



# ENERGY CONSUMERS AUSTRALIA

NOTICE OF CONSULTATION

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# 1. INTRODUCTION

The Council of Australian Governments (COAG) Energy Council<sup>1</sup> has approved the establishment of Energy Consumers Australia (ECA) by 1 January 2015, providing a focus on national energy market matters of strategic importance for energy consumers, in particular residential and small business consumers.

The new entity will replace the existing Consumer Advocacy Panel (CAP) for which AEMO currently collects funds through participant fees in the National Electricity Market (NEM) and gas markets. AEMO will also be required to collect funding for the ECA<sup>2</sup>, and changes need to be made to AEMO's fee schedules to allow the new mechanism to be operational when the ECA commences.

Although there is no formal requirement to consult on this matter<sup>3</sup>, AEMO is currently seeking feedback from market participants on proposed methodology<sup>4</sup> for recovering the costs of the ECA in the NEM, prior to the establishment of the ECA. The consultation approach on this issue is set out in section 4 of this paper.

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<sup>1</sup> The COAG Energy Council's website is located at: <http://www.scer.gov.au/>

<sup>2</sup> The draft legislative amendments package which proposes that AEMO collects funds to recover the costs of the ECA is located at: <https://scer.govspace.gov.au/workstreams/energy-market-reform/energy-consumers-australia/>

<sup>3</sup> As part of the draft Statutes Amendment (Energy Consumers) Bill 2014, a transitional provision has been included that permits AEMO to amend its fee schedule to include ECA without being required to consult on the schedule.

<sup>4</sup> It is important to note this is a proposed legislative amendments package, yet to be formally agreed upon by jurisdictional Ministers.



## 2. BACKGROUND

Consumer advocacy in gas and electricity markets is currently supported by the CAP, which was established under the Australian Energy Market Commission Establishment Act 2004. The purpose of the CAP is to facilitate a program of grants to help end-use customers develop and convey their interests to regulatory bodies engaged in energy policy decision-making.

Funding for the CAP is approved annually by the COAG Energy Council (and previously the SCER), with the majority of this amount (excluding a portion for WA and NT) being collected by AEMO through participant fees. The fees are charged to electricity retailers and wholesale customers on a per-MWh rate, and to gas retailers on a per-supply point rate.

In late-2012, the SCER identified consumer advocacy as a key area of energy market reform to encourage greater empowerment of consumers. This has been supported by the establishment of a Consumer Challenge Panel (CCP) and Customer Consultative Group (CCG) within the AER, allowing consumers greater representation in the regulatory decision and appeal processes. The SCER also considered the need for consumers to more constructively contribute to the development of energy policy, and the opportunity for a single national energy consumer advocacy body. This proposal was supported by SCER in May 2013, and SCER officials were requested to develop an Implementation Plan for the establishment of the new body. At the December 2013 meeting of SCER, the Implementation Plan was adopted, with the new body to be known as Energy Consumers Australia (ECA).

At the May 2014 meeting of the COAG Energy Council, it was agreed the ECA would be established by no later than 1 January 2015. The ECA company constitution was also agreed to, and the recruitment of the Board and CEO was initiated.

In August 2014, the COAG Energy Council published for consultation the proposed legislative amendment package to give effect to the ECA and provide the necessary head of power for AEMO to recover the funding arrangements. AEMO made a submission in which it was noted that formal notification by the ECA of its annual revenue requirement was an important consideration for the industry and AEMO, and sufficient advance notice was necessary to allow AEMO to communicate the expected level of fees to be factored into customer tariffs and price determinations. At the time of publication of this paper, AEMO has not been advised of the revenue requirement for ECA, however it is important that any necessary adjustments be made to the fee structure now, in preparation for the commencement date. Once the ECA Board and management are in place, AEMO expects to receive formal notification of the revenue requirement, and the apportionment between electricity and gas markets. On an ongoing basis, AEMO would include this revenue requirement as part of its annual budget process.



## 3. MATTER FOR CONSULTATION

The proposed legislative amendments package permit AEMO to recover the costs of the newly established ECA from NEM market customers. AEMO proposes to vary the current structure in which market participant fees are determined as described below.

### 3.1 Methodology

The current methodology of recovering the costs of the CAP in the NEM are on a per MWh basis, while the methodology of recovering costs from gas market participants is per supply point. AEMO considers that the establishment of the ECA is an appropriate time to review the inconsistency in the recovery methodologies, and put in place a methodology which supports the energy market objectives<sup>5</sup>.

The energy market objectives are aimed at promoting efficient investment, operation and use of energy services for the long term interests of energy consumers. In order to support these objectives, a recovery methodology should seek to recover costs from consumers who most directly benefit from the service being provided. In the context of the intended role of the ECA and the proposed constitution<sup>6</sup> to support residential and small business consumers, AEMO considered several options for recovery in the NEM:

- Per-MWh from all customers – a recovery based on energy consumption would result in a disproportionate allocation of the cost to large energy consumers.
- Per connection point for small customers<sup>7</sup> – a per connection point approach would align with the gas market, and proportionately allocate costs from small customers. Although this methodology is not currently in use in the NEM, it is able to leverage off AEMO's existing retail transfer systems and so could be in place in the required timeframes.

AEMO considers that a per supply/connection point recovery for both electricity and gas to be the most appropriate methodology, and proposes a process as described below.

### 3.2 Recovery process

AEMO proposes the following process be used to determine and apply the fees for ECA:

- Once the ECA advises AEMO of their revenue requirement for the following financial year, AEMO will determine a rate of collection for the NEM and each of the relevant gas markets, represented as an annual cost per supply/connection point.
- AEMO will publish the rates as part of the fee schedules on the AEMO website.
- For the gas markets, AEMO will apply the rate in a similar way to the current application of CAP fees, with the fees being charged to retailers and users, excluding self-contracting users, as defined by the National Gas Rules. These fees are charged on the count of supply points on the last day of the monthly billing period as part of the monthly settlement process.
- For the NEM, AEMO will apply the rate as part of the weekly settlement process. The rate will be used to determine a daily collection amount for each market customer, based on the total number of small connection points for which the market customer is the Financially Responsible Market Participant (FRMP) at the end of the previous month. The daily amount will be charged as a fixed value throughout the month, and included in preliminary, final and revised statements. Any changes to connection point numbers that occurs retrospectively or throughout the month will not be included in the calculation.

Based on currently available information, AEMO will need to determine and be prepared to implement the new fee structure by 1 January 2015 and this will require changes to the settlement process. Due to the tight timeframes, it

<sup>5</sup> These are the National Electricity Objective (NEO), National Gas Objective (NGO) and National Energy Retail Objective (NERO), which are detailed on the AEMC website located at <http://www.aemc.gov.au/home.aspx>

<sup>6</sup> The proposed ECA constitution is located at: <https://scer.govspace.gov.au/files/2014/08/ECA-Constitution-For-Information-Only.pdf>

<sup>7</sup> Small customers are defined in the National Energy Retail Law which can be accessed through: <http://www.aemc.gov.au/Australias-Energy-Market/Market-Legislation/Relevant-Legislation-Retail-Energy>.



is expected that an interim arrangement will be in place for 1 January 2015. An automated solution is expected to be delivered in a later NEM systems upgrade.

### **3.3 Fee structure**

This determination is taking place between routine fee structure reviews to meet the implementation date of the new ECA. The next routine NEM fee structure review is in mid-2016, at which time all elements of the fee structure, including ECA recovery will be again reviewed.



## 4. CONSULTATION PROCESS

AEMO is asking for comments and feedback from market participants on the proposed methodology for recovering the costs of the ECA in the NEM, prior to the establishment of the ECA. Although the consultation process has been streamlined to meet key dates set by the ECA, market participants will be able to have their say via the following channels:

Contact: Hayley George

Email: [Hayley.George@aemo.com.au](mailto:Hayley.George@aemo.com.au)

Telephone: 03 9609 8546

For more information on this proposed initiative, please contact [Hayley.George@aemo.com.au](mailto:Hayley.George@aemo.com.au) or [StakeholderRelations@aemo.com.au](mailto:StakeholderRelations@aemo.com.au)

### Key Dates:

The following table contains an outline of the consultation process, including key dates. Please note that these dates are proposed dates and may be subject to change by AEMO.

Process	Date
Publication of Notice of Consultation	Friday 10 October 2014
<b>Closing date for submissions received to the Notice of Consultation</b>	<b>COB Friday 24 October 2014</b>
Publication of submissions received to the Notice of Consultation on AEMO's website	Friday 12 December
Publication of outcomes and determination	Friday 12 December