EUAA Submission to AEMC

Stage 2 Draft Reports on East Coast Wholesale Gas Markets & Pipeline Frameworks Review

Introduction

The Energy Users Association of Australia appreciates the opportunity to make a submission on the Stage 2 Draft Reports on the East Coast Wholesale Gas Markets and Pipeline Frameworks Review issued by the AEMC on 4th December 2015.

The EUAA represents many of the large energy users in Australia in the commercial, industrial and resources sector. Our members account for a significant proportion of the gas consumed in the eastern Australian gas market and the existence of a competitive gas market is essential to their continued viability.

We have made numerous submissions to various gas market inquiries at a Federal and State level and participated in many industry consultative committees over recent years. It is indeed pleasing to see that finally in the last 6 months or so, since the ACCC started its East Coast Gas Inquiry with its powers under S157A of the Competition and Consumer Act, have the concerns of large users about the complete lack of competition in the east coast gas market been finally believed. As Rod Sims noted in a speech last September:

> *"It is clear from our work so far that the claims by gas users that there was a marked change in the gas market after the final investment decisions by the LNG projects in 2010-11, and that there was then a dearth of offers for the supply of gas, are largely true. We have evidence that many domestic users went from a market where they received, say, 3 – 5 offers of supply on terms that were able to be negotiated, to one where they received zero or one true offer, on largely take-it-or-leave-it, inflexible terms. Particularly during 2012-2014 it was hard to find signs of an effective domestic gas market."*[1]

As Mr Sims noted in the same speech, all other inquiries, including those by the AEMC did not have these S157A powers, which:

[1] Rod Simms "The importance of adequate competition for the east coast gas market" Speech at Eastern Australia's Energy Markets Outlook 17 September 2015 http://www.accc.gov.au/speech/the-importance-of-adequate-competition-for-the-east-coast-gas-market

"…meant that it was difficult to determine policy recommendations for government out of these inquiries."

The EUAA is very encouraged that the AEMC is working closely together with the ACCC, that the ACCC has shared confidential information it has gathered that is relevant to this AEMC report and that the final AEMC report on this matter in May will be able to reflect the final ACCC report in April.

The EUAA is very supportive of the Energy Council's Vision for Australia's future gas market as it seeks to implement the National Gas Objective for a market that is in "the long term interests of consumers".

We support the four broad policy work streams as the key areas:

1. Encouraging competitive supply
2. Enhancing transparency and price discovery
3. Improving risk management, and
4. Removing unnecessary regulatory barriers

Like the AEMC, the EUAA's aim is to ensure the development of a competitive and efficient domestic gas market that can operate alongside a vibrant LNG export market. We support the AEMC's desire to increase market liquidity and price transparency, to remove barriers to non-discriminatory pipeline access and assist in the development of improved risk management tools.

We generally agree with the thrust of the AEMC recommendations in the two Draft Reports for work streams 2-4. We wish to highlight four issues:

1. Successful implementation of the Drafts recommendations requires real progress to be made on work steam 1

We look forward to the ACCC recommendations in May on ways of increasing competitive upstream gas supply to the domestic market. Without this the proposed AEMC competitive market will fail and some of our members may continue to be unable to source domestic gas under the traditional bilateral approach and be forced out of business.

In 2015, our members were in the surreal gas supply situation. They were not getting offers to supply gas because producers were either hording their reserves or effectively reserving it for their Gladstone LNG contract obligations. Then with the fall in Chinese demand and fall in oil prices, our members saw market reports of a Chinese equity participant in a Gladstone LNG project on-selling gas excess from their take or pay obligations in the Chinese spot market at prices below the LNG price they were paying. Chinese gas users were getting gas at dumped prices. Our members could not get gas locally at any price.

The irony of the current depressed oil price and gas demand environment in Asia is that these market conditions probably offer the best chance for our members to source gas under the traditional bilateral contracts and for gas supply to be available for trading through the gas hubs the AEMC is proposing. We expect that any proposal likely to come from the ACCC on increasing domestic supply eg around existing lease tenure and opening up new leases for development, will inevitably have a time lag given the oil price outlook and lack of investment capital.

2. There is a case for a hub at Moomba in addition to Wallumbilla and Victoria

A key to market development is access to upstream gas to trade and provide liquidity. A hub at Moomba will provide that in a relatively simple, low cost way. Producers from Northern Territory will prefer selling at Moomba rather than having to negotiate a forward haul to Wallumbilla with incumbents that may not want the competition. Juniors in the Cooper Basin will be encouraged by the close and simple market arrangements at Moomba. Gas customers will also be attracted by the relative simplicity. New gas supply is more likely to be encouraged and overall market liquidity and efficiency - from all three hubs – will be higher than with just two.

3. The Draft should set a more ambitious timetable for the necessary supply side changes

The Draft contains a good exposition of the benefits of market competition in theory. However, it will take considerable resolve to actually achieve these benefits in practice. All parties – legislators, regulators, supply side and users have to play their part. Users need to see positive progress on regulatory reform on the supply side before they will consider engaging in the hub trading market and moving away from traditional bilateral contracts. The Draft's staged approach to implementation (p.105-6) with a review sometime after 2020 of "Has a liquid market for pipeline capacity developed" gives no confidence to our members that the current situation will change quickly.

We recognise that the changes the AEMC is proposing are complex and will meet strong opposition from the pipeline and hub asset owners. But we are trying to catch up from the lack of action for the past 3-5 years that has led to the current extremely adverse situation for our members. The AEMC should advise the Energy Council to have a much more aggressive timetable and ask the Council to invest the political will to bring necessary supply side change forward.

It is only when large users have confidence that they can increase the proportion of their gas sourced from the competitive market can they start to move away from the relative "safety" of bilateral contracts. Only then can they consider getting the Board approvals to undertake these market trades. Boards are generally very reluctant to give delegations for energy trading where such trading is not a core business activity of the company.

4. Implementation of the Draft's recommendations will have significant transactions costs that should be a focus of the transition plan

Implementation will involve considerable costs for all market participants. This cost will be wasted if there is little gas to actually trade on the proposed market platforms. Some of our members have incurred the costs of participating in the STTM and they may have limited budgets to incur the costs of participating in the proposed hub markets. They are likely to hold back in incurring these costs again until they see real progress in regulatory reform on the supply side.

We agree implementation will require:

> *"…require a significant degree of commitment and cooperation from a range of stakeholders"*[2]

and support the formation of an Advisory Panel to monitor and advise on this process. The EUAA would be pleased to participate in this Panel.

This submission is structured as follows:

1. General comments on the Assessment Framework
2. Specific comments on the Draft's recommendations

1: Assessment Framework

EUAA welcomes the focus on the National Gas Objective and supports the AEMC approach to highlighting allocative, productive and dynamic efficiency in the gas market[3]. In the recent EUAA Submission on Review of Governance Arrangements for Australian Energy Markets we highlighted the lack of clarity around the meaning of the NGO and NEO[4] which has been confirmed in the ACCC Gas Inquiry.

In this Governance submission, the EUAA argued that the lack of a shared understanding of the Objective meant that other objectives supplanted it – particularly ensuring a firm basis for "investment certainty" which the EUAA argued is inconsistent with the NGO/NEO. It is this objective that has led to the huge overinvestment in electricity network assets. We hope that with the AEMC giving more explicit definition around the NGO, this will not be the case for the assets needed to implement competitive gas markets.

While the very good exposition of the theory of the benefits of competitive markets is welcome, we would encourage the AEMC to speed-up the implementation timetable to ensure the Vision is achieved as quickly as possible. The implementation timetable and roadmap in Chapter 7 lacks the required urgency.

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[2] p. 108

[3] p.7 and Appendix B

[4] EUAA "Submission to Review of Governance Arrangements for Australian Energy Markets – July 2015" 24 August 2015 https://scer.govspace.gov.au/workstreams/energy-market-reform/review-of-governance-arrangements/

We do not underestimate the amount of work involved, particularly given the entrenched interests that would seek to slow change. The Draft report lays out very clearly the benefits of a competitive market and the pathway to achieve. This should remove the need for a lot of debate and discussion as the AEMC goes through its "due process".

Our members have suffered from the lack of a comprehensive national gas policy since the announcement of the LNG projects. Belatedly they appear to be getting one, however with a timetable that might have been acceptable if it started 5 years ago, but not now given the pressures our members are under. Judging by other major AEMC reviews, initial timetables for implementation of regulatory change inevitably get extended. For example, the Power of Choice review has taken so long that what started out as a "problem in search of a solution" has become a "solution in search of a problem".

Having to try, mostly unsuccessfully, to source their gas in recent years without the benefit of an overall gas policy framework, our members are not looking forward a process that may see some benefits in 5 years. They are not looking forward to a roadmap that will involve many further committees, consultations and submissions that our members (unlike, for example, other stakeholders in this change process) do not have the resources to participate in. Gas users will be waiting and waiting and probably going out of business. We hope that the AEMC will not allow those stakeholders who oppose these changes, to use the consultation process to delay change. Those stakeholders should realise that the longer there is delay the greater the chance of stranded assets.

We would support a much more aggressive timetable being recommended to the Energy Council and the Council making clear their political commitment to achieving this timetable.

Chapter 2 - Compelling Case for Change

We agree there is a compelling case for change – all the more so because of the lack of Government action over recent years has meant that any sort of competitve gas market that might have existed in the past, is long gone. LNG developments have meant that there is defacto export reservation. Past actions by the ACCC in allowing the acquisition of smaller CSM players had a signficant adverse impact on domestic competition. As we noted above, the ACCC Chairman acknowledged last September, the claims of users not getting offers to supply were correct. Given the lack of change in recent years our members are hopeful that the Energy Council Vision will speed the change process up. We agree that:

> *"…bilateral contracts will remain a fixture on the market"*[5]

and welcome the availability of more sophisticated ways to manage their gas portfolios in its summary of the case for change (p.14). However we expect this expansion to be slow. While a number of our members are participants in the STTM, it is a large leap to the hub based trading recommended in the Draft. Our members will need to see substantial progress on supply side reform – increased and competitive supply of gas into the market as

[5] p. 14

well as substanital prgress on the reforms outlined in this Draft, before they would consider jumping into the new hub markets.

To many of our members energy trading is not a core business. In both electricity and gas they seek to put term contracts in place to lock in their price and risk profile so they can focus on their core business. Rising gas prices are unlikey to:

> *"…induc(e) participants to reduce their average gas supply costs through market based trading"*

or take advantage of:

> *"spot price volatility…(to benefit from)…arbitrage opportunities"*[6]

because:

- It is naïve to assume that such trading will guarantee a reduction in average price, and
- that trading has risks that their Board and Management does not usually understand and hence they place very stricit limits on such activity.

As far as the EUAA is aware, there are very few major electricity customers in the NEM that actually source even a small component of their electricity supply subject to the spot market – and this is for a market with deep liquidity.

The discussion of different class of customers on p. 22 is simplistic in its implicit assumption that different demand profiles mean that these customers will take up trading. LNG producers as gas users are a quite different class of consumer to large industrial customers which are not gas producers. The former have a natural hedge, the latter do not. A better comparison with the former would be a coal miner that buys electricity with a coal price pass through component.

It is unrealistic to expect companies that have had a few years of not knowing where their gas is going to come from to suddenly embrace market trading for much more than the balancing they do in the STTM. As noted above, they would have to negotiate the trading delegations from their Boards and, if approved, are unlikely to allow much more than limited trading in the first instance. Boards will need to see a lot of evidence that:

- the liquidity is there every day so they can have a less flexible bilateral contract and go to the market to buy that flexibility, and
- the hedging products and their prices are truly the result of a competitive market.

Once a long term bilateral contract is approved, energy managers are often very risk averse in using limited contract flexibility over a small percentage of demand to trade their way to a lower average gas price. The price of this small part has to be significantly below the contract price to have a meaningful difference to the average price paid for contract and hub purchases. Yet if the company has to source this small part on a day when either gas is

[6] ibid

not available or the price has skyrocketed then the energy manager will not be popular with the operations manager – particularly with a 25% compensation model proposed for Wallumbilla. Within limits, gas users tend to prefer firm gas at a certain higher price to a non-firm gas at an uncertain lower price.

Where will the contract price go?

Yes, EUAA members have seen a lot of upward pressure on gas prices in recent years – on the rare occasion when they have actually received an offer to supply. This price rise seemed to be more driven by opportunity cost (LNG netback) and the reserves risk associated with having to meet the domestic contract given their LNG obligations, than any underlying cost pressures.

Our members are waiting to see if the impact of the collapse in world oil prices – and hence the LNG linked netback – and falling Asian demand, on the prices offered for domestic contracts. With oil at $100/bbl, suppliers to our members liked to claim that "we are offering gas to domestic customers but they are not willing to pay the price" ie a price at LNG netback ++ reflecting LNG reserves risk. With oil at $30/bbl, our members are waiting to see if the offers still come it at LNG netback (without a premium for LNG reserves risk) or a high fixed price because it is not in the supplier's interests to offer prices based on the previous opportunity cost price formula.

We would be surprised to see this logic followed through. Most likely the price offer will be a high fixed price to reflect "costs of development". These costs were very high given the cost overruns from the simultaneous development of three LNG projects when costs mattered less in a $100/bbl future.

How will spot prices respond to supply and price shocks?

The discussion on p.26 on LNG related price shocks is another example of the disconnect between the textbook and reality. We see no evidence of the flexible supply curve described. A price rise brought about by a CSG failure does provide:

> *"…market participants (with) incentives to increase the gas they are able to supply to the wholesale market to take advantage of the elevated price"*

It is very uncertain that this will happen in practice. There is very limited excess capacity in the system. If there was, then our members would not have difficulty in getting offers. With the political constraints on new drilling, the difficulty of getting capital at $30/bbl oil and the takeover of nearly all the smaller players by LNG producers, there are few producers that could respond. Apart of course from other LNG producers. There is a real risk that there will be no supply response – no matter what price a consumer is prepared to pay. This is a risk the Boards of our members may not wish to take.

How will gas availability at the hubs be impacted by NGERAC Emergency Protocol?

The Draft has no discussion on this matter so it would be helpful to hear the AEMC's views. For example, in a gas shortage situation;

- will there be a different gas shedding protocol for gas sourced on a hub market compared with gas sourced under a long term bilateral contract?
- Will the purchaser of contracted but un-nominated capacity from an auction have the risk of this capacity being taken to supply other users?

Chapter 3 - Achieving the Vision

The EUAA agrees with the Commission that:

- the small number of market participants dispersed over a large geographic area with limited point to point pipeline interconnection creates unique challenges in market design
- a key to market development is availability of flexible non-discriminatory access to pipeline capacity between hubs to enable trade to occur.

We recognise that the nature of the east coast gas market makes it a difficult choice between physical and virtual hubs and accepts the arguments advanced in the draft in favour of a physical hub at Wallumbilla and a virtual hub in Victoria.

The EUAA believes that a further key to market development is access to upstream gas to trade and provide the liquidity. The EUAA is concerned that the AEMC has not considered this factor sufficiently in its proposed market design. For example, the Commission's comment:

> *"…the concept that trading should be conducted in as few locations as possible so as to concentrate what limited liquidity exists on the east coast."*[7]

is more a "glass half empty" approach – there is not a lot of gas to trade now so let's limit the trading locations so as to not dilute liquidity. We prefer to take a "glass half full" approach and see how the positioning and number of hubs can serve to encourage new upstream supply options to support expanded liquidity. This is why we support a third hub at Moomba. This is discussed further below. We agree that for all three hubs to achieve their objectives and support the Energy Council Vision, market participants will need:

> *"…to obtain flexible, lower-cost and non-discriminatory access to pipeline capacity between hubs"*

We support the work the Commission is undertaking to free up trading at Wallumbilla given the physical infrastructure constraints requiring trading across three points.

[7] p.42

Chapter 4 - Pipeline Capacity Markets

The EUAA supports the thrust of the three main recommendations around an auction for contracted but un-nominated capacity, mandatory creation of the trading platforms and publication of actual prices and terms and conditions of those sales. Given our members' experience with pipeline asset owners[8], we envisage that achieving these outcomes for pipeline as well as hub services, will be very difficult. So we can understand the Commission raising the possibility of use-it-or-lose-it provisions in the longer term.

We commented above on the problem with the National Electricity Law objective being interpreted as ensuring "investment certainty" which took it far away from "the long term interests of consumers". No doubt pipeline owners will seek to invoke the "investment certainty" argument to oppose the AEMC recommendations. Our members have also taking large risks in building assets on the reasonable assumption given the "long term interests of consumers' " NGO, that the gas market governance structure will (eventually) put in place policies to achieve this objective.

After many years of no progress with our members facing anti-competitive pipeline access principles, the AEMC recommendations are now looking to the long term interests of consumers.

2. Comments in Response to Draft Recommendations

Recommendation 1: Auction for contracted but un-nominated capacity

We question why the price now for firm day ahead capacity should be higher than the long term services sold on a take-or-pay basis[9]. Presumably the pipeline owner has received the shipper's revenue for all the take-or-pay capacity it has bought whether it uses it or not. In an efficient market the price paid by another shipper to purchase any unused portion of this capacity should reflect the short run marginal costs (SRMC) of this marginal capacity and this is the view of the Commission (p.60). This should be the basis for the reserve price set by the AER.

While trading volumes will vary day to day, we expect that it will be some years before they will vary enough to make the SRMC vary much day by day. The task for the AER setting the reserve price should be, initially at least, very straightforward – close to zero.

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[8] For example, our members have experienced what the Draft describes as:

> *"…the lack of incentives on pipeline owners to offer primary capacity at a price expected in a workably competitive market, or to provide a level of service in the secondary market commensurate with what would be expected in such a market" (p. 53)*

[9] Discussion in Box 4.2 p. 54

Given the Commission's proposal to force shippers to make this spare capacity available to the auction we cannot understand why the Commission would argue:

> *"Pipeline owners would continue to receive the revenue from the sale of un-nominated capacity (ie they would receive the revenue generated through the auction) as opposed to the revenue being transferred to the shipper which originally held the capacity."*[10]

We agree with the Commission's view and do not share the pipeline owners' concerns that selling short term capacity at potentially lower prices would undermine incentives to underwrite new additional capacity. As we note elsewhere in this submission, with the AEMC proposed implementation timetable, it is going to be some years before our members rely for anything more than a very small part of their gas needs on the day-ahead capacity market. They need secure gas at a known price for their operations. Large users will still look to long term gas contracts for the vast majority of their gas needs and these will underpin pipeline investment.

We see no reason for the auction to only apply to "fully contracted" pipelines (however that may be defined). These owners should be required to participate in the auction and receive the clearing price. They have the option of signing up additional customers on long term take-or-pay contracts and reduce their exposure to the auction market.

Recommendation 3: Information regarding primary capacity and trades made transparent

This is important to ensure non-discriminatory pricing and access. However, we do recognise that there may be confidentiality issues that need to be examined.

Chapter 5 - Wholesale gas trading markets

The EUAA agrees with the recommendations in Box 5.1 relating to the creation of the virtual hub in Victoria and the physical hub at Wallumbilla, use of exchange based trading and simplification of the STTM. However, we do support the development of a hub at Moomba – not just as a transitional measure.

Why there should be a continuing hub at Moomba

Our members believe that a Moomba gas trading hub is essential for a functioning east coast gas market and we understand this is AEMO's view also based on their recent consultation process. The EUAA believes that a low cost trading platform can be rolled out quickly. Our members in the southern States get no benefit from the Wallumbilla hub. The SWQP is fully booked by the large gas suppliers and backhaul from Wallumbilla to Moomba would only add unnecessary cost, uncertainty and complexity to southern gas users.

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[10] p. 54

Our members can understand LNG producers benefitting from the Wallumbilla hub and being opposed to a Moomba hub taking away liquidity from Wallumbilla. But there is a significant difference between the LNG producers and domestic consumers – our members require firm gas, not interruptible gas.

A Moomba hub will be a significant boost to increasing upstream gas supply to our members:

- with the advent of the gas link to the Northern Territory, an NT producer connecting at Ballera will need to deal with the large suppliers who currently control the SWQP capacity to be able to sell at Wallumbilla; we doubt these suppliers will have much incentive to allow a new competitor into the market; a hub at Moomba will prevent this potential competitive constraint with the NT producer contracting for backhaul between Ballera and Moomba
- it will encourage upstream supply from Copper Basin juniors who do not have to negotiate to get their gas to Wallumbilla or sell to the LNG players

The Moomba hub is also much more efficient for our members. Even large gas users do not want to tie up internal resources trading gas across various hubs and pipelines with various contracts, transportation agreements and so on, on a daily basis. This is not their core business as noted above.

Wallumbilla optional hub services model

We are concerned about the issues highlighted in the Draft (pp83-86) around the optional hub services model in the physical hub at Wallumbilla - the lack of certainty on actual delivery and limited competition in the provision of hub services. On the former, the level of compensation at 25% is very unlikely to compensate our members for the actual losses they would incur from the failed to get delivery of contracted gas. As noted above, our member Boards will need to have confidence around supply certainty before they authorise trading outside the bilateral contract.

On the latter, we highlighted above the concerns around the development of a workable market for pipeline capacity also applies to hub services, particularly when the buyer may only have one provider. As commented above, there is a good case for the AER to set a reserve price based on SRMC for hub services. We look forward to the Commission further developing its Single Trading Zone approach as a potential approach to addressing these issues.

How to measure liquidity

We understand the difficulty in translating European or US gas market measures of market liquidity to the Australian context. The EUAA is prepared to accept the proposed measures in Table 5.2 p. 98 as a reasonable starting point with one question. Should there be a fifth measure relating to the size of individual offers/requests? For example, there could be over 10,000 GJ offered and/requested but this is dominated by a couple of offers/requests. There might be >15 trades but most of them are small.

We would caution on the implicit assumption in the Draft[11] that the number of participants in the STTM will be indicative of the number of participants in the hub market.

Given our comments above re timing on implementation, AEMC should propose a timetable for achievement of these metrics, and a review process if the metrics are net achieved.

We agree with applying a similar set of measures to those in Table 5.2 to the pipeline capacity and hub services markets.

Chapter 6 – Information and the Bulletin Board

We agree that a key requirement for liquid competitive markets is transparent and reliable information so that participants make fully informed decisions and that the more participants, trades and volume of gas traded the more liquid the market.

3. Issues raised in the Draft Information Provision (pp 75)

Chapter 2: Purpose and content of the Bulletin Board

- Agree with the broadening the purpose of the Bulletin Board
- Coverage of Bulletin Board
    - Agree with the producers reporting proven and probable reserves – should also include uncontracted reserves
    - Agree with provision of information by hub service providers
    - broadly support the proposed changes to date reporting by large gas users; our members are concerned about potential competitive impacts and so would like to have further discussions with the commission on the proposed details
    - Prices – agree with recommendations on posting the ABS gas price (though we look forward to further discussion on how this index is to be constructed and reported)[12]; why should the posting of prices for pipeline, storage and hub services be voluntary? We would expect that the prices that are being offered should be posted to allow consumers to asses trading opportunities
    - All facilities – while this is good in theory, it is unlikely to be of use in practice given the uncertainties and confidentiality around changes in each business
    - Added notice board - agree

[11] p. 25

[12] We note the difficulties the ABS has highlighted in 6427.0.55.008 - Information Paper: Developments in Producer Price Indexes for Natural Gas, Dec 2015. There will be considerable hurdles in getting consistent data given the preponderance of medium-long term bilateral contracts each with differing terms that impact on the price paid on any particular day and the average price over a period of time eg month/year/contract term. http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/6427.0.55.008Main%20Features4Dec%202015?opendocument&tabname=Summary&prodno=6427.0.55.008&issue=Dec%202015&num=&view=

Chapter 7 – Implementation and Next Steps

We agree the package of reforms is very comprehensive. However, we have significant concerns about the long implementation timetable. The Draft comments:

> "The reforms should be implemented in a timely manner, but with recognition of the need for a detailed design phase and a clear and comprehensive transition and implementation strategy"[13]

and then lays out a 5 year implementation plan with a review some time post 2020 (Figure 7.1 p. 106) on whether a liquid market for pipeline capacity has developed. It seems that very little can be done in parallel with most changes having to be achieved sequentially.

Our members are concerned that they have a process of endless committees, consultations and further submissions that our members and the EUAA, unlike other key stakeholders, do not have the resources to participate in. Gas users will be waiting and waiting for change to occur and some may be going out of business while they wait. We are concerned that other stakeholders who may stand to lose their current privileged uncompetitive position, will seek to use this consultation process to delay change. The Draft suggests that:

> "If an effective market for pipeline capacity does not develop, then the pipeline access arrangements may need to be coupled with a long term use-it-or-lose-it mechanism."[14]

We can only imagine how long that would take to get approved. Hopefully pipeline asset owners will realise that if they delay change too long they might end up with some stranded assets.

Next Steps

The EUAA agrees that a full quantitative cost benefit analysis will be difficult to complete and depend particularly on the assumptions used to measure the benefits. Nevertheless, we would encourage the Commission to do as much work as possible to at least quantify the costs for users. These can be quite considerable and need to be taken into account.

- Entry into the new market
- Transition from the STTM
- Ongoing fees and charges

Our members are particularly interested in the costs of transition from the existing market arrangements. Members will then factor in the costs they incur internally in evaluating whether to join the market, for example consultants to assist in evaluating the business case.

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[13] p.105
[14] p. 106