3 March 2023

Violette Mouchaileh
Executive GM, Reform Delivery
Australian Energy Market Operator
530 Collins Street
Melbourne, VIC 3000

Lodged via email to: reformdevelopmentandinsights@aemo.com.au

Re: **Response to *Structure of Participant Fees for AEMO's NEM 2025 Reform Program* Consultation Paper**

Dear Violette:

Tilt Renewables welcomes the opportunity to make a submission to the above Consultation Paper ("Paper") as part of our continuing engagement with AEMO.

Tilt Renewables is committed to continue playing a lead role in accelerating Australia's transition to clean energy. Tilt is one of the largest owners and operators of wind and solar generation in Australia with 1.7 GW of renewable generation capacity across ten operating (or under construction) wind and solar farms. In addition, Tilt Renewables has a development pipeline of over 5.0 GW of wind, solar and storage projects.

Executive Summary

- Tilt Renewables is very concerned about the cost, timing and transparency of these reforms and considers there needs to be much more transparency with regards to prior expenditures (and on which individual initiatives) as well as more precise and detailed forecasts of expenditures.
- Considering that these reforms have clearly, and correctly, identified consumers as the beneficiary, we consider that directly passing through more of these costs via Market Customers would be appropriate (which is consistent, for example, with how RERT costs are passed through).

Our general comments on a few topics appear below followed by our responses to the Questions for Stakeholder Feedback.

Transparency and Accountability

In the Executive Summary of the Paper, costs are stated to be "outlined in more detail in Section 2.1.3 of this report."

Section 2.1.3 contains the table below which is not detailed and is *targeted* to have an accuracy of +/- 40%.

Table 1 – Estimated total Program costs for Option 2[17,18]

Cost component	Option 2 (Strategic pathway) $m
Total capital costs	$250 - $350
Ongoing costs[19]	$170 - $240
Total Program costs	**$430 - $600**
Net Present Cost	**$350**

This is clearly insufficient information for stakeholders to come to any sort of view of whether the framework is fit for purpose or value for money. In addition, there is no indication of costs or forecasts for the different initiatives.

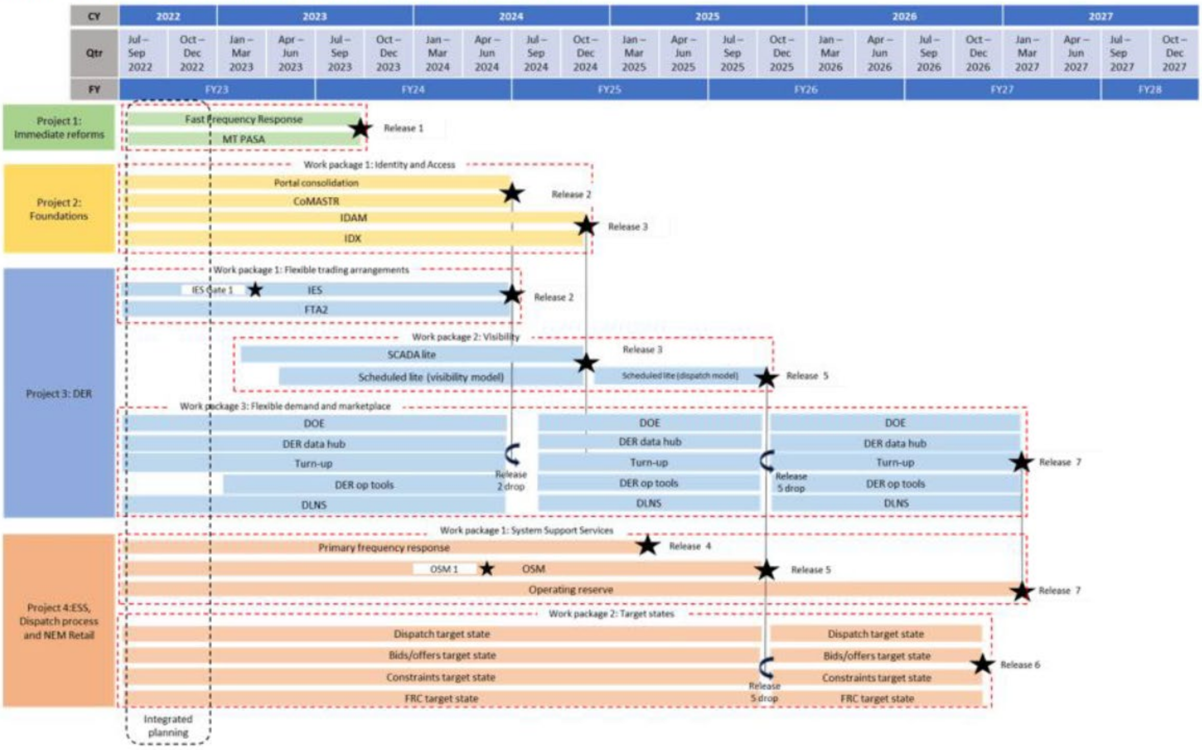
In Section 2.1.2, reference is made to a separate Gate 1 business case document which is stated to have "updated cost estimates of individual initiatives..." which it does, to some extent. Table 16 from the business case, shown below, has more detail, but is difficult to align, and therefore understand, how it relates to other lists of activities and initiatives.

Table 16 Total Program costs ($M)

Work Package	Real	Nominal	NPC
P1 WP1: Immediate Reforms	$12	$14	$11
P2 WP1: Identity and Access	$83	$92	$76
P3 WP1: Flexible Trading Arrangements	$59	$65	$54
P3 WP2: Visibility	$33	$37	$30
P3 WP3: DER Flexible Demand and Marketplace	$32	$36	$29
P4 WP1: Frequency Control, Security and Reserves	$50	$58	$46
P4 WP2: Target States	$109	$124	$100
Total Program costs	**$379**	**$425**	**$347**
Total Program costs with 40% uncertainty increase	*$530*	*$596*	*$485*
Total Program costs with 40% uncertainty decrease	*$227*	*$255*	*$208*

For example, how does Table 16 above relate to the Reform Program timeline and work package sequencing below? Note – Figure 1 is quite blurry in the Paper as well.

Figure 1 – NEM 2025 Reform Program timeline and work package sequencing



With some effort, one might be able to justify Table 16 with the above timeline and work package sequencing, but the granularity of Table 16 is still lacking. When AEMO is seeking to allocate the charging of hundreds of millions of dollars, it seems like a simple spreadsheet of different initiatives, **at least** as granular as the timeline above, with the amount spent to date and the amounts estimated to be spent in the future would be appropriate. Again, the uncertainty in Table 16 is declared to be +/- 40% which would be unacceptable in most commercial entity's budgeting processes.

Capacity Mechanism and Congestion Management Mechanism (CMM)

The Paper makes it clear in several footnotes (i.e. Footnote 18) that the Capacity Mechanism and CMM are not considered in this Paper. However, it is strongly implied they will be in the future. Tilt Renewables considers that only expenditures on successful initiatives, that result in implemented rule changes, regulations or other mechanisms should be eligible to be charged to market participants by AEMO. As a prime example, COGATI/CMM/Locational Marginal Pricing has been pushed for years by the AEMC and ESB, of which AEMO is a member, despite continued opposition by 90+% of market participants and obvious fatal flaws. Stakeholders, least of which market participants who strongly opposed such this mechanism, should not have to pay for AEMO to burrow into empty rabbit holes like this.

Likewise, AEMO's work on a Capacity Market should also not be charged to market participants as this proposal was very unlikely to gain approval due to its ineffectiveness and ~ $6 Billion annual cost to electricity customers. It is worth noting that the Energy Ministers have now decided on a Capacity Investment Scheme tendering process which entails very little work from AEMO, with the potential exception of forecasting dispatchable capacity gaps in each State, which AEMO already does as a matter of course. Therefore, Tilt Renewables would expect to see only nominal charges for implementation of the Capacity Investment Scheme.

Market Participants expect to be charged to implement successful initiatives that reduce their costs and provide them documented benefits---not for work on policy ideas that were not implemented, and were always unlikely to be implemented.

Distributed Energy Resources (DER)

The work on DER is important and will likely have great benefits to households and small businesses. However, it appears obvious that reforms related to **distributed energy,** by definition, equipment connecting to the local distribution network, has very little to do with utility scale generation plants. It might be open to discussion at which point a large generator connecting to the distribution network might be considered distributed energy (less than 10MW?), but it is clear that generation plants connecting to the transmission network are not DER, and have very little impact on DER and vice versa.

Therefore, it is unclear why large generators should pay 20% of DER Integration as shown in Figure 3 of the Paper. It is up to AEMO to provide a rationale as to what cost reductions and direct benefits of DER flow to generators connected to the transmission network. Without such rationale, large generators in the distribution network, and all transmission connected generators, should be exempt from DER fees.

We note that AEMO has created a new term ‘Wholesale Participants’ that adds several potential DER participants to the ‘Generator’ fee category. The rationale for this classification is not entirely clear, but it does serve as a pretext to charge large generators for DER as the new Wholesale Participant category includes potential DER participants.

Therefore, for the purposes of allocation of DER fees, Tilt Renewables strongly advocates the Generator fee category remains as is to separate those entities that are involved with DER and those that are unaffected.

Responses to Questions for Stakeholder Feedback

Questions 1 and 2

Whichever option is chosen, the objective should be that the entities gaining the benefit from these reforms should pay the vast majority of the costs. It is stated in Section 1.2.1, that “As the benefits, estimated to be in the order of billions of dollars, far outweighed the costs, the ESB gained confidence for the case for change and for recommending the Post-2025 Reform Program.” As is clear, these benefits would overwhelmingly flow to electricity customers rather than market participants, and therefore it is unclear why market participants are expected to pay a high percentage of these costs.

Question 3

Tilt Renewables considers that payment recoveries should start once an initiative is successfully implemented, or at least the rule change is formally approved for implementation. Cost recovery should be based on results, not effort, as this will inevitably result in increased accountability for AEMO to spend its resources on initiatives that are broadly supported and are likely to be successful.

Thank you for the opportunity to comment on the Paper, and we look forward to continuing discussions with AEMO on these issues. Please feel free to contact jonathan.upson@tiltrenewables.com should you have any questions or wish to discuss any aspect of this submission.

Yours Sincerely,

Jonathan Upson

Head of Policy & Regulatory Affairs

Tilt Renewables