
DRAFT REPORT
Gas Pipeline Capacity Trading
and Day Ahead Auction 2019

Fee Structure

14 December 2018

Prepared by:

Australian Energy Market Operator Limited

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1. Executive Summary

Introduction

Australian Energy Market Operator (AEMO) is conducting a consultation on the fee structure for the new gas markets scheduled to commence from 1 March 2019:

- Capacity Trading Platform (CTP)
- Day-ahead Auction (DAA)
- Operational Transportation Service Code Panel (OTS Code Panel)

The objective of the consultation is to provide stakeholders with the opportunity to have input into the development of the structure of these participant fees.

Background

The capacity trading reform package was recommended by the Australian Energy Market Commission (AEMC) as part of its Eastern Australian Wholesale Gas Market and Pipelines Framework Review and endorsed by the Energy Council at its August 2016 meeting. The reforms, which relate to transmission pipeline and compression services (jointly referred to as 'transportation services') outside the Victorian DTS, include the development of:

- a capacity trading platform (CTP) that shippers can use to trade secondary capacity ahead of the nomination cut-off time and provides for exchange-based trading of commonly traded products and a listing service for other more bespoke products;
- a day-ahead auction (DAA) of contracted but un-nominated capacity, which would be conducted shortly after nomination cut-off and subject to a reserve price of zero (with compressor fuel provided in-kind by shippers);
- standards for key contract terms in primary, secondary and operational transportation agreements to make capacity products more fungible and, in so doing, facilitate a greater level of secondary capacity trading; and
- a reporting framework for secondary capacity trades that provides for the publication of the price and other related information on secondary trades, as well as other market transparency measures including information relating to allocation agreements.

AEMO was tasked by COAG Energy Council to operate the CTP and DAA at its July 2017 meeting.

Implementation of the reforms will require work to be carried out by the GMRG, AEMO and Facility Operators on the following tasks:

1. Development of legal, regulatory and contractual architecture – this task will involve:
 - a. the development of changes to the National Gas Law (NGL), the National Gas Rules (NGR), the Regulations and the Operational Transportation Services Code, which will be made by the South Australian Minister and give effect to the package of reforms;
 - b. the development of procedures and other subordinate instruments by AEMO (i.e. the Exchange Agreement and Auction Agreement); and
 - c. the development of a standardised operational Gas Transportation Agreement (GTA) by service providers.
2. Designing, developing and testing the new systems that will be required for the capacity trading platform and the day-ahead auction and conducting industry trials, which will involve AEMO and to some extent service providers.
3. Developing market guidelines and training material for the market participants.

Under the National Gas Rules, AEMO must conduct a full consultation process with industry regarding determining the structure, introduction and determination of fees for these new markets – this covers 'who' and 'how' the fees for establishing, operating and administering the markets are recovered from registered

participants. Following the finalisation of the fee structure consultation, the budget and fees associated for this structure will then be published for participants before commencement of the market.

This consultation also include structuring fees for the costs to be recouped by AEMO in connection with the Operational Transportation Service Code Panel (OTS Code Panel).

The OTS Code Panel is a panel of persons established by AEMO to assess and consult on proposals to amend the Operational Transportation Service Code and develop proposals to amend the Code, prepare impact and implementation reports on proposals, make recommendations in relation to proposals, report to the AER on proposals, develop proposals at the request of the AER and other related functions.

Guiding Principles

In determining the structure of pricing, AEMO must have regard to the National Gas Objective (NGO) and the National Gas Law and Rules.

The key principles to consider are:

- Simplicity - the structure of participant fees should be simple
- Reflective involvement - the components of participant fees charged to each registered participant should be reflective of the extent to which AEMO's budgeted revenue requirements involve that registered participant. This is consistent with the user pays concept.¹
- Participant fees should not unreasonably discriminate against a category of registered participants.

Under the Rules, AEMO only have the power to recover market fees from registered participants including auction participants² and gas trading exchange members.

The principles may often be competing, for example, a strong cost reflective structure is unlikely to be simple. AEMO's objective is to find a balance between any competing principles.

The closing date for submissions to this Draft Report is Tuesday 15 January 2019 at 5.00pm (AEST).
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Summary of the draft fee structure

AEMO issued a notice of the first stage of consultation (consultation paper) on the 25 October 2018.

Five submissions were received in the first stage. These submissions are published on the consultation page of AEMO's website <https://aemo.com.au/Stakeholder-Consultation/Consultations/Structure-of-Participant-Fees-for-Capacity-Trading-Platform>

- Jemena Limited
- Sea Gas
- Origin Energy
- Tasmanian Gas Pipeline
- Australian Pipelines and Gas Association (APGA)

AEMO sincerely thanks the organisations responding to the consultation and their time and effort put into the responses. AEMO has considered the views and comments raised in the submission and has now produced a draft position and report.

Submissions on the draft position and report are not restricted to these areas and comments are welcome on any relevant issue.

¹ The participant fees charged to Registered participants may include a component for the recovery of capacity trading and auctions costs even if those costs do not involve that Registered participant.

² An auction participant is a party to an auction agreement other than AEMO. The auction agreement is set out in an appendix in the Capacity Transfer and Auction Procedures.

Table 1 – Proposed fee structure

Area	Proposed fee structure	Date effective
Period of fee structure	Period to 30 June 2021 (to align with the maturity of the existing electricity and gas markets fee structure to 30 June 2021).	
Break-even period to recover costs	Rolling 3 year break-even period.	
CTP fee structure	Trading participants <ul style="list-style-type: none"> • Fixed fee – one licence or additional licence for non- GSH participants • Variable fee levied on the buyer and seller – <ul style="list-style-type: none"> *Daily product fee (\$/GJ) *Weekly product fee (\$/GJ) *Monthly product fee (\$/GJ) 	1 March 2019
DAA fee structure	Variable fee (\$/GJ) levied on the buyer.	1 March 2019
Registration fee	Fixed registration fee for new participants registered as a result of the capacity trading reform: <ul style="list-style-type: none"> • Facility operators • Auction participants • BB allocation agents • BB transportation facility user and capacity transaction reporting agents 	New participants joining after 1 July 2019. Participants registered prior to 1 July 2019 will not be charged a registration fee.
OTS Code Panel	Variable fee (\$/GJ) levied on all DAA and CTP trades.	1 March 2019

2. Notice of second stage of consultation

The Australian Energy Market Operator Limited (AEMO) invites you to provide a Draft Report submission.

2.1 Key information

Table 1 Key information on the consultation

Introduction	<p>This is the second stage of consultation.</p> <p>AEMO received five submissions in the first stage of consultation. These submissions are published on AEMO’s website consultation page.</p> <p>https://aemo.com.au/Stakeholder-Consultation/Consultations/Structure-of-Participant-Fees-for-Capacity-Trading-Platform</p>														
Scope	<p>AEMO is conducting a consultation on the structure of Participant fees to apply from 1 March 2019 for:</p> <ul style="list-style-type: none"> - Capacity Trading Platform (CTP) - Day-ahead Auctions - Operational Transportational Service Code Panel (OTS Code Panel) 														
Date applicable to new fee structure	1 March 2019														
Timetable	<p>The following table contains an outline of the consultation process, including key dates. Please note the key dates are proposed and may change.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Milestone</th> <th style="text-align: left;">Date</th> </tr> </thead> <tbody> <tr> <td>Consultation paper published</td> <td>25 October 2018 – COMPLETE</td> </tr> <tr> <td>First stage consultation submissions closing date - 4 responses received</td> <td>30 November 2018 – COMPLETE</td> </tr> <tr> <td>Draft Report published</td> <td>By 14 December 2018 – COMPLETE</td> </tr> <tr> <td>Second stage consultation submissions closing date</td> <td>By 15 January 2019</td> </tr> <tr> <td>Publication of Final Report</td> <td>By 12 February 2019</td> </tr> <tr> <td>Fee structure applicable from</td> <td>1 March 2019</td> </tr> </tbody> </table>	Milestone	Date	Consultation paper published	25 October 2018 – COMPLETE	First stage consultation submissions closing date - 4 responses received	30 November 2018 – COMPLETE	Draft Report published	By 14 December 2018 – COMPLETE	Second stage consultation submissions closing date	By 15 January 2019	Publication of Final Report	By 12 February 2019	Fee structure applicable from	1 March 2019
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Meetings	Stakeholders may request a meeting in their submission. Please specify why you would like a meeting. Matters discussed at a meeting may be made available to other stakeholders.
Invitation to make submissions and confidential information	<p>AEMO prefers that submissions be forwarded in electronic format as they will be published on the AEMO website.</p> <p>Please provide electronic submissions by 5.00pm AEDT 15 January 2019 to</p> <p>Hugh.ridgway@aemo.com.au or to</p> <p>Hugh Ridgway Australian Energy Market Operator Limited GPO Box 2008 MELBOURNE VIC 3001</p> <p>AEMO plans 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.</p>
Inquiries and request for meeting	<p>Hugh Ridgway Senior Analyst – Markets (03) 9609 8682 Hugh.ridgway@aemo.com.au</p> <p>Mark Briglia Group Manager – Commercial Services (03) 9609 8634 mark.briglia@aemo.com.au</p>
Relevant National Gas Rules Provisions	<p>This consultation is being conducted under rule 135CA of the National Gas Rules (NGR) and in accordance with the extended consultative procedures set out in rule 9A of the NGR. The consultation is open to all Registered Participants, Intending Participants and interested parties.</p> <p>The new structure of Participant fees will be developed in accordance with the requirements of the National Gas Law and the NGR.</p>

3. Submissions received in first stage of consultation

AEMO received four submissions in the first stage of consultation. These respondents were:

- Jemena Limited
- Sea Gas
- Origin Energy
- Tasmanian Gas Pipeline
- Australian Pipelines and Gas Association (APGA)

All submissions received were considered in drafting the proposed fee structure and these views and themes are presented with AEMO's responses in Section 4.

4. Proposed gas functions market fee structure

We invite you to provide a submission on the proposed structure for each of the relevant areas:

4.1 Period of fee structure and break-even period to recover costs

4.1.1 Draft position

A two year term and a three year break-even period to recover costs is proposed.

Area	Proposed fee structure
Period of fee structure	Two year term - Period to 30 June 2021 (to align with the maturity of the existing electricity and gas markets fee structure to 30 June 2021).
Break-even period to recover costs	Rolling 3 year break-even period.

Key reasons on the proposed fee structure:

- Efficiency and consolidated review process for participants and AEMO in aligning all gas function (and electricity function) fee structures to mature on the same date 30 June 2021.
This position was supported by respondents to the consultation paper.
- Certainty on participant future budgets and smoothing of fees using a rolling 3 year break-even period to mitigate short-term price fluctuations from year to year (compared to an annual break-even model). This aligns with current gas fee structures in AEMO.

4.2 CTP fee structure

4.2.1 Draft position

For trading participants, a fixed fee is proposed for those new participants outside of Gas Supply Hub (GSH), and a variable fee based on \$/GJ volume levied on daily, weekly and monthly products.

Area	Proposed fee structure	Date effective
CTP fee structure	Trading participants <ul style="list-style-type: none">• Fixed fee – one licence or additional licence for non- GSH participants• Variable fee levied on the buyer and seller –<ul style="list-style-type: none">*Daily product fee (\$/GJ)*Weekly product fee (\$/GJ)*Monthly product fee (\$/GJ)	1 March 2019

Key reasons on the proposed fee structure:

- Simplicity and reflective of involvement in both GSH markets and CTP being:
 - The CTP will utilise the existing GSH exchange trading platform for the trading of capacity products.
 - Existing trading participants will have automatic access to trading of the new capacity products.
 - The Exchange Agreement will govern the trading and settlement of trades between shippers.
- Similar operating structure and participants across GSH and CTP.

This position was supported by respondents to the consultation paper.

4.3 DAA fee structure

4.3.1 Draft position

A variable fee for the day ahead auction based on capacity/volume proposed.

Area	Proposed fee structure	Date effective
DAA fee structure	Variable fee (\$/GJ) levied on the buyer.	1 March 2019

Key reasons on the proposed fee structure:

- Simple and reflective of involvement for participants based on capacity of auction products purchased.

This position was supported by respondents to the consultation paper.

4.4 Registrations fee

4.4.1 Draft position

A fixed registrations fee proposed to be levied for new participants for each category (i.e. those not already a GSH participant) in the market effective from 1 July 2019.

Registration fees reflect AEMO’s activity across many AEMO internal areas including the time and effort required for each application reviewed by the registrations team, legal and compliance, operational and market and settlement teams. The dedicated effort particular and specific to each new entrant ensures their involvement in the market will be compliant with rules, integration with AEMO’s market system, and settlements and billing.

Area	Proposed fee structure	Date effective
Registration fee	Fixed registration fee for new participants registered as a result of the capacity trading reform: <ul style="list-style-type: none"> • Facility operators • Auction participants • BB allocation agents • BB transportation facility user and capacity transaction reporting agents 	New participants joining after 1 July 2019. Participants registered prior to 1 July 2019 will not be charged a registration fee.

Key reasons on the proposed fee structure:

- Simple and reflective of involvement for AEMO's time and efforts in processing new registrations for each category of participants joining the market.
- AEMO recovering its time and efforts on an equitable basis and not increasing the transactional/operational costs if a registration fee was not charged.

This position was supported broadly from the responses to the consultation paper.

It was commented by some respondents the 'facility operator' participant or 'BB allocation agents' category should not be levied a registration fee. AEMO has considered these participant categories and being guided by the principles of *reflective of involvement*, AEMO considers that through registering any participants type - time, effort and ultimately cost is be associated with each application regardless of caterogy. Therefore all participant categories should be levied a registration fee to be equitable.

4.5 OTP Code Panel

4.5.1 Draft position

A variable fee based on capacity/volume proposed as the fee structure to recover OTP code panel costs.

The OTS Code Panel is a panel of persons established by AEMO to assess and consult on proposals to amend the Operational Transportation Service Code and develop proposals to amend the Code, prepare impact and implementation reports on proposals, make recommendations in relation to proposals, report to the AER on proposals, develop proposals at the request of the AER and other related functions.

The OTS Code Panel must consist of:

- Two persons to represent transportation service providers;
- Two persons to represent transportation facility users (one person to represent transportation facility users generally and one person to represent large users of natural gas);
- One person to represent AEMO.

AEMO is permitted to recover costs incurred in relation to the OTS Code Panel including establishing and operating the OTS Code Panel, the participation of the AEMO member of the OTS Code Panel and providing services to facilitate the functioning of the OTS Code Panel.

Area	Proposed fee structure	Date effective
OTS Code Panel	Variable fee (\$/GJ) levied on all CTP and DAA trades.	1 March 2019

Key reasons on the proposed fee structure:

- Simple and reflective of involvement using a variable fee based on capacity.

This position was supported broadly from the responses to the consultation paper.