

always
powering
ahead

apa

Capacity Trading & Auction - Fee Structure

effective 1 July 2021

A decorative graphic consisting of several white geometric shapes, including a large upward-pointing arrow and a trapezoidal shape, set against a red background.

1.0 Summary

1.0 Introduction

APA operates 7 transport and 3 compression facilities in the capacity auction market (DAA) and 11 facilities in the capacity trading market (CTP). APA has a broad range of Rule obligations which must be met in order to complete these functions and is entitled to the opportunity to recover these costs under Part 24 of the National Gas Rules.

This report provides a revised view of APA's expenditure and expected revenue for complying with the capacity trading platform (CTP), day ahead auction (DAA) and standardisation requirements as well as APA's Year 3 market fee structure.

This revised view is an outcome of APA's first annual review of the inputs and modelling assumptions that underpin the magnitude of the market fees. The review factored in actual capital & operating costs, DAA, CTP and OTSA volumes, and proceeds for the second year of operation of the market (1 March 2020 to 28 Feb 2021).

The review results in a reduction to the Auction rate and the Exchange trade rate as a function of actual DAA volumes and proceeds being higher than first estimated. CTP volumes were substantially lower than estimated however this was more than offset by the higher DAA volumes.

The Auction rate and Exchange trade rate have been revised to a level that sees the NPV at 1 March 2019 remaining at 0 AUD, with the assumption that forward DAA and CTP volumes are at the same level as actually observed for the first year of market operation. The updated fees can be observed in section 1.2 of this summary (slide 4), and are effective 1 July 2021.

A review will be undertaken in each year of the proposed 5 year capital recovery period, and rates will be recalibrated annually unless costs are recovered sooner.

Summary

1.1 Summary of Year 2 Actual vs Forecast Costs and Revenues

\$m	Yr 2 (Forecast)	Yr 2 (Actual)
APA Capex	0.0	0.0
APA Opex	0.4	0.4
Auction Charge	0.8	0.8
Auction Proceeds	1.4	2.5
Exchange Trade Charge	0.0	0.0
OTSA Monthly Charge	0.0	0.0

Summary

1.2 Fees

Rate	1 July 2020 – 30 June 2021	As of 1 July 2021
Auction Rate	\$0.013/GJ of MDQ per facility	\$0.00/GJ of MDQ per facility
Exchange Rate	\$0.0065/GJ of MDQ	\$0.00/GJ of MDQ
OTSA monthly charge	\$829.2585/month/asset	\$0.00/month/asset

2.0 Costs

The majority of costs incurred by APA in relation to compliance with Parts 24 & 25 of the NGR relate to system and process enhancements. Approximately 2/3 of the costs incurred related to the DAA and 1/3 relate to the CTP. As such it is proposed to recover costs based on this split.

Capital cost estimates include direct incremental labour and material costs, specific to establishment of the CT&A system including:

- Energy Component (EC) system upgrade to develop the functionalities to support the CT&A
- Computer equipment for CT&A new recruits and exclusively used for CT&A project

The capital costs are for the scope of work proposals, resourcing, and hardware requirements. System requirements are itemised to develop the relevant functionalities. External consultant and specific internal APA staff that were directly resourced on the project.

System capital costs have been amortised over a 5 year period. Cost recovery has been derived from a simple NPV calculation using a discount rate of 2.53% real.

On going operating costs are for the incremental labour required to complete additional support tasks related to the reforms. These predominantly consist of additional commercial operations staff to monitor processes and ensure report compliance with AEMO and IT support which has been enhanced to cover the wider coverage. APA has increased the Commercial Operations Advisor coverage window from 7am - 6pm to 6am -10pm and IT support priority one support hours have been increased by 5 hours per day to cover extended critical processing times introduced by the reforms.

3.0 Volumes

APA initially estimated usage for both auction and trading services at 2% of the contracted capacity for each service on each asset with the exception of WGP which was estimated to have a much smaller requirement of 0.1% given it is effectively a single shipper pipeline.

Volume assumptions are based on the charges applying on a 'per facility' basis, which is in line with the Transportation Service Point register published by AEMO.

The rates for Auction and Exchange trading fees have been recalculated for the remainder of the 5 year capital cost recovery period using updated actuals from the second year of market operation, and revised forecasts that are based on the second year actuals.

Monthly fixed charges were initially determined using an estimated 10 OTSA agreements. In the first and second years, there were 0 OTSA's entered into and therefore the forward forecast for the remainder of the 5 year period is 0. The forward forecast for OTSA volume and fixed charges will be recalibrated in the next review based on actual volume experienced in the second year of market operation. The impact of any recalibration after the second year will be factored in to the forward Auction, Exchange trade and OTSA rates for the third year onward, in-line with the annual review process noted in the Summary.

Auction proceeds for the second year were initially estimated at an average clearing price of \$0.04/GJ. Actual proceeds in year two resulted in an average clearing price of \$0.07/GJ. The assumed forward forecast for auction proceeds average clearing price for years 3 to 5 is \$0.07/GJ.

4.0 Fee Calculation

Fees have been determined using actual and estimated cost information and actual and estimated usage volumes as previously described.

Fees have been calculated to be payable only by those parties that benefit from the services – auction winners, exchange trade sellers and OTSA contract holders. Initial fees have been structured to recover costs based on the split of effort required to implement the reforms resulting in approximately 2/3 of the forecast revenue being assumed to come from auction services and 1/3 from exchange trading.

These costs are not being recovered from other fees or charges.

5.0 Key Model Assumptions Summary

Input	Year 1 (1 Mar 19 – 29 Feb 20)	Year 2 (1 Mar 20 – 28 Feb 2021)	Year 3 - 5
DAA Volume	Actual	Actual	Forecast aligned to Year 2 actual
CTP Volume	Actual	Actual	Forecast aligned to Year 2 actual
OTSA Volume	Actual	Actual	Forecast aligned to Year 2 actual
Proceeds	Actual	Actual	Revised rates as described in this document multiplied by relevant forecast volume
Capex	Actual	Actual	Estimate based on description in section 2.0 of this document
Opex	Actual	Actual	Estimate based on description in section 2.0 of this document
WACC	5.14% nominal (CPI assumed 2.5%)	2.53% real	2.53% real
Recovery Period	5 years (1 March 2019 to 29 Feb 2024)	5 years (1 March 2019 to 29 Feb 2024)	5 years (1 March 2019 to 29 Feb 2024)