PO Box 4136
East Richmond VIC 3121
T 131 806
F 1300 661 086
W redenergy.com.au

PO Box 632
Collins St West VIC 8007
T 1300 115 866
F 1300 136 891
W lumoenergy.com.au

29 January 2016

Ms. Sandra Chui
Group Manager Commercial Services
Australian Energy Market Operator
GPO Box 2008
Melbourne VIC 3000

Submitted via email

Dear Ms. Chui,

Re: Draft Report – Structure of Participant Fees in AEMO's Electricity Markets

Red Energy (Red) and Lumo Energy (Lumo) welcome the opportunity to respond to the Australian Energy Market Operator (AEMO) on their Draft Report on the structure of participant fees in AEMO's electricity markets (the Draft Report).

Red and Lumo are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in Victoria and New South Wales and electricity in South Australia and Queensland to approximately 1 million customers. We have a keen interest ensuring the AEMO fee methodology determination allocates costs appropriately as the AEMO costs are borne by all electricity consumers.

The Draft Report makes a number of recommendations on the structure of the fees and the length of time the methodology should apply. There are two matters where Red and Lumo do not support with the draft decision made by AEMO, specifically the Electricity FRC Fees (FRC fees) and the period of the fee structure. Each of these is discussed below.

Electricity FRC Fees

AEMO has made the draft decision to change the current structure of FRC fees from MWh to per active connection point charge. Red and Lumo strongly oppose changing the methodology for FRC fees as the costs for undertaking the change and the complexity introduced do not exceed the benefits.

Subsequent to the Draft Report, Red and Lumo requested more information from AEMO to understand that calculation of the FRC fees. It is understood that the FRC fees cover people, processes and systems for the following:

- Managing metering data for settlement purposes and transfers
- Support of the retail market functions and transfers
- B2B Costs (including the IEC)
- Managing the procedures and implementation of procedure changes.

It is disappointing that this level of detail and transparency was not included in the initial consultation paper or Draft Report.

Methodology Applied

The Draft Report suggests that the change in methodology is consistent with the following principle:[1]

- *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.*

[1] AEMO 2015, Draft Report – Structure of Participant Fees in AEMO's Electricity Markets 2015, Draft Report, 18 December 2015, pg. 1

LE446.ALL.0915.e

Red and Lumo disagree that this is the appropriate criteria on which to assess whether to amend the structure of the FRC fees. Instead, AEMO should focus on ensuring that the proposed change meets the National Electricity Objective (NEO) and the guiding principle to be applied should be that the FRC fees charged are simple.

A change from a MWh to active connection point basis transfers costs from large customers to small customers. Red and Lumo question whether this is an appropriate outcome as both small and large customers benefit from the availability of retail competition. This is a legitimate concern, as illustrated by the increasing difficulty for small consumers to pay for their energy billls. Small customers would need to consume more than 24 MW/h before they break even under AEMO's proposed fee structures, more than 3.5 times the average consumption of a NSW household[2].

This shift in the balance of cost recovery does not correlate to the other changes currently being implemented by the Power of Choice, designed to provide customers with a greater ability to make decisions that better reflect their costs of supply and ultimately the price they pay for energy. Red and Lumo do not believe that AEMO has satisfactorily proven that the proposed change in fee methodology results in a more balanced recovery of AEMO's cost based on its cost imposts.

Furthermore, it is unclear how an active connection point basis is appropriate methodology to allocate costs when assessing what the FRC fees apply to. Customers who have interval metered sites would be more resource intensive for AEMO, as the sheer volume of meter data from Victorian AMI customers and large customers across the NEM would require AEMO to process and manage greater amounts of meter data to conduct settlements. Therefore, raising the question why AEMO chose this guiding principle to base its decision, and not undertake an assessment to ensure that the change is consistent with the NEO.

NEO Assessment

The National Electricity Rules state that AEMO must have regard for the NEO and to the extent practicable the guiding principles. The NEO promotes efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity.

When AEMO undertakes a change to the Procedures, it must also make an assessment regarding whether the change is consistent with the NEO. Under the NEM Change Management Process, the process that AEMO uses to ensure that any change proposed is in the long term interests of consumers is a simple cost benefit analysis. There are, in fact, two cost benefits completed, one an order of magnitude assessment to ensure that the proposed change meets the objectives and that the costs of the change are less than the benefits realised. The second is a more in-depth assessment, ensuring again, that the benefits of the change exceed the costs, to ensure that it is efficiency and in the long term interests of consumers. This process is transparent.

Red and Lumo note that the same level of assessment or transparency has not been applied to amending the methodology of the FRC fees. Clearly there are costs to changing AEMO's systems to enable the change in methodology for the FRC fees. These have not been articulated in the Draft Report. Additionally, without understanding how AEMO will scope these changes, it is difficult to provide AEMO with costs to our systems in order to support the change proposed by AEMO, which as an aggregate of market participants must be included in any cost benefit analysis completed. Therefore, we question how AEMO have determined that the proposed change to the FRC fees is consistent with the NEO.

Implementation Considerations

AEMO have outlined in the Draft Report that it proposes to charge the FRC fees based on an active connection point basis. The following implementation matters have not been taken into account, which are not issues when conducting a MWh application:

---

2 http://www.aemc.gov.au/getattachment/ae5d0665-7300-4a0d-b3b2-bd42d82cf737/2014-Residential-Electricity-Price-Trends-report.aspx Page 40

LE446.ALL.0915.e

- Management of in-flight transfers – will the active NMI be applied to the winning or losing Market Customer?
- Management of retrospective transfers – given that settlements occur weekly, how will AEMO manage retrospective transfers? Will there be an annual true up process?

The Draft Report intends to introduce the change from 1 July 2017, allowing a 12 month transition process to allow AEMO and Market Customers to make appropriate changes to their systems in order to allow for the proposed change in methodology. Red and Lumo note that there is a finite amount of IT resources to deliver AEMO changes. While, AEMO has not questioned in its Draft Report whether Market Customers have the ability to allocate IT resources to support the proposed change in methodology, Red and Lumo would prefer to allocate our IT resources to implementing changes such as competition in metering or embedded networks that have the ability to reduce costs for small customers, rather than increase them.

Finally, Red and Lumo advocate that AEMO allocate its IT resources to implementing the Power of Choice reforms, comprising the competition in metering and embedded networks rule changes, which must be implemented by 1 December 2017 instead of implementing a change to the settlements system for 1 July 2017.

For the reasons outlined above, Red and Lumo strongly recommend that AEMO retain the existing MWh approach to the setting of FRC fees.

Period of Fee Structure
AEMO has determined that they would like to set the methodology for 5 years, with a trigger point to review the FRC fees should a rule change associated with the Power of Choice final review affect the allocation of the FRC fees.

There is only one proposed rule change that is currently with the Australian Energy Market Commission (the Commission) that may affect the recovery methodology of FRC fees. This is the 'Updating the electricity B2B framework'[3] which may allow AEMO to recover fees from a wider spectrum of B2B participants. Whilst there are other rule changes before the Commission that may impact the budgeted amount to recover, they do not include a change to the number or participant classes that can be charged electricity FRC fees.

Red and Lumo advocate that AEMO should set the participant fee structure for 3 years and review once the relevant final determination of the Commission understood. Alternatively, if AEMO considers that it must set the participant fee structure for 5 years, then it should word the determination so that fees can be recovered from all relevant participant classes, as determined and amended in the National Electricity Rules. This would remove the suggested requirement for a trigger point for review whilst providing certainty for AEMO and participants on the fee methodology.

Should AEMO have any further enquiries regarding this submission, please call Stefanie Macri, Regulatory Manager on 03 9976 5604.

Yours sincerely

Ramy Soussou
General Manager Regulatory Affairs & Stakeholder Relations
Red Energy Pty Ltd
Lumo Energy Australia Pty Ltd

[3] See: AEMC 2015, Updating the electricity B2B framework, Consultation Paper, 17 December 2015.