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# **CONSULTATION PAPER**

## **Gas Pipeline Capacity Trading and Day Ahead Auction 2019**

**Fee Structure**

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**25 October 2018**

Prepared by:

Australian Energy Market Operator Limited

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# 1. Executive Summary

## Introduction

Australian Energy Market Operator (AEMO) invites you to provide a submission 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 Transportational Service Code Panel (OTS Code Panel)

## 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.

### Consultation scope

AEMO is conducting a consultation on the structure of fees for:

- CTP
- DAA
- OTS Code Panel

### 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.<sup>1</sup>
- 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 participants<sup>2</sup> 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.

To help stakeholders respond to this paper, AEMO has highlighted several areas that stakeholders may wish to comment on. Submissions are not restricted to these areas and comments are welcome on any relevant issue, regardless of whether it is detailed in this document.

Summary of areas for your comment:

- CTP fee structure
- DAA fee structure
- OTS Code Panel fee structure
- Registration fees
- Period of fee structure

The closing date for submissions to this consultation paper is Friday 30 November 2018 at 5.00pm (AEST).

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<sup>1</sup> 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.

<sup>2</sup> 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.

# 2. Notice of Consultation

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

## 2.1 Key information

Table 1 Key information on the consultation

Date of Notice	This notice is issued on the 25 October 2018.												
Background	<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"> <li>- Capacity Trading Platform (CTP)</li> <li>- Day-ahead Auctions</li> <li>- Operational Transportational Service Code Panel (OTS Code Panel)</li> </ul>												
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"> <thead> <tr> <th>Milestone</th> <th>Date</th> </tr> </thead> <tbody> <tr> <td>Submission closing date for this consultation paper</td> <td>30 November 2018</td> </tr> <tr> <td>Publication of Draft report for stakeholder comment</td> <td>By 14 December 2018</td> </tr> <tr> <td>Submission closing date for Draft report</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	Submission closing date for this consultation paper	30 November 2018	Publication of Draft report for stakeholder comment	By 14 December 2018	Submission closing date for Draft report	By 15 January 2019	Publication of Final Report	By 12 February 2019	Fee structure applicable from	1 March 2019
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Fee structure applicable from	1 March 2019												
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 30 November 2018 to <a href="mailto:sandra.chui@aemo.com.au">sandra.chui@aemo.com.au</a> or to Sandra Chui</p> <p>Australian Energy Market Operator Limited GPO Box 2008</p>												

	<p>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>
<p>Inquiries and request for meeting</p>	<p>Sandra Chui  Group Manger – Commercial Services  (03) 9609 8623  <a href="mailto:Sandra.chui@aemo.com.au">Sandra.chui@aemo.com.au</a></p> <p>Hugh Ridgway  Senior Analyst – Markets  (03) 9609 8682  <a href="mailto:Hugh.ridgway@aemo.com.au">Hugh.ridgway@aemo.com.au</a></p>
<p>Relevant National Gas Rules Provisions</p>	<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. Areas for your comment

To help assist your response, AEMO has highlighted a number of areas for comment. Your submissions are not restricted to these areas, you may comment on any other relevant issue.

In considering the structure of fees for these new markets, AEMO and the industry may be guided by several factors such as:

General factors:

- Guiding principles in determining participant fees under the NGR including simplicity and reflective involvement<sup>3</sup>.
- Existing fee structures in AEMO's electricity and gas markets
- Fee structures on similar markets internationally

Factors specific to DAA and CTP

- AEMO will establish a number of supporting arrangements that are common to both the CTP and DAA across the legal framework, market systems and market readiness program.
- The Capacity Transfer and Auction Procedures outlines operation and regulation of capacity transfers as well as the capacity auction.
- A new market system and interface protocol will be developed for the exchange of data between AEMO with Facility Operators and market participants.
- AEMO will make changes to existing gas market systems to provide settlement, prudential and reporting systems to the CTP and DAA. AEMO will also a market readiness program covering testing, market trial, guidance and training for the CTP and DAA.
- AEMO will establish and manage the OTS Code Panel that will consider changes to the Operational Transportation Service Code.

## 3.1 CTP fee structure: Gas Supply Hub fee structure as a potential model

AEMO implemented the Gas Supply Hub (GSH) initially at Wallumbilla in March 2014 as a voluntary market at the request of the Government. The GSH provides an exchange, similar to the new markets here for the wholesale trading of natural gas to enable improved wholesale trading for an east coast gas market affected by Liquefied Natural Gas (LNG) exports in Queensland. Through an electronic platform, GSH participants can trade standardised, short-term physical gas products at each of the pipelines connecting at Wallumbilla.

The fee structure in the GSH market is:

- Trading participants
  - o Fixed fee – one licence or additional licences
  - o Variable fee –
    - Daily product fee (\$/GJ)
    - Weekly product fee (\$/GJ)
    - Monthly product fee (\$/GJ)

AEMO understands there are some consistent factors 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.

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<sup>3</sup> 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.

- The Exchange Agreement will govern the trading and settlement of trades between shippers.

With a similar operating structure and participants across the GSH and CTP, it may be beneficial to align the fee structures in each market.

In addition to the above discussion on similarities to the GSH, participants should be aware that:

- In accordance with the COAG approved design, AEMO is developing systems for the exchange of data with facility operators to facilitate the automatic and anonymous delivery of capacity trades.
- AEMO is also amending STTM and DWGM systems to integrate capacity trades with the STTM and DWGM (by adjusting rights).

Question 1

AEMO welcomes comments on fee structure for the CTP.

## 3.2 DAA fee structure: considerations of other market structures

The DAA allows participants to bid on and acquire unused pipeline capacity on a day-ahead, non-firm basis. Participants should be aware that:

- AEMO will develop a new interface for participants to bid in the capacity auction as well as a new auction solver to allocate capacity to participants.
- AEMO will run the auction daily using inputs from Facility Operators and Auction Participants. AEMO report the results of the auction to winning bidders and the relevant Facility Operators.
- The DAA will be integrated with the DWGM through the automatic adjustment of rights at interface points.
- AEMO will collect settlement of auction capacity from Auction Participants. AEMO will pay the proceeds from capacity purchases to the relevant Facility Operator.

A variable transaction fee based on the capacity of auction products purchased by participants could be used as the market fee for the DAA. A variable transaction fee would be reflective of a participant's activity in the auction and is consistent with the fee structure of existing gas markets.

Question 2

AEMO welcomes comments on the fee structure for DAA.

## 3.3 Registration fee

Registration fees are a charge reflecting the resources and efforts attributed to registering a new buyer or seller participant.

Currently there is no fee to register in the GSH or the Gas Bulletin Board.

There is a fixed annual licence fee for Trading Participants in the GSH for use and access to the trading platform to reflect the third party licence costs incurred by AEMO.

AEMO will not incur third party licence costs for the auction platform.

There will be new participants registered as a result of the capacity trading reform package:

- Facility operators – registration in respect of the pipelines and compression facilities that are subject to the reforms.
- Auction participants – registration is required if a person wants to participate in the auction.
- BB allocation agents - registration for the purpose of reporting allocation methodologies to AEMO for publication on the Gas Bulletin Board.



- BB transportation facility user and capacity transaction reporting agents – registration for reporting secondary capacity transaction information to AEMO for publication on the Gas Bulletin Board.

It should be noted that the final report for this fee consultation is not scheduled to be published until 12 February 2019.

However, some participants may be required to register or may choose to register prior to 12 February 2019 for when the new markets go live (currently scheduled for 1 March 2019).

Therefore, even if registration fees are included in the final determination of this fee consultation, such fees will not apply to any person that has applied to register prior to publication of the final determination and registration fee amounts.

#### Question 3

AEMO welcomes submissions on the possible implementation of a registration fee related to the new markets.

### 3.4 Period of fee structure

The NGR permits AEMO to set a structure of Participant fees for such a period of time as AEMO considers appropriate.

In AEMO's gas markets, all gas functions (e.g. DWGM, STTM, Retail Gas), the existing fee structure will expire at 30 June 2021. There are efficiencies for participants and AEMO in aligning all gas functions fee structures to mature on the same date.

#### Question 4

AEMO welcomes comments on the length of time over which the structure of participant fees from 1 March 2019 should apply and whether aligning the maturity to 30 June 2021 for all gas fees is most efficient.

### 3.5 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.

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.

#### Question 5

AEMO welcomes submissions on the fee structure to recover AEMO's costs associated with the OTS Code Panel.