maximised.
Simplicity	The fee structure must be simple.

[2] Determinations are set out for Participant Fees in AEMO Final Report Structure of participant fees in AEMO's gas markets 2018 (29 March 2018).

[3] S135CA(1) National Gas Rules

[4] Determinations are set out for PCT Fees in AEMO Final Report Gas Pipeline Capacity Trading and Day Ahead Auction 2019 Fee Structure (12 February 2019).

[5] 135CA(4) National Gas Rules

	AEMO considers that the simplicity principle means that the basis of the fee structure and its application to various registered participants should be: • straight-forward • easily understood by participants • readily applied by registered participants and AEMO • foreseeable and forecastable in terms of impacts and costs.
Reflective of involvement[6]	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 In determining whether the extent to which the budgeted revenue requirement relating to a particular output involves a Registered Participant, AEMO relies on the experience and expertise of its general managers and staff, and considers factors such as the degree to which the Registered Participant: • interacts with AEMO in relation to the output; • uses the output; • receives the output; and • benefits from the output. AEMO also considers the how the revenue requirements have given rise to, or are caused by, that Registered Participant's presence in the market. Where it is practical for AEMO to identify costs that are fixed or common in nature that can reasonably be allocated to a class or classes of Participants that share characteristics such that their involvement with AEMO's outputs is likely to have the same or similar cost implications, AEMO will seek to do so.
Non-discriminatory	Fee structure should not discriminate unreasonably against a category or categories of registered participants. Discriminate means to treat people or categories of people differently or unequally. Discriminate also means to treat people, who are different in a material manner, in the same or identical fashion. Further, "discriminate against" has a legal meaning which is to accord "different treatment … to persons or things by reference to considerations which are irrelevant to the object to be attained. This principle allows AEMO to discriminate against a category or categories of registered participants where to do so would be reasonable.
Comparability	AEMO must have regard to other fee structures that AEMO thinks appropriate for comparison purposes. Other relevant fee structures could include: • National Electricity Market (NEM) fee structures for comparable markets or services • Other gas market fee structures such as Western Australia markets or globally • Other gas markets also the subject of this consultation process.

[6] Note that the Consultation Paper referred to "cost-reflectivity" but that the Draft Report seeks to improve clarity by more accurately referring to this principle as "reflective of involvement".

2.2 Scope of review

AEMO is seeking stakeholder views on the fee structures to apply from 1 July 2021 to participant fees and PCT fees. This relates to fee structures applying to the following AEMO markets and services:

Participant fees:

- Declared Wholesale Gas Market (DWGM)
- Short Term Trading Market (STTM)
- Retail markets
  - Vic
  - NSW/ACT
  - Qld
  - SA
- Gas Bulletin Board (GBB)
- Gas Statement of Opportunities (GSOO)
- Energy Consumers Australia (ECA) Fees.

PCT fees:

- Capacity Trading Platform (CTP)
- Day-Ahead Auction (DAA)
- Registration fee (CTP and DAA)
- Operational Transportation Service (OTS) Code Panel

2.3 Consultation paper summary

Through the Consultation Paper AEMO sought feedback on how existing fee structures could be improved to better balance fee structure principles to address any emergent market trends, regulatory reforms or stakeholder-identified issues. The Consultation Paper set out potential areas for improvement identified by AEMO (see below), however feedback from stakeholders was not limited to these issues. Stakeholders were invited to identify further issues or options for improving the gas fee structures.

Gas fee structure term

1. Is a three-year term the optimal term for this gas fee structure determination?
2. Is a three-year break-even period to recover costs appropriate?

Registration fees

3. Could AEMO amend its registration fee structures to be more innovative, better realising the NGO through enhanced competition in gas markets, and if so, how could this deliver benefits?
4. Should registration fees be disaggregated by registrable capacity in retail markets?
5. Should initial registration fees be introduced into wholesale gas markets to better reflect the costs associated with individual registrations?

PCT fees – disaggregation into component services

6. Would disaggregation of services traded through CTP and DAA markets result in improved reflective of involvement, more efficient pricing or realisation of other fee structure principles?

PCT fees – recovery via other markets

7. How should deficits accruing in the PCT in the current term be dealt with?
8. How should ongoing deficits accruing in the PCT in the next term be dealt with?
9. Would recovery of PCT costs through an alternative market, such as the STTM, be more reflective of the benefits derived from a broader range of registered participants?

GSOO fees – application to participants

10. Would the GSOO fee structure better reflect the fee structure principles if it were applied to a larger spectrum of registered participant categories, for example other retail market participants or wholesale market participants?
11. Are changes to the fee structure, either for the GSOO or GBB, required to better reflect the involvement of registered participants due to the proposed Measures to Improve Transparency in the Gas Market?

Retail market fees – aggregation

12. Would a consolidated retail market gas fee, which is uniform across jurisdictions, result in efficiencies for retailers or realise other improvements in accordance with the principles?

Other gas fee structure issues

13. Are there further opportunities to improve gas fee structures and application of the fee structure principles?

3. Stakeholder views

AEMO received four public submissions in response to the Gas Fee Structures Consultation Paper and one confidential submission.

The five stakeholders that responded to the Consultation Paper were:

- AGL
- Australia Pacific LNG (APLNG)
- Origin Energy
- Red Energy / Lumo Energy
- GLNG (confidential submission)

The views expressed in the public submissions were carefully considered in developing the proposed fee structures. These are set out in the relevant subsection of section 0. Note that any submission that is silent on a matter is not included in the analysis in support of, or opposition to, the matter. Stakeholder views and themes are presented in setting out the rationale underpinning the draft determinations proposed by AEMO. AEMO has considered the issues raised in the confidential submission in developing the Draft Report but has not given as much weight to this submission as other non-confidential submissions on the basis that participants cannot respond to those issues.

3.1 Summary of respondents and submissions

The following is a summary of responses provided in each of the four public submissions to the Gas Fee Structures Consultation Paper:

Table 3 Summary of respondents and submissions to the Consultation Paper

	AGL	APLNG	Origin	Red and Lumo
Term and averaging period	Status quo supported for term. Could also consider 3 + 2 approach whereby consider an extension at the end of 3 years. Nil response for averaging period.	Status quo supported for term Appropriate balance. Longer period not appropriate in current dynamic environment. Status quo supported for averaging. Appropriate balance between market dynamism and cost certainty.	Status quo supported for term. Allows structure to be reviewed following any substantial market change. Nil response for averaging period.	Nil.
Registration	Status quo supported. Registration fees are simple and known and fees are immaterial and do not warrant further complexity or review.	Support disaggregation. Reduced simplicity but more cost-reflectivity and may encourage more participants.	Status quo supported. It is unclear how reforming the registration fees could improve cost reflectivity. Participants who have previously paid AEMO for registration should not then be charged other participants' costs of registration.	Nil.
PCT fees – disaggregation	Position not defined. Better approach may be a licence fee per participant to manage software, and then a flat fee for each trade.	Nil. However, supports reduction in PCT fees to incentivise greater participation.	Position not defined. Questioned benefits and method for differential service valuations, and also	Nil.

			efficiency of market outcomes.	
PCT fees – recovery via other markets	Status quo supported. Making the PCT easy and cost efficient will strengthen the various shipping activities. However, benefits may not necessarily flow to the same participants who benefit or pay for that trade.	Recovery from STTM supported, if those participants derive a benefit. Supports an approach which does not delay addressing the deficit or disincentivise uptake. Greater uptake of CTP required and important to address reasons for under-utilisation. OTS Code Panel fees should be used to offset other PCT fees Consider an appropriate future plan where resources could be reallocated to reduce fees and increase PCT utilisation.	Status quo supported. Fee structure should be retained and addressing the deficit should be deferred (if for limited period and size). Imprudent to attempt to allocate the cost to any individual group of participants at this point. Deficit driven by lack of liquidity in CTP but as recontracting occurs DAA capacity will fall and CTP rise.	Nil.
GSOO	Broaden to all registered gas market participants in the supply chain. Specifically, producers, pipeline operators, users, retailers since all participants benefit from the GSOO. This would include GBB participants.	Broaden to wholesale market participants (DWGM/STTM). Producer allocation not supported given limited benefit, particularly when reporting and compliance costs for producers to increase with GT Measures.	Broaden to producers and other retail market participants. GSOO an important tool for producers to understand the supply-demand balance and for their own planning. Wholesale allocation not supported as retailers also participate in wholesale markets.	Nil. Note general view that should charge fees to the party closest to the customer, and charge on a \$/SP basis rather than \$/GJ as it unfairly impacts those customers more reliant on gas (e.g. Vic & ACT). Applying fees to transmission and distribution operators is not supported.
Retail aggregation	Aggregation supported. May reduce the cost of participation in markets where a retailer has less customers, facilitating retail competition Efficiency benefits from standardisation outweigh cross-subsidisation concerns.	Nil.	Nil. Note potential confusion in the submission with Registration matters.	Nil. Indicated general opposition to any approach that increases retail fees disproportionally in Vic and ACT based on gas reliance of those customers.
Other	STTM should not be disaggregated by hub STTM fees in Brisbane, Sydney and Adelaide should be uniform as no substantive operational difference should apply.	GBB should be a flat fee. Should not be a volume fee as AEMO's administrative burden related to each participant is similar regardless of volume.	Nil.	Current retail status quo should be retained. Retain \$/supply point structure as it does not unfairly charge Vic and ACT customers which are more reliant on gas. Recover from retailers, not further up the supply chain as costs will increase as pushed through to customers.

4. Proposed determinations

Informed by stakeholder feedback and internal analysis, and having regard to the fee structure principles and National Gas Objective (NGO), AEMO proposes some changes to the fee structures in several markets, whilst retaining many established fee structures.

Below, each of the questions posed through the Consultation Paper are considered and a proposed approach to those issues set out. An assessment against the fee structure principles is included to support the proposed fee structure for each key issue.[7] Detailed discussion follows the fee structure principles assessment for more substantive issues.

4.1 Gas fee structure term and averaging

The Consultation Paper posed the following questions relevant to fee structure and term:

Questions

1. Is a three-year term the optimal term for this gas fee structure determination?
2. Is a three-year rolling period to recover costs appropriate?

4.1.1 Existing structure

The Rules permit AEMO to set participant fee structures for a period of time as it considers appropriate. The 2012, 2015 and 2018 determinations fixed the term of participant fee structures at three years, which was intended to provide fee certainty for participants and AEMO.

Further, a three-year rolling period is currently used to average the costs applicable to each market. The intent of this approach was to provide a balance between reducing year to year variability and maintaining the 'reflective of involvement' principle.

4.1.2 Stakeholder views

Support for a three-year term was indicated by 3/3 stakeholders on the basis that it achieves an optimal balance, allowing the structure to be reviewed following any market changes. Expanding on this, AGL also indicated that it would be open to a 3 + 2 approach which would allow AEMO to extend the term by another two years towards the end of the third year.

Support for a three-year rolling average period was indicated by 1/1 stakeholder, APLNG, which considered this approach to be an appropriate balance between market dynamism and cost certainty.

4.1.3 Proposed determination and rationale

AEMO proposes to retain the three-year term and rolling period for the next fee structure period. This means that the term of the next period will be 1 July 2021 to 30 June 2024 and a three-year rolling period will be applied to determining revenue requirements.

AEMO considers that a three-year term provides an effective balance between fee certainty for participants and AEMO, and the ability to consider and respond to market changes or developments in the next fee structure review. This position is supported by all stakeholder feedback on the matter. AEMO had regard to the fee structure principles when considering a three-year term, as summarised in the table below.

[7] Note that the 'fee structure principles' include the three stated 'principles' of simplicity, reflective of involvement and non-discriminatory, and for brevity also include the requirements to have regard to realisation of the NGO and comparability with other markets.

Table 4 Assessment of three-year term against fee structure principles

Principle	Assessment against principle
NGO	A three-year term may have a positive impact on realising the NGO as this period allows AEMO to consider any internal or external changes impacting how AEMO's costs are driven and ensure that future fee structures are efficient and appropriate.
Simplicity	A three-year term is equally as simple as a longer or shorter term.
Reflective of involvement	A three-year term may be reflective of involvement as this period allows internal or external changes impacting how AEMO's costs are driven and ensure that fee structures continue to be more reflective of involvement as possible.
Non-discriminatory	A three-year term may have a positive impact regarding non-discrimination as structures can more readily accommodate any internal or external changes impacting how AEMO's costs are driven and ensure that fee structures continue to be as non-discriminatory as possible.
Comparability	A three-year term may have a positive impact regarding comparability as fee structures can more readily accommodate alternative and comparable fee structures, where relevant.

AEMO also considers that a three-year rolling period provides an effective balance between reducing year to year variability and the 'reflective of involvement principle. This position is supported by 1/1 stakeholder feedback on the matter.

AEMO had regard to the fee structure principles when considering a rolling three-year average as summarised in the table below.[8]

Table 5 Assessment of a three-year rolling period against fee structure principles

Principle	Assessment against principle
NGO	A three-year rolling average will have a neutral impact on realisation of the NGO as the rolling average does not impact the overall revenue recovered.
Simplicity	The averaging involved in a three-year rolling period may mean that the structure is slightly less simple, however this is not deemed material.
Reflective of involvement	A three-year rolling average is reflective of involvement in terms of the participants charged, but less reflective of involvement compared to an annual approach as the fees for each year are based on an average cost established via a three-year budget.
Non-discriminatory	If a registered participant exits a market during the term of the fee structure, they will incur the impacts, positive or negative, of averaging. However, this is not considered to be discriminatory as this potential impact applies equally to all registered participants.
Comparability	This approach is comparable with previous gas fee determinations where it was applied with stakeholder support. A rolling average is not used to calculate fees in the National Electricity Market (NEM).

[8] It is noted that this issue relates more to budget issues, than a fee structure issue, as it involves the quantum of the fee, not who is charged the fee or the metric. Regardless, AEMO has had regard to the fee structure principles in considering the rolling average period.

4.2 Registration fees

The Consultation Paper posed the following questions relevant to registration fees:

Questions

3. Could AEMO amend its registration fee structures to be more innovative and better realise the NGO through enhanced competition in gas markets, and if so, how could this work and how would it deliver benefits?
4. Should registration fees be disaggregated by registrable capacity in retail markets?
5. Should initial registration fees be introduced into wholesale gas markets to better reflect the costs associated with individual registrations?

4.2.1 Existing structure

The approach to applying initial registration fees varies across AEMO's gas markets and services. That is, registration fees are:

- not charged for initial registrations on the DWGM or STTM (that is, the costs of registration are recovered from all participants through ongoing market fees); and
- charged for initial registrations in retail markets, PCT markets and for some GBB categories to recover the costs (time and effort) associated with registering and onboarding new registered participants.

4.2.2 Stakeholder views

Support for the status quo was indicated by 2/3 stakeholders on the basis that registration fee structures cannot be improved from a reflective of involvement perspective; are simple and well-known; immaterial, and therefore do not warrant further consideration.

Support for disaggregation of registration fees was indicated by 1/3 stakeholders on the basis that it would improve cost-reflectivity and incentivise participation and competition in gas markets. This position was on the proviso that the approach must be equitable and ensure the user pays.

4.2.3 Proposed determination and rationale

It is proposed that changes to the fee structure should apply such that registration fees are:

- charged to registering participants on an upfront basis in the DWGM and STTM; and
- disaggregated by registerable participant category across any market in which registration fees apply.

This is discussed in further detail below.

Upfront registration fees for DWGM and STTM

AEMO proposes to introduce upfront registration fees into the DWGM and STTM gas wholesale markets. The key drivers for the proposed change are to enhance regard for the reflective of involvement principle by ensuring that registration costs are recovered from those participants driving AEMO's costs; and for the NGO as introducing a price signal for all registrations will mitigate the inefficiencies to AEMO of progressing registrations which are later withdrawn or materially amended.

AEMO notes feedback from two stakeholders that registration fees are simple, well understood by stakeholders and do not warrant change, however AEMO does not consider that this is reason alone to maintain the status quo.

AEMO had regard to the fee structure principles when considering the introduction of registration fees into the DWGM and STTM as summarised in the table below. Further discussion of material issues follows.

Table 6 Assessment of DWGM and STTM registration fee introduction against fee structure principles

Principle	Assessment against principle
NGO	Upfront registration fees promote the efficient use of gas services with respect to the price paid for natural gas by consumers in three key ways, as the fees: • introduce a price signal for stakeholders regarding the cost to AEMO of registering new participants, thereby mitigating inefficiencies resulting from withdrawals or amendments; • allow AEMO to recover the costs of withdrawn and amended registrations which impose an operational burden on AEMO; and • remove registration costs attributable to a single stakeholder from the ongoing fees which has potential to improve the NGO if savings are passed through to gas consumers.
Simplicity	An upfront fee for registration in the DWGM and STTM has a neutral impact on fee structure simplicity as is straight-forward, transparent and easily understood by participants, and readily applied by AEMO.
Reflective of Involvement	The approach considerably improves the reflective of involvement principle for the DWGM and STTM fee structures. Specifically, the cost of registration will be recovered upfront and from the participants who drive those costs, rather than allocating those costs across all registered participants who pay ongoing fees in these markets.
Non-discriminatory	This approach has two potentially opposing impacts on the non-discrimination principle: • increased discrimination between incumbent registered participants and new entrants, as new entrants are required to pay a fee which incumbent participants in the DWGM and STTM were not subject to; and • remove discrimination between registered participants in the DWGM and STTM (which do not currently incur registration fees) and registered participants in retail markets, the PCT and some categories of the GBB (which do incur registration fees).
Comparability	Introducing a DWGM and STTM registration fee will improve overall comparability between AEMO gas markets as the DWGM and STTM are brought into line with the gas retail markets, PCT, some categories of the GBB and the NEM.

Reflecting the costs of DWGM and STTM registrations

As stated above, reflective of involvement will be improved by recovering the costs of registration in the DWGM and STTM from those stakeholders that are directly driving AEMO's efforts and costs. Currently, these costs are aggregated with the ongoing costs of providing services to the DWGM (through the Energy Tariff) and STTM (through the Activity Fee) and hence recovered from all registered participants withdrawing gas from these markets.

Improving operational efficiency and cost recovery

The approach will contribute to improving realisation of the NGO by both mitigating operational inefficiencies arising from registrations that do not proceed to completion, and allowing AEMO to recover the costs incurred in progressing those registrations.

When an intending participant submits a registration AEMO is required to perform certain tasks to progress that registration, which imposes a cost on AEMO. An upfront registration fee will introduce a price signal to encourage registering parties to more carefully consider commitment to the registration, and the basis on which registrations are submitted. Importantly, should participants withdraw applications, upfront registration fees would ensure that AEMO is able to recover the costs associated with those withdrawn applications.

Having regard to non-discrimination principle

On balance, AEMO considers that there isn't any unreasonable discrimination, having regard to two opposing impacts. That is, the introduction of registration fees to the DWGM and STTM will:

- increase discrimination between incumbents and new entrants, as new entrants will be required to pay a fee for AEMO's registration service that incumbent participants in the DWGM and STTM were not required to pay; and
- remove discrimination between registered participants in retail markets, the PCT and some categories of the GBB; and those in the DWGM and STTM. The nature of the registration service is substantially the same, yet some participants are currently required to pay registration fees while others are not.

Given these two opposing impacts and having regard to other relevant fee structure principles, registration fees for DWGM and STTM are considered appropriate.

Disaggregation by participant category

AEMO proposes to disaggregate registration fees by registrable capacity in each market to be more reflective of involvement (and by extension transparency) and comparability. This means that individual registration fees will be developed for each registered participant category within each applicable market. Further, registration fees for some registered participant categories, where the registration process is complex, time consuming and non-standard, will be designated as quoted fees and provided to intending participants by AEMO upon application.

In addition, AEMO is further assessing whether there is any basis to further disaggregating registration fees based on registration activity. In particular, AEMO is considering whether to separate the FRC Hub onboarding component of the registration fee, which would reduce the overall registration fee for those participants that had already onboarded to the FRC Hub through a previous registration process.

The key driver for the proposed change is to enhance regard for the reflective of involvement principle by enabling registration fees to reflect the relative extent to which AEMO's registration costs involve each registered participant within a market. AEMO had regard to the fee structure principles when considering the disaggregation of registration fees into registered participant categories as summarised in the table below. Further discussion of material issues follows.

Table 7 Assessment of registration fee disaggregation against fee structure principles

Principle	Assessment against principle
NGO	Disaggregation will result in more efficient pricing of registration fees but is anticipated to have an immaterial impact on prices paid by gas consumers.
Simplicity	Disaggregation results in an immaterial reduction in fee structure simplicity as rather than a single registration fee per market, fees will vary by registered participant category. This differential is not anticipated to burden registering parties or AEMO.
Reflective of involvement	Disaggregation will mean the registration fee structure is more reflective of involvement as fees transparently reflect the effort and cost associated with registering one participant category relative to another. Further this approach will enable AEMO to determine if there are any other factors that drive effort and reflect these differences in registration fees.
Non-discriminatory	Disaggregation better realises the non-discriminatory principle as it ensures that registered participants, whose registrations result in materially different costs to AEMO, are not subject to an aggregate fee that represents an approximation of average costs for all participants within a market.
Comparability	Disaggregation improves comparability with the NEM, which disaggregates its registration fees by registered participant category.

Enabling efficient and transparent outcomes.

This approach will mean the fee structure is more reflective of involvement, as registration fees will reflect the effort (and therefore the cost) associated with registering one participant category compared to another. Further, this approach will enable AEMO to take into account any other factors that drive effort and make adjustments (positive or negative) to registration fees. AEMO will analyse its registration activities to understand what operational factors drive registration costs.

Determining registration fees by registrable capacity,

One stakeholder supported disaggregation on the basis that it is a more transparent approach, as long as it is balanced with equitable and appropriate cost-reflectivity considerations. To this end, AEMO will complete a detailed, bottom-up activity analysis across each of the teams involved in the registration process to understand the effort, inputs and costs associated with each registrable capacity.[9]

This robust analysis will ensure that any fee differential arising between various categories of registered participants is based on a quantitative, bottom-up, and detailed assessment of the activities involved across AEMO teams in processing registrations. This analysis will also identify whether there are any functions or other factors that drive costs and could be used as a basis for disaggregation. For example, the need to onboard participants to the FRC Hub is one function which AEMO is further assessing for disaggregation in the next fee structure period. A definitive position on this will be established in the Final Report, once analysis is complete.

The analysis will also inform which registered participant categories will be calculated on a quoted basis. It is anticipated that quoted fees will apply to registered participant categories where registrations occur infrequently, are complex in nature, diverse in registration requirements, time-consuming or otherwise difficult to prepare a standard fee.

4.3 PCT fees – disaggregation into component services

The Consultation Paper posed the following questions relevant to the disaggregation of PCT fees:

Questions

6. Would disaggregation of services traded through CTP and DAA markets result in improved cost-reflectivity, more efficient pricing or realisation of other fee structure principles?

4.3.1 Existing structure

Table 8 provides a summary of participation fee structures for PCT services. Importantly, both the CTP and the DAA pay a fee for a single service being transportation services. Note that registration fees are not included in this section as this was considered previously in section 4.2 as part of broader consideration of registration fees.

Table 8 Current PCT fees

	Liable registered participants	Fee structure
CTP annual licence fee	Each trading participant - buyer and seller.	$ / licence / annum
CTP fee	Each trading participant - buyer and seller.	$/GJ of traded capacity
DAA fee	Each auction participant.	$/GJ of auction capacity

[9] Note that the actual the quantum of registration fees are set through next year's budget process (and will be based on activity analysis).

OTS Code Panel	CTP and DAA trading participants	$/GJ of all CTP and DAA trades

4.3.2 Stakeholder views

Stakeholders were neither specifically supportive nor opposed to disaggregating PCT services, although two stakeholders raised questions about the issue.

AGL questioned the appropriateness of a fee proportionately based on GJ traded or auctioned when the cost to AEMO is uniform. It contended that fees may more appropriately allocated through charging a licence fee per participant to manage the gas trading software, per the status quo, and then a flat fee for each other trade.

Origin Energy queried the benefits and the methodology to be used by AEMO in valuing fees for each service and whether this would reflect efficient market outcomes.

APLNG supported a reduction in PCT fees to incentivise greater participation.

4.3.3 Issues

Transportation services that can be traded on the PCT comprise transmission services (i.e. forward haul and back haul services) and compression services; however, the fees for the services are not distinguished and the same fee applies regardless of the specific service sought by trading participants. The application of a single fee for a transport service does not reflect that transmission is a primary service and the compression is a supporting or secondary service that may, or may not, be needed.

It is worth noting that the policy intent of the PCT reform was to foster the development of a more liquid secondary capacity market and in so doing, improve the efficiency with which capacity is allocated and used on transportation assets operating under the contract carriage model (i.e. outside the DTS).[10] To this end, AER analysis indicates that the PCT, specifically the DAA, has delivered benefits to the wholesale markets.

For example the AER estimated that the value of the discount applied to short term transportation services via the DAA, from establishment to Q2 2020, to be $30–60 million[11]; and that prices may have reduced by up to 10 cents per GJ in Victoria and 76 cents per GJ in Sydney from March to September 2019, and that these savings over time should pass on to end users[12]. Further, AEMO is seeing increases in trading activity on a greater number of pipelines, including the Moomba to Adelaide Pipeline System (MAPS), indicating benefits to Adelaide also.

4.3.4 Proposed determination and rationale

AEMO proposes to disaggregate fees for transportation services traded on the CTP and DAA into compression service fees and transmission service fees. The key driver for the proposed change is to more efficiently apply fees for use of the CTP and DAA. This is intended to increase utilisation of the PCT which delivers increased realisation of PCT efficiency objectives, and ultimately reduces the prices paid by PCT participants, wholesale market participants and gas consumers.

AEMO had regard to the fee structure principles when considering the disaggregation of registration fees into registered participant categories as summarised in the table below. Further discussion of the more material issues follows.

Table 9 Assessment of PCT fee disaggregation against fee structure principles

Principle	Assessment against principle

[10] Gas Market Reform Group, Capacity trading reform package, http://gmrg.coagenergycouncil.gov.au/work-streams/capacity-trading-reform, retrieved 2 November 2020.

[11] AER Wholesale Markets Quarterly—Q2 2020

[12] The AER Wholesale Markets Quarterly—Q3 2019

NGO	Disaggregation of PCT fees will contribute to improving realisation of the NGO in two key ways: • increase trading participation for compression services which will lead to more efficient use of unnominated compression facility capacity and potentially lower gas prices which will ultimately flow through to gas consumers (as per the objectives of the PCT reform package) • overall increase in utilisation may lead to increased revenue (despite the lower fee), allowing the accounts supporting PCT service to break-even earlier than anticipated, thereby avoiding associated financing costs (and the need to exercise the 'deficit safety net' discussed in the following section).
Simplicity	Disaggregation of fees will have a neutral impact on simplicity.
Reflective of involvement	Disaggregation will be more reflective of involvement as access to lower priced compression services are decoupled from higher priced transmission services sold by facility operators[13].
Non-discriminatory	Disaggregation is less discriminatory than the status quo as it recognises that different fees should apply to registered participants, depending on the benefit derived from those services.
Comparability	Disaggregation of fees by service is not comparable with other gas markets operated by AEMO or the NEM. Where disaggregation does occur, it is on the basis of registered participant category. However, PCT services differ to services provided by AEMO in respect of other markets in that the services are clearly distinguishable by the type of capacity sought by participants, and there is a clear-cut methodology for determining which services have been provided to each participant. It is noted however that it is consistent with the structure for prices set by facility operators.

Improving realisation of PCT objectives

The key objective of the PCT reform package was to enable a more liquid secondary capacity market and improve the efficiency with which transportation asset capacity is allocated and used. It follows that the greater the utilisation of the PCT, the greater the benefits to wholesale market participants and gas consumers of enhanced efficiency.

It is anticipated that decoupling transmission and compression service fees will result in greater utilisation of the DAA (and possibly the CTP) for trading compression services as participants incur a lower cost to access auctions and trading for compression services. Further, compression services are complementary services that help facilitate access to transmission services and should also increase utilisation of transmission services. Increased use of the DAA will ultimately improve the efficiency with which compression and transmission service facility capacity is allocated and used. It is noted that this is consistent with the APLNG position that a reduction in PCT fees should be leveraged to incentivise greater participation.

Reflecting service value differentials

Compression services sold by facility operators tend to be priced lower than transmission services and are complementary services, with their key value being to enable transmission services to be combined to move gas between hubs. Therefore, it can be expected that PCT revenue requirements are primarily driven by registered participants seeking to obtain access to transmission service capacity than those seeking access to compression service capacity. Similarly, it follows that registered participants using the PCT for transmission services are obtaining a greater benefit from the service.

To achieve a fee differential between compression services and transmission services, AEMO intends to reduce compression service fees and leave transmission services fees at a price point largely aligned to the

[13] Compression services sold by facility operators tend to be much lower prices than transportation services.

current transport service fees. Utilisation of the PCT for transmission services capacity should therefore not be impacted, while utilisation for compression services capacity is intended to increase.

This approach balances a move towards greater efficiency without jeopardising the strong performance of the DAA to date. The DAA and CTP are new services and therefore AEMO's understanding of the services and usage by participants continues to grow. AEMO therefore considers it prudent to make minor adjustments to the DAA which has performed well since its establishment.[14]

APLNG raised the concern that disaggregation would require AEMO to artificially value PCT services, which may not reflect efficient market outcomes. While varying prices offered by facility operators for transmission and compression services are a key consideration for disaggregation, AEMO does not intend to develop fees that are directly proportional to these prices. Rather AEMO will take a more transitional approach, recognising that PCT services and their usage are still being established, and have regard for these differences in establishing the differential fees.[15]

Considering a flat fee versus a volume-based fee

AGL propose that a flat PCT fee would be more appropriate on the basis that the cost per transaction to AEMO is uniform. This is one way of interpreting the reflective of involvement principle, which requires consideration of the degree to which a Registered participant interacts with AEMO in relation to the output. Another interpretation considers the benefit derived from the participant i.e. the extent to which the registered participant uses and benefits from the output of PCT services. Larger volume trades benefit from greater access to capacity and, under this interpretation, should pay more than lower volume trades.

A uniform fee would not be aligned to other fee structure principles as it would lead to lower volume trades subsidising higher volume trades, potentially creating a barrier to smaller trades. Having regard to the NGO, the non-discrimination principle, and the PCT reform objectives, a volume-based fee is considered appropriate.

4.4 PCT fees – recovery via other markets

The Consultation Paper posed the following questions relevant to the recovery of PCT fees:

Questions

7. How should deficits accruing in the PCT in the current term be dealt with?
8. How should ongoing deficits accruing in the PCT in the next term be dealt with?
9. Would recovery of PCT costs through an alternative market, such as the STTM, be more reflective of the benefits derived from a broader range of registered participants?

4.4.1 Existing structure

Fee structures for PCT services are summarised in the preceding section. AEMO ring-fences the costs of establishing and operating the three PCT services (i.e. CTP, DAA and the OTS Code Panel) from the costs of other markets to ensure that any surplus or deficit is retained within those accounts.

4.4.2 Stakeholder views

Support for the status quo was indicated by 2/3 stakeholders. AGL opposed recovery from wholesale markets on the basis that although benefits will eventually flow to wholesale markets it would not necessarily be the same participants who benefit or pay for that trade. Origin Energy opposed recovery from wholesale markets

[14] The actual fees charged by AEMO are outside the scope of this fee structure review, but brief discussion is included for clarity around the rationale for disaggregation.

[15] Note that the actual quantum of the fees will be set through next year's budget process.

citing AEMC analysis[16] that, "as re-contracting occurs, auction capacity may become scarce, which would drive an increase in CTP activity. Also, if liquidity eventuates, AEMO should then be able to identify which participants are receiving the benefit".

Support for recovery from wholesale markets was indicated by APLNG on the basis that it would expedite addressing the deficit and prevent reduced utilisation of PCT services, on the proviso that DWGM and STTM participants derive a benefit from the operation of the PCT.

4.4.3 Issues

Given that participation in PCT markets is voluntary, the NGR provide that the participant fees charged to a registered participant may include a component for the recovery of capacity trading and auction costs even if those costs do not involve that registered participant.[17] This allows AEMO to recover these costs from other markets should it not recover its full costs through fees levied on trades in the PCT markets.

To date AEMO has not called on this provision, instead recovering fees from trading participants in the CTP and DAA as exchange fees and auction fees respectively. If AEMO and its stakeholders consider that there is a need to recover PCT through an alternative market, this would entail a change in fee structure, including a review of which participants these fees should be recovered from, and the basis of recovery.

There are two key drivers for potentially recovering PCT costs from an alternative market:

- *Accumulated deficit*: Since establishment, DAA volumes have been higher than forecast, however CTP trading has not been utilised. Forecasts indicate that a deficit will accrue across PCT accounts to the end of the current fee structure term and will continue until the break-even point is likely to be realised in FY26 (based on current DAA and CTP performance). There will be financing cost associated with the deficit which will be accrued by the PCT accounts. Forecasts indicate that the deficit might peak in FY23 before reducing over following years as amortisation costs cease in FY25.
- *Reflective of involvement*: While PCT trading participants pay fees to trade in the CTP and DAA, analysis by the AER indicates that these services benefit a broader range of participants in the DWGM and STTM which requires consideration against the reflective of involvement principle. Specific analysis on which participants do benefit has not been undertaken to date.[18]

4.4.4 Proposed determination and rationale

In terms of recovery from registered participants, AEMO proposes to retain the status quo for PCT fees, but to introduce a 'deficit safety net' of $900,000, which will give AEMO the right to recover any amount exceeding this threshold from the DWGM and STTM wholesale markets during the fee structure term. Any recovery from these markets would be made by:

- allocating the deficit recovery value between DWGM and STTM on a GJ withdrawn basis;
- aggregating the PCT recovery value with the DWGM and STTM financial position; then
- developing DWGM and STTM fees per the status quo ($/GJ withdrawn fee).

Further, while the financial position for each of the CTP, DAA and OTS Services Panel are ring-fenced from each other and from other gas markets accounts, AEMO proposes to treat these as a single aggregate account for the purpose of considering the overall financial position and whether to exercise the 'deficit safety net'.

This approach is considered the most appropriate as it balances the need to mitigate the financial risk of any future weakened PCT performance with the need to allow time for the PCT markets to mature, and the associated benefits across participants to be better understood. It is noted that a weakened PCT performance

[16] AEMC 2020 Gas markets liquidity review – Final report

[17] National Gas Rules, 135CA(4A)

[18] Under NGR 135CA(4A) the participant fees charged to a Registered participant may include a component for the recovery of capacity trading and auction costs even if those costs do not involve that Registered participant. Consideration of reflective of involvement is therefore not required under the NGR and AEMO's consideration of these factors should not be taken to set a precedence for this as a requirement in future fee structure determinations.

would arise out of decreased DAA utilisation, but that this is not a likely scenario based on AEMO's assessment of current performance.

AEMO had regard to the fee structure principles when considering this status quo plus 'deficit safety net' proposal as summarised in the table below. Further discussion of the more material issues follows.

Table 10 Assessment of status quo with 'deficit safety net' against fee structure principles

Principle	Assessment against principles
NGO	The safety net will mitigate the risk of a deficit accruing over and above levels budgeted for by AEMO. It will mean that AEMO avoids carrying financing costs in excess of what is forecast.
Simplicity	If exercised, the safety net mechanism slightly increases the complexity of the fee structure, as costs would be recovered through multiple markets (i.e. the PCT, DWGM and STTM). It is not expected that the complexity would be material, and if the threshold were exceeded AEMO would consider the additional complexity of exercising the safety net against materiality of threshold exceedance (e.g. if the threshold was not significantly exceeded AEMO may elect not use the 'deficit safety net').
Reflective of involvement	Recovery of costs from the DWGM and STTM – which would only occur should the threshold be exceeded and AEMO exercises the safety net – may be more reflective of involvement on the basis that the benefits of the PCT, direct and indirect, flow to registered participants in these markets.
Non-discriminatory	There could be a minor increase in discrimination if AEMO exercises its right to recover the deficit from the DWGM and STTM markets, as not all participants in those markets necessarily benefit from the PCT. However, the extent of this discrimination is considered to be immaterial given the cost would be recovered from across a large participant base, and would only represent a portion of costs recovered from the PCT i.e. anything under $900,000 would be retained in PCT accounts and continue to be recovered from PCT participants.
Comparability	The introduction of a safety net is not comparable to any other market mechanism operated by AEMO, however the PCT market itself is not comparable as participation in PCT markets is voluntary, meaning that recovery of revenue is subject to utilisation of the market.

Consolidating DAA, CTP and OTS Services panel financial positions

AEMO proposes to treat DAA, CTP and OTS Services Panel as a single aggregate account for the purpose of considering the overall financial position and whether or not to exercise the 'deficit safety net'. This is considered appropriate as the services were introduced as a packaged reform in 2019 and allows participation from, and benefit by, the same registered participants. It also manages the impacts on AEMO revenue of the well-utilised DAA against the under-utilised CTP.

This approach is consistent with APLNG feedback that AEMO should consider a plan to reallocate resources for the Standard OTSA in order to reduce fees and increase PCT utilisation.

Managing the deficit

PCT services commenced in March 2019 through the COAG Energy Council Pipeline Capacity Trading reform package. Introduction of the services imposed significant implementation costs on AEMO, particularly in setting up systems to facilitate trades and auctions. PCT accounts therefore include amortisation costs until FY24. It is expected that any new service with significant establishment costs would take time to recover, particularly through a voluntary market. PCT financial forecasts, based on current performance of the CTP and DAA, indicate that FY25 will be the last year of deficit before revenue becomes sufficient to recover costs.

AEMO notes stakeholder feedback that the PCT services deficit can be addressed through increased utilisation of the services. Measures such as the disaggregation of PCT fees and other measures outside of this fee structure review are being considered to improve performance of PCT services. This includes consideration of the following:

- materially decreasing CTP fees over the short-term to incentivise greater utilisation of the platform;

- potential for better functionality within Trayport to allow more direct access to the exchange platform for brokers, representing a more robust approach for commodity and capacity trading; and
- disaggregation of transport fees (per the discussion above) such that compression services incur a lower fee.

While it is typically good financial practise to address deficits as soon as possible, at this early point in the PCT development, structural changes to address this is not considered appropriate. This is because PCT services were established under two years ago and continue to evolve. AEMO considers that it is prudent to allow more time for utilisation of the services to improve, to assess the outcomes of improvements to the service, and to better understand where and how the benefits are derived by participants.

Through the ‘deficit safety net’, AEMO reserves the option to recover any deficit in excess of the threshold from the DWGM and STTM. It should be noted that the threshold has been set such that it will not be materially exceeded based on current cost and participation forecasts, and the primary purpose of the safety net is to mitigate financial risk should DAA participation unexpectedly drop off significantly.

As noted above, the deficit accruing each year is also due to the significant amortisation costs incurred by both the CTP and DAA which have arisen out of establishing the markets. Amortisation costs will not be incurred from FY25 onwards and forecasts suggest that the CTP will breakeven by FY26 (even in the absence of increased utilisation of the CTP). The deficit is forecast to peak in approximately FY23 over the period to FY26, but the finance cost associated with this is not considered material over the period and there is a solid basis for addressing the deficit.

Recovering excess costs from the most appropriate market

AEMO considers that the DWGM and STTM wholesale markets are the most appropriate alternative market to recover costs from as registered participants in both of these markets benefit from PCT services. As set out above, high level AER analysis indicates that substantive benefits of the DAA have been seen in Victorian and Sydney markets; and AEMO is also seeing increases in trading activity on a greater number of pipelines, including the MAPS, indicating benefits to Adelaide.

Reflecting benefits in wholesale markets on an ongoing basis

While another key driver for AEMO considering recovery of PCT costs from wholesale markets is that the PCT benefits not just PCT participants, but also wholesale market participants, AEMO ultimately considers that it is too soon after establishment of the PCT to consider immediate ongoing changes to the fee structure. This is because the PCT and its use by participants continues to evolve. Once the PCT is more established it may be appropriate to undertake a further assessment of its benefits to wholesale markets and the participants in those markets. This is consistent with feedback received from stakeholders.

4.5 GSOO fees – application to participants

The Consultation Paper posed the following questions of relevance to the GSOO fee structure:

Questions

10. Would the GSOO fee structure better reflect the fee structure principles if it were applied to a larger spectrum of registered participant categories, for example other retail market participants or wholesale market participants?
11. Are changes to the fee structure, either for the GSOO or GBB, required to better reflect the involvement of registered participants due to the proposed Measures to Improve Transparency in the Gas Market?

4.5.1 Existing structure

Retailers across the retail gas market jurisdictions are currently charged for GSOO costs at a flat rate per customer supply point, as summarised below.

Table 11 GSOO Fee structure

	Liable registered participants	Fee structure
GSOO Tariff	Each retail gas market participant participating in the registrable capacity of market participant – retailer in Vic or retailer in NSW/ACT, Qld and SA.	$ / customer supply point

4.5.2 Stakeholder views

Support for broadening recovery of the GSOO was indicated by 3/3 stakeholders, however each stakeholder varied in their views of the most appropriate method of recovery. Views were as follows:

- *Broaden to all registered gas market participants in the supply chain, including GBB registered participants* (AGL) – specifically to producers, pipeline operators, users, and retailers since all participants benefit from the GSOO.
- *Broaden to wholesale market participants but not producers* (APLNG) – wholesale market participants derive value from the GSOO, but producer value is limited, and producers will incur reporting and compliance costs associated with the Measures to Improve Transparency in the Gas Market reforms.
- *Broaden to producers and other retail market participants but not to wholesale market participants* (Origin) – on the basis that the GSOO is an important tool for producers to understand the supply-demand balance and for their own planning, and wholesale allocation is not supported as retailers also participate in wholesale markets.

Red Energy and Lumo Energy provided general support for applying fees to those parties with a direct relationship with the consumer i.e. not to transmission and distribution operators.

4.5.3 Issues

The Consultation Paper identified two key issues for consideration in reviewing the GSOO fee structure, that is whether:

- the recovery of fees from just retailers is too narrow given the breadth of participants benefiting from the GSOO
- the involvement of the GSOO in the Measures to Improve Transparency in the Gas Market necessitates any amendment to the fee structure.

This is summarised below.

Recovery from registered participants

The current approach is reasonably narrow in terms of which registered participants AEMO recovers GSOO costs from, that is from retailers. Allocation of costs to only retailers may not reflect the extent of involvement in, use of, and benefits derived from, the GSOO by a broader range of stakeholders in retail and wholesale markets.

While the GSOO benefits, and is used by, a range of stakeholders including governments and infrastructure investors, AEMO is required under the NGR, to only recover its costs from registered participants. Under the current fee structure, GSOO fees are not currently recovered from registered participants in wholesale markets, or from those registered as a GBB participant.

Measures to Improve Transparency in the Gas Market

The Measures to Improve Transparency in the Gas Market Decision Regulation Impact Statement (RIS) was endorsed by the former COAG Energy Council in March 2020. The RIS examined options to improve transparency in gas markets and focussed on addressing information gaps and asymmetries. It is anticipated that the amended regulatory framework will come into effect in 2021. Importantly, the proposed reforms may shift the involvement of various participants in the GSOO, as well as the GBB.

Complexities in assessing reflective of involvement

Consideration of the GSOO is a complex matter and requires careful consideration of the fee structure principles, particularly reflective of involvement (i.e. fees should be reflective of extent to which costs to AEMO involve a registered participant). As discussed earlier in this document, there are various interpretations for determining involvement. One interpretation of the extent of involvement of a registered participant requires consideration of the degree to which a registered participant interacts with AEMO in relation to the output; while another interpretation is that consideration should be given to the benefit derived by the participant.

The challenges in having regard to the reflective of involvement principle in the GSOO arise out of:

- The broad nature of the GSOO outcomes results in difficulties in validating direct beneficiaries of the GSOO or definitively assessing their benefits relative to other stakeholders;
- Allocating fees when some beneficiaries are not registered participants and cannot be charged and the principle requires AEMO to have regard to the extent to which the budgeted revenue requirements for AEMO involve a registered participant; and
- Applying the principle of reflective of involvement for a service where the participants that primarily input to the GSOO are not the only stakeholders that benefit from the GSOO, means that the extent and type of involvement requires balanced consideration.

The beneficiaries of the GSOO include:

- *Governments*: The GSOO is used by governments to inform, review and monitor policies, for example the Australian Domestic Gas Security Mechanism. It also provides insights to government decisions on nationally significant infrastructure projects.
- *Customers*: Customers and other end users ultimately benefit via reduced prices through more effective competition and the efficient trade of gas and infrastructure services. Customers also stand to benefit in terms of improved reliability of supply; better understanding of potential shortfalls which improves decision making on critical infrastructure.
- *Investors*: Investors in infrastructure and projects across the supply chain, including stakeholders across registered participant categories, use the GSOO to make informed decisions about consumption, production and the use of infrastructure services and longer-term investment decisions investment in pipeline capacity and other aspects of the natural gas industry. Better information results in a more stable market environment and more confidence for investors.
- *Exporters*: Export-oriented producers can utilise the GSOO to predict the risks of shortfalls in domestic supply that may require action from the industry or the government. Without clarity on domestic market impacts, it would be prudent for the associated government policy to take a very conservative stance, leading to potential inefficiencies and may impact access to export markets.

- *Market participants*: Aside from investment decisions, the GSOO benefits market participants seeking guidance on future price movements (based on the supply-demand imbalance).

Producers provide the most input to the GSOO and provide critical information that AEMO could not otherwise obtain. This includes forecasts of operating and committed gas fields and gas production facilities as well as information about more prospective, less certain, resources. Other information is provided by transmission pipelines, storage facilities, industrial consumers and distributors however not to the same extent.

4.5.4 Proposed determination and rationale

On the basis of a detailed consideration of existing and alternative fee structures, AEMO proposes the recovery of GSOO fees:

- 50% from producers on a $/GJ produced basis (and will include LNG imports in the future); and
- 50% from retailers on a $/ supply point basis, consistent with the status quo.

The key driver for this change is to transition to a mechanism that more proportionally disseminates costs across registered participants, without unnecessary or unwarranted complications. This is consistent with stakeholder feedback that recovery of the GSOO should be broadened.

AEMO had regard to the fee structure principles when considering a fee for producers as summarised in the table below. Further discussion of the more material issues follows.

Table 12 Assessment of shared producer cost recovery against fee structure principles

Principle	Assessment against principles
NGO	This approach will ensure that there is potential for GSOO costs to flow through to other participants and consumers in gas markets, compared to the status quo which only recovers from retailers and therefore has potential for recovery from retail customers only. This is likely to reduce the burden on residential customers.
Simplicity	This proposed fee structure is equally as simple as the status quo. The status quo involves a $/supply point fee for retailers whilst the proposed approach incorporates a $/GJ produced fee for producers, which is already administered for the purposes of GBB fees. There is no additional cost for AEMO to implement this change.
Reflective of involvement	Given the broad nature and benefits from the GSOO, the correlation between stakeholder involvement with AEMO and stakeholder benefits is difficult to determine and is debated by various classes of registered participant. However, in terms of: • interaction – producers provide the most input to the GSOO, however pipelines and storage providers, industrial consumers and distributors all provide input. Producer participation also drives a significant portion of GSOO effort given the complexities in assessing gas market adequacy. • benefits – registered participants benefiting from the GSOO include producers, and other participants seeking enhanced transparency into gas markets. The proposed approach is reflective of involvement as it directly recovers from producers who are both key contributors to, and beneficiaries of, the GSOO. Further, as costs are passed through gas supply chains there is potential for other registered participants who might benefit to be allocated a portion of the GSOO fee.
Non-discriminatory	A 50/50 allocation of GSOO costs is less discriminatory than the status quo as it allocates costs between two classes of registered participant, thereby more fairly sharing the costs of the GSOO.
Comparability	Precedent for the proposed approach can be found in existing GBB fees whereby 50% of these fees are recovered from producers on a $/GJ basis. This is an appropriate comparison as both the GBB and the GSOO are services provided by AEMO to improve transparency in gas markets and provide benefits to a range of registered participants and other stakeholders.

Sharing GSOO costs between retailers and producers

AEMO considers that recovery of the GSOO from producers and retailers is the most appropriate mechanism for recovering GSOO costs and managing its impacts on gas consumers. This approach demonstrates regard for each fee structure principle over the status quo (recovery wholly from retailers). The focus of the below discussion is primarily focussed on the producer portion of the fee given that presents a change from the status quo.

Interaction with AEMO in relation to output

In having regard to the reflective of involvement principle AEMO has considered the how GSOO revenue requirements are caused by a producer's interaction with AEMO and presence in the gas markets. Producers provide the most input to the GSOO and provide critical information about their activities that AEMO could not otherwise obtain, but is critical to assessing gas market adequacy. This includes forecasts of operating and committed gas fields and gas production facilities as well as information about more prospective, less certain, resources. Other information is provided by transmission pipelines, storage facilities, industrial consumers and distributors but to a lesser extent.

The GSOO is a statement of adequacy, and as such, the overarching objective of the GSOO is to project the supply-demand balance and identify potential gaps. The presence of producers in eastern and south-eastern Australian gas markets drives a significant portion of GSOO cost and effort. This is due to the reliance of AEMO on producer data and the complexities for AEMO in assessing gas produced by multiple producers, across a range of gas basins and fields with varying resources and reserves and across multiple injection points.

Retail consumption also drives a significant portion of effort in assessing the demand side of the GSOO, as consumption and connection information is a critical input to assessing gas market adequacy. It is therefore also reasonable that retailers continue to share in GSOO costs.

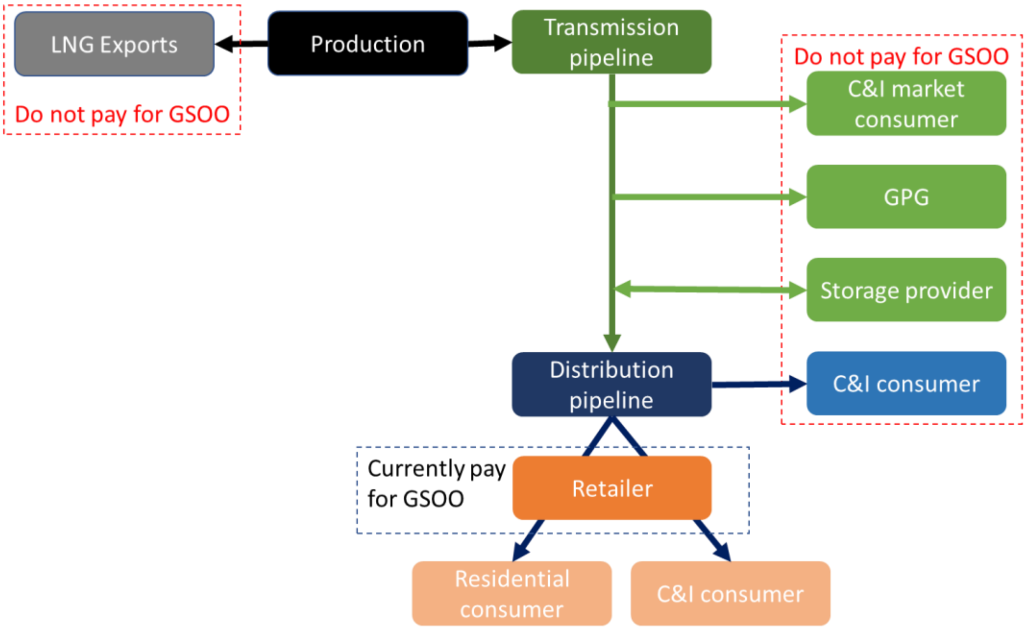
Accounting fully and simply for gas market activity

A fee to producers is the most straight-forward method of accounting for each GJ within eastern and northern Australian gas markets. At the top of the supply chain, producers (and in the future possibly importers) are responsible for all gas withdrawn from gas markets or sold to export markets. Due to the complexities of gas markets, accounting for GJ withdrawn is challenging as it involves multiple classes of registered participant and has potential for fees on fees rather than a straight pass through, or to result in double recovery, or no recovery, from various classes of participant. For example, depending on where production is for a given retailer, it may have to ship through multiple pipelines relative to a retailer which has contracted closer to the market they are in.

Further issues are also that AEMO's gas markets are not ubiquitous so recovery cannot cover participants users in the same way as a fee to producers. Lastly, investment in AEMO systems would be required to support further changes, which is not necessary for a producer charge.

Figure 1 illustrates through a simplified schematic the various gas supply chains associated with the eastern and northern Australian gas markets.

Figure 1: participants and gas consumers facing pass through of GSOO costs (simplified view)



Reducing discrimination across registered participant groups

A key benefit of this approach is that it is less discriminatory than the status quo whereby a single registered participant category, that is retailers, meets GSOO costs. The proposed structure would allocate costs between two classes of registered participant, thereby more fairly sharing the costs of the GSOO. It is noted that other registered participant categories are not liable for the GSOO fees under the proposed structure, however these participants will likely face cost pass through from the producer portion of the fee and thus the proposed option has the potential to better disseminate costs along the supply chain to the various registered participants involved in the GSOO. The proposed approach would also mean that retail customers do not risk bearing the entire cost of the GSOO as this would be shared amongst the range of end-users in the gas market.[19]

Cost pass through down gas supply chains

[19] It is acknowledged that the fee structure principles require that the fee structure should not discriminate unreasonably against categories of Registered participants and does not require consideration of customer discrimination.

GSOO fees applied to producers will have the potential to pass through, fully or partially, to all other participants and gas consumers. In this way, costs of the GSOO in the long run will have the potential may be shared across stakeholders participating in various gas supply chains. This is considered appropriate given that there are multiple registered participant categories which are involved in developing the GSOO, as well as gas consumers who ultimately benefit through reduced prices.

This dissemination would be more consistent with the AGL view that costs should be broadened to all registered gas market participants in the supply chain. AEMO acknowledges the Red Energy and Lumo Energy view that it is optimal to recover fees from as close to the end user as possible in the supply chain. It has considered that there may be some inefficiencies as the GSOO fee is passed down, thereby resulting in gas price increases. However, to the extent some inefficiencies eventuate, this would likely be immaterial compared to the benefits of a proportional pass through of GSOO fees to gas consumers.

Having regard to cost reflectivity interpretations

The correlation between stakeholder interactions with AEMO and stakeholder benefits relating to the GSOO is difficult to assess. It is therefore challenging to reach a definitive position on reflective of involvement (that is the extent to which a fee structure is reflective of involvement) as it involves having regard to various interpretations of involvement. For example, in terms of:

- *interaction* – producers, pipelines and storage providers, industrial consumers and retailers all provide critical input; however, it is noted producers provide more input than any other registered participant category. Further, producers' presence in the market requires time-consuming and complex consideration in developing GSOO forecasts, more so than for other inputting participants where year-to-year data is less variable and complex to analyse.
- *benefits* – registered participants benefiting from the GSOO include those seeking insight into the gas market outlook to inform facility development which include production facilities, as well as pipe, storage, field and compression facilities, and trading participants seeking to inform their contracting strategies[20].

However, on balance, AEMO considers that the proposed approach is more reflective of involvement as it moves to recover a portion of GSOO costs from producers who are both key contributors to, and beneficiaries of, the GSOO.

Inclusion of LNG imports and exports

AEMO considers it appropriate that future LNG import facilities be included in the producer portion of the fee on the basis that this gas will enter the domestic gas market. AEMO will therefore capture these participants in its GSOO allocation to producers in the future.

Further, AEMO considers it appropriate that LNG export facilities be considered a subset of GSOO users for cost recovery purposes. This is because the GSOO assists exporters (and policy makers) in understanding the risks of domestic supply, leading to better outcomes for the gas going through external markets. It is noted that producers are involved in the domestic market to some extent, for example by using the domestic market to manage temporary imbalances.

Consideration of other options

Other options for recovering GSOO costs considered are set out below.

Recovery from wholesale gas markets

Under this approach the costs of the GSOO would be recovered from participants in the DWGM and STTM on a $/GJ withdrawn basis, consistent with existing tariff structures to recover ongoing fees in these markets.

The benefit of this approach is that costs of the GSOO would be recovered from a broader spectrum of registered participants (i.e. any registered participant withdrawing from these markets). It is noted that APLNG

[20] Note that governments and end use customers are key beneficiaries but are not registered participants and not relevant to this discussion as fees cannot be applied to these stakeholders.

supported this approach on the basis that wholesale market participants derive value and benefit from the GSOO.

However, the trade-off of this approach would be a geographical narrowing of GSOO recovery. That is, assuming that GSOO fees are ultimately passed on to customer to some extent, end users supplied by the STTM (i.e. broadly customers in Sydney, Brisbane and Adelaide) and the DWGM would pay more than those not supplied by the STTM and DWGM (i.e. broadly regional customers outside of the STTM, and to a lesser extent the DWGM). This would result in geographical discrimination between retail consumers which would mean some consumers have the potential for pass through of GSOO fees and others do not, which is inconsistent with the NGO.

It is noted that an approach that shares costs between the status quo and the wholesale market (for example a 50% share each) is not appropriate either. Origin Energy noted that this is not appropriate because retailers also participate in wholesale markets. AEMO supports this point and considers that a shared charge would result in duplicate charges to some retailers, and further would not fully address the issues associated with recovery from wholesale markets.

Fee across the supply chain

A fee applied to multiple registered participants across the supply chain would arguably be the most consistent with the non-discrimination principle as it reflects the various types of GSOO involvement by various registered participants. However improved performance against the non-discrimination principle comes at the cost of the other principles, notably the NGO and simplicity. It is challenging to allocate costs to multiple registered participants given the complexities of gas supply chains and the relatedness between registered participants.

Sharing the costs across various gas supply chains would have uncertain outcomes, but could include duplication to participants operating in multiple registered capacities, the potential for greater pass through to customers and greater administration and systems burden on AEMO to implement. For example (as discussed above), it creates the potential for fees on fees rather than a straight pass through. Depending on where production for a retailer is located, that retailer may have to ship through multiple pipelines relative to a participant who has contracted closer to the market they are in.

Further the total GSOO cost to be recovered is relatively small and therefore recovering from additional registered participant categories will have limited benefit.

Recovery from other retail market participants

Extending recovery to other retail market participants, such as self-contracting users, would broaden the recovery base somewhat, but not commensurate with the extent of benefits conferred on registered participants by the GSOO.

Further, extension to the broader retail market would require moderate system changes to implement as well as potentially reopening service agreements with third party billing providers.

4.6 Retail market fees – aggregation

The Consultation Paper posed the following question relevant to retail market fees aggregation:

Question

12. Would a consolidated retail market gas fee, which is uniform across jurisdictions, result in efficiencies for retailers or realise other improvements in accordance with the principles?

4.6.1 Existing structure

AEMO operates the following retail gas markets:

- Victorian retail gas market;

- New South Wales / Australian Capital Territory retail gas market;
- Queensland retail gas market;
- South Australian retail gas market.

Retail market fees are developed for each of the above retail gas markets on the basis described below.

Table 13 Retail gas market fees (excluding registration fees)

	Liable registered participants	Fee structure
Vic Gas Tariff	Each Victorian retail gas market participant participating in the registrable capacity of market participant – retailer.	$ / customer supply point
Qld, SA, NSW & ACT Gas Tariff	Each retail gas market participant participating in the registrable capacity of retailer.	$ / customer supply point (by jurisdiction)

The fee structure is the same across all AEMO gas retail markets. Note that there is an initial registration fee for a participant to join the market and the fees are levied on a $ / registration basis and this is covered in the preceding discussion of registration fees in section 4.2.

4.6.2 Stakeholder views

Support for aggregation was indicated by 1/1 stakeholders (AGL) on the basis that it may benefit market participants by reducing the cost of participation in markets where a retailer has less customers, which may facilitate retail competition. Assuming this, the view was that efficiency benefits from standardisation would outweigh cross-subsidisation concerns

No other stakeholders directly responded to this query although it is relevant to note that Red Energy / Lumo Energy indicated general opposition to any approach that increases retail fees disproportionally in Vic and ACT based on gas reliance of those customers.

4.6.3 Proposed determination and rationale

AEMO proposes to retain the existing structure for recovery of the retail market fees into the next fee structure period.

While there is potential to achieve increased simplicity for retail market gas tariff fees by applying a single charge across all jurisdictions, the improvements would likely be unsubstantial and would be offset by being less reflective of involvement. Given that the arguments to change do not strongly indicate a need for change, the status quo is the most appropriate approach, and is consistent with the drive towards greater reflective of involvement in other fees considered in this Draft Report.

AEMO had regard to the fee structure principles when considering retaining the status quo as summarised below.

Table 14 Assessment of retail market status quo against fee structure principles

Principle	Assessment of status quo to aggregation against principles
NGO	The status quo has a neutral impact on the prices paid overall by gas consumers. While aggregation would impact the overall prices paid by each jurisdiction, the overall impact on prices in neutral.
Simplicity	Disaggregation by retail market is less simple than aggregation across all retail markets, particularly for retailers operating across multiple markets. This impact is not considered material.
Reflective of involvement	This is reflective of involvement as it reflects the various costs attributable to various retail markets and recovers the costs from those participants participating in those markets.

Non-discriminatory	Different interpretations of discrimination could result in different assessments against the non-discrimination principle. That is, charging retailers of each market a: • different fee for the same retail market service could be viewed as not meeting the non-discrimination fee structure principles; alternatively, • a uniform, aggregate fee could be seen as discriminatory if the inputs to the retail market services differ such that the services provided by AEMO can be considered different.
Comparability	This is not consistent with the NEM which applies the same fee across multiple retail jurisdictions. It is noted that the NEM uses identical processes, systems and procedures across the various jurisdictions, which is a key difference to gas retail markets.

Forecasting fee impacts

Recovery of fees from a single retail market across four jurisdictions would likely result in tariff increases in lower fee retail markets (e.g. in Victoria) and tariff decreases in higher fee retail markets (e.g. Queensland and South Australia[21]). Red Energy / Lumo Energy noted its opposition to any increases Victorian and ACT retailers, given that those customers are more reliant on gas, consuming more than in other retail markets.

Achieving efficiencies for multi-jurisdictional retailers

AGL supported aggregation on the basis that it may benefit market participants by reducing the cost of participation in markets where a retailer has fewer customers, which may facilitate retail competition and considered that efficiency benefits from standardisation outweigh cross-subsidisation concerns. It is not clear that efficiency benefits would be clear, particularly when considering that not all retailers operating across multiple retail markets.

4.7 GBB fee structure

The Consultation Paper posed the following broad request for feedback:

Question

13. Are there further opportunities to improve gas fee structures and application of the fee structure principles?

4.7.1 Existing structure

Below is the existing structure for the GBB, excluding registration fees which has been discussed previously.

	Liable registered participants	Fee structure
Producers	Each BB facility operator for a BB production facility.	$/GJ produced (to allocate 50% of GBB costs)
Wholesale gas markets participants	Each Market Participant withdrawing gas in the DWGM or each STTM Shipper or STTM User withdrawing gas at any hub.	$/GJ withdrawn (to allocate 50% of GBB costs)

4.7.2 Stakeholder views

APLNG considers that the GBB should be a flat fee because AEMO's administrative burden related to each participant is similar regardless of volume. APLNG considers that this would improve cost reflectivity and non-discrimination.

[21] NSW/ACT retailers would see an immaterial reduction in fees.

4.7.3 Issues

A flat fee is another way of interpreting the reflective of involvement principle and is based on an view that the extent to which the budgeted revenue requirement relating to a particular output involves a class of Registered Participant should consider the degree to which the class of Registered Participant interacts with AEMO in relation to the output.

AEMO has considered this interpretation but ultimately determined that a uniform fee would not align to other fee structure principles, such as the NGO, as it would lead to registered participants withdrawing less from wholesale markets subsidising registered participants withdrawing more. Larger participants participate to a greater extent in wholesale markets and therefore gain greater benefits through increased transparency (i.e. benefits commensurate with their participation). It therefore is logical that these participants pay more in fees than smaller registered participants (as approximated by gas withdrawals and having regard to the NGO and from a non-discrimination perspective).

While a flat fee is currently used in retail markets to recover AEMO's retail tariffs and the GSOO, it does not apply in other markets which recover fees based on a $/GJ charge. For example, DWGM and STTM market participant fees are on a $/GJ withdrawn basis and the PCT is traded on a $/GJ traded or auctioned basis.

4.7.4 Proposed determination and rationale

AEMO proposes to continue to charge GBB fees on a $/GJ basis, that is on a $/GJ produced basis for producers and a $/GJ withdrawn basis for wholesale gas market participants. AEMO considers that a uniform fee would not align to other fee structure principles as it would lead to registered participants participating less in wholesale markets subsidising registered participants participating more in those markets. Instead it is appropriate that those participating to a greater extent in wholesale markets and therefore gaining greater benefits of increased transparency pay fees that are commensurate with their participation NGO and from a non-discrimination perspective. To the extent these fees are passed through, a flat fee would result in a potentially larger $/GJ pass through to participants downstream of smaller participants which may result in less efficient prices ultimately.

4.8 STTM fee structure

4.8.1 Existing structure

The STTM is currently structured on the following basis:

- An activity fee, which is derived on the basis of: total STTM costs across all three hubs / aggregate GJ withdrawn across the hubs
- A Participant Compensation Fund (PCF) fee, which is derived on the basis of: total PCF required to meet regulatory requirements[22] / hub / GJ withdrawn from each hub.

It is relevant to note that invoices issued to registered participants disaggregate fees by hub and trading participant, however this does not imply a different charge per hub and/or trading participant.

4.8.2 Stakeholder views

AGL considers that STTM fees should not be disaggregated by hub as STTM fees in Brisbane, Sydney and Adelaide should be uniform as no substantive operational difference should apply.

4.8.3 Issues

The activity fee structure is described in the previous fee structure determinations and the Consultation Paper as "$/GJ withdrawn / hub / ABN".

[22] NGR 452 establishes values to be held by AEMO to fund the PCF and these differ by hub. A PCF has not applied in recent years as PCF accounts are sufficiently funded per NGR 452.

Invoices issued to registered participants disaggregate fees by hub and ABN, however this does not imply a different charge per hub and/or ABN. The way it is described could be construed as applying a different charge by hub and ABN. However, STTM Activity fees have never been disaggregated by hub. This is consistent with the AGL view that Brisbane, Sydney and Adelaide should be uniform as no substantive operational difference should apply.

4.8.4 Proposed determination and rationale

To ensure clarity, AEMO proposes to clarify STTM fees by describing as follows:

- Activity fee - $/GJ withdrawn
- PCF fee - $/GJ withdrawn / hub.

For the avoidance of doubt, invoices will continue to be disaggregated on the basis of ABN and hub.

A1. Fee Structure Principles

This consultation only applies to the structure of fees considered. The actual amount charged for each fee is determined on an annual basis via the AEMO budgeting process. Under the Rules, AEMO only has the power to recover market fees from registered participants including auction participants and gas trading exchange members.

In determining the structure of Participant Fees, Exchange Fees and Auction Fees, AEMO must have regard to a range of matters (referred to as the fee structure principles)[23] and these are set out below with some examples of how these requirements may be applied to reviewing the gas fee structures.

A1.1 National Gas Objective (NGO)

…"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."

The First Reading Speech to the NATIONAL GAS (SOUTH AUSTRALIA) BILL 2008 makes it clear that the NGO is an economic concept and should be interpreted as such.

"The long term interest of consumers of gas requires the economic welfare of consumers, over the long term, to be maximised. If gas markets and access to pipeline services are efficient in an economic sense, the long term economic interests of consumers in respect of price, quality, reliability, safety and security of natural gas services will be maximised. By the promotion of an economic efficiency objective in access to pipeline services, competition will be promoted in upstream and downstream markets."

The Speech goes on to state that:

"The long term interest of consumers of gas requires the economic welfare of consumers, over the long term, to be maximised. If gas markets and access to pipeline services are efficient in an economic sense, the long term economic interests of consumers in respect of price, quality, reliability, safety and security of natural gas services will be maximised. By the promotion of an economic efficiency objective in access to pipeline services, competition will be promoted in upstream and downstream markets.

The NGO is clearly a relevant consideration where AEMO has to exercise judgment or discretion in reaching its determination, for example, if there is a number of Participant fee structures each of which can satisfy the Fee Structure principles, or where the relevant provisions of the Rules are ambiguous."

A1.2 Simplicity

The fee structure should be simple.

As "simple" is not defined in the Rules, it must be given its ordinary meaning as understood in the context of clause 135CA of the Rules. The New Shorter Oxford English Dictionary's definition of "simple" (in this context) is: "not complicated or elaborate" and "plain, unadorned". Whether a fee structure fits these definitions is largely a matter of judgement.

There is a wide range of possible fee structures. There is no single identifiable point where "simple" becomes "complicated".

[23] 135CA(4) National Gas Rules

It is clear from this provision that a certain degree of complexity was envisaged in that the structure of Participant fees may involve several components and budgeted revenue consists of several elements. The structure of Participant fees need not demonstrate absolute simplicity.

The simplest fee structures are unlikely to be consistent with the other criteria. However, it is possible to find fee structures that, while consistent with the other criteria, are relatively simple, in comparison to alternative structures.

Further, AEMO considers that the use of the word "simple" in this context also involves a degree of transparency. AEMO considers that the simplicity principle means that the basis of the fee structure and its application to various registered participants should be:

- straight-forward
- easily understood by participants
- readily applied by registered participants and AEMO
- foreseeable and forecastable in terms of impacts and costs.

A1.3 Reflective of involvement

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.[24]

Note that rule 135CA(4A) provides that the participant fees charged to a Registered participant may include a component for the recovery of capacity trading and auction costs even if those costs do not involve that Registered participant.

In determining whether the extent to which the budgeted revenue requirement relating to a particular output involves a Registered Participant, AEMO relies on the experience and expertise of its general managers and staff, and considers factors such as the degree to which the Registered Participant:

- interacts with AEMO in relation to the output;
- uses the output;
- receives the output; and
- benefits from the output.

AEMO also considers the how the revenue requirements have given rise to, or are caused by, that Registered Participant's presence in the market.

AEMO must determine the structure of Participant fees "afresh".

That is, it must freshly consider the application of the criteria in clause 135CA of the Rules and the NGL to the facts and analysis available to it at this time. In doing so, however, AEMO will have regard to its previous determinations under clause 135CA of the Rules, where appropriate.

The principle of "reflective of extent of involvement" does not have a specialised meaning in economics. It is consistent with the economic notion of 'user pays' but as a matter of ordinary language, it indicates a degree of correspondence (between AEMO and its costs and participants) without connoting identity.

However, this principle does not involve a precise degree of correspondence.

Where fixed and common costs are involved, multiple registered participants may be involved with AEMO costs in relevantly similar ways.

AEMO's analysis and experience shows that there are categories or classes of Registered participants that share certain characteristics that mean that the way in which they interact with AEMO is likely to have the same or similar cost implications for AEMO.

[24] Subject to subrule 135CA(4A)

Where it is practical for AEMO to identify costs that are fixed or common in nature that can reasonably be allocated to a class or classes of Participants that share characteristics such that their involvement with AEMO's outputs is likely to have the same or similar cost implications, AEMO will seek to do so.

A1.4 Non-discriminatory

Fee structure should not discriminate unreasonably against a category or categories of registered participants.

In past Participant Fee determinations, AEMO adopted the following definition of discriminate:

"Discriminate means to treat people or categories of people differently or unequally. Discriminate also means to treat people, who are different in a material manner, in the same or identical fashion. Further, "discriminate against" has a legal meaning which is to accord "different treatment … to persons or things by reference to considerations which are irrelevant to the object to be attained".

This principle allows AEMO to discriminate against a category or categories of r where to do so would be reasonable.

Where a degree of discrimination between categories of registered Participants is necessary or appropriate to achieve consistency with the other principles in clause 135CA of the Rules, or the NGL, the discrimination will not be "unreasonable".

In considering a past electricity fee structure determination, the Dispute Resolution Panel accepted that this principle is to be applied to the extent practicable and it is only unreasonable discrimination that offends.

Note that although the decision related to Clause 2.11.1(b)(4) of the Electricity Code, clause 135CA of the Rules is substantially the same as the equivalent clause in the Electricity Code.

A1.5 Comparability

AEMO must have regard to other fee structures that AEMO thinks appropriate for comparison purposes.

Note that this is not strictly a principle but is included for completeness in describing the matters for which AEMO must have regard.

Other relevant fee structures could include:

- National Electricity Market (NEM) fee structures for comparable markets or services
- Other gas market fee structures such as Western Australia markets or globally
- Other gas markets also the subject of this consultation process.

A1.6 Other matters

It is also relevant to note that the participant fees:

- should be sufficient to cover AEMO's budgeted revenue requirements.
- charged to a Registered participant may include a component for the recovery of capacity trading and auction costs even if those costs do not involve that Registered participant.

A1.7 Having regard to fee structure principles

The Rules require that AEMO must have regard to the fee structure principles, not that the fee structure is consistent with or satisfies all of the fee structure principles. However, determining a fee structure that seeks some consistency with the fee structure principles indicates how AEMO has had regard to the fee structure principles in determining the fee structure. The Rules do not expressly indicate that one or another of these fee structure principles should have greater weight than the others. However, where it is not practicable for

AEMO satisfy all of the principles or satisfy them all to an equal degree, AEMO may adopt a structure which is not equally consistent with all the principles. Therefore, typically there is a trade-off between principles. That is, an option to improve the fee structure against one principle may lessen the applicability of another principle.

For example, a commonly competing principles are reflective of involvement and simplicity. While a fee structure could be more reflective of involvement through measures such as disaggregation of fees, markets or services, this would decrease simplicity of the fee structure, and the systems to manage fees would become more complex.

AEMO's objective through this review and consultation process is to strike a balance between competing fee structure principles, through careful consideration of the principles and stakeholder feedback on how any fee structure changes impact various stakeholders. It is also relevant to note that the participant fees:

- should be sufficient to cover AEMO's budgeted revenue requirements.
- charged to a Registered participant may include a component for the recovery of capacity trading and auction costs even if those costs do not involve that Registered participant.