

5 February 2021

Mr Kevin Ly
Group Manager - Regulation
Australian Energy Market Operator
Sydney NSW 2000

(via e-mail to: StakeholderRelations@aemo.com.au)

Dear Mr Ly

RE: CONSULTATION ON GAS MARKETS PARTICIPANT FEE STRUCTURE REVIEW

The Australian Petroleum Production & Exploration Association (APPEA) is the peak national body representing upstream oil and gas explorers and producers active in Australia. APPEA's member companies account for more than 90 per cent of Australia's petroleum production. Further information about APPEA can be found on our website, at www.appea.com.au.

APPEA welcomes the opportunity to comment on the *consultation on gas markets participant fee structure review*. APPEA's comments should be read in conjunction with comments from our member companies.

APPEA's comments below are on the specific sections of the review that are most relevant to the upstream oil and gas industry.

Gas fee structure term and averaging

APPEA supports the retaining of the three-year term and rolling period for the fee-structure. From a simplicity and a certainty point of view it is useful for participants.

Registration fees

APPEA continues to support a transparent and rules based method of calculating and allocating fees to market participants, in a manner that incentivises participation in the gas market.

GSOO fees – application to participants

APPEA does not support the change to GSOO fee recovery model proposed by AEMO.

While APPEA supports broadening the base that is allocated GSOO fees proportionally, producers do not necessarily obtain significant benefit from the publication of the GSOO.

Additionally, APPEA agrees with AEMO's observation in the draft report, "*Producers provide the most input to the GSOO and provide critical information that AEMO could not otherwise obtain*". APPEA argues that the producers are already bearing a significant portion of overall GSOO costs

(that is, costs incurred by AEMO in preparing GSOO and the compliance costs incurred by market participants in providing information to AEMO). In assessing the allocation of AEMO's GSOO-related costs, a more holistic perspective is recommended and market participants' compliance costs should be taken into consideration by AEMO when considering cost on market participants.

In the review, AEMO posits that "GSOO fees applied to producers will have the potential to pass through, fully or partially, to all other participants and gas consumers". APPEA disagrees with this conclusion on the basis that producers are more likely to buy services from (rather than selling gas or services to) transmission pipelines, storage providers and distribution pipelines, it is not clear how this pass through would occur. If AEMO is suggesting that the pass through can be to consumers then this would have the perverse outcome of increasing cost of gas for customers. This needs to be taken into consideration by AEMO as well.

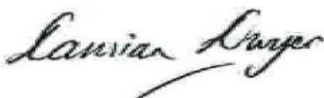
APPEA also would like to note that AEMO's costs for preparing GSOO have increased significantly (from A\$1.3M in 2015-16 to a forecast of A\$2.3M in 2020-21). The recently approved 'Measures to Improve Transparency in the Gas Market' will increase the scope of the GSOO. From 2021, the GSOO will be required to assess and report on production costs, drilling activities, production and contracted volume forecasts, LNG exporters' short- and medium-term supply-demand balance and LNG import volumes & operational information. This increased scope will further increase the cost of GSOO preparation. APPEA also notes that all the measures contained in the 'Measures to Improve Transparency in the Gas Market' amendments seem to only be imposing requirements on natural gas producers, exporters of LNG or midstream participants. As proposed, producers will bear an overwhelming portion of the incremental direct costs for these additional reporting requirements for very little benefit to the producers. The overwhelming beneficiary of these changes will be the downstream market participants.

Noting that AEMO's "key driver for this change is to transition to a mechanism that more proportionally disseminates costs across registered participants, without unnecessary or unwarranted complications", APPEA contends that – when costs incurred by market participants are taken into consideration – costs are already disseminated across registered participants.

APPEA supports a cost recovery model based on benefit to participant and cost incurred in providing that information to AEMO as a holistic measure. Therefore, APPEA recommends maintaining the existing cost allocation methodology and does not support the proposed change to the methodology.

Please feel free to contact Mr Damian Dwyer, Deputy Chief Executive at ddwyer@appea.com.au if you have any queries.

Yours sincerely



DAMIAN DWYER
Deputy Chief Executive