



Ausgrid Submission
AEMO Participant Fees Draft Report
February 2021

4 February 2021



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Submitted by email: kevin.ly@aemo.com.au

Dear Mr Ly,

Ausgrid appreciates the opportunity to comment on AEMO's Participant Fees Draft Report and Determination (**Draft Report**), published on 30 November 2020.

We welcome the steps AEMO has taken to clarify issues raised in the Draft Report, including the publication of the participant fees survey results (**Survey Results**) on the AEMO website. However, we do not support the Draft Report's proposed allocation of National Electricity Market (NEM) charges as we consider the proposed arrangements introduce unnecessary inefficiencies in the way market costs are recovered. This is because the Draft Report proposes re-allocating 3%, or approximately \$3 million, of annual NEM fees from retailers to distributors, costs that will then be passed back to retailers. In our view, the fee principles outlined in the National Electricity Rules provide AEMO with the flexibility to determine a simpler fee structure than the one proposed.

It is vital that there is full transparency about how the costs associated with running the NEM are allocated and that the impact on customers is considered as part of any changes. This will ensure that all stakeholders, most importantly customers, have confidence that the institutions that provide them with their essential services are providing value for money and acting in their long term interests. Despite the publication of the Survey Results, there is still little visibility over how the survey was conducted, or the questions that were used as part of the survey. In our view, any new participant fees structure must be based on a transparent and replicable cost allocation methodology.

Our submission below provides views on several matters raised in the Draft Report. Importantly, despite the proposed transitional period, it is still uncertain whether market participants will have a reasonable opportunity of recovering their efficient costs. This is not in the long term interests of network service providers or their customers.

If you have any queries in respect of this submission, please contact John Skinner on (02) 9269 4367 or john.skinner@ausgrid.com.au.

Regards,

A handwritten signature in black ink, appearing to read "Alex McPherson", written in a cursive style.

Alex McPherson
Head of Regulation

Submission

Ausgrid owns and operates a shared electricity network that powers the homes and businesses of more than 4 million Australians living and working in an area that stretches from the Sydney CBD to the Upper Hunter. Customers have told us that energy affordability is their number one concern, and over the past six years we have worked tirelessly to become a more efficient business. Since 2014, our network prices have reduced by \$226 for the average residential customer in our network area.

As a regulated business, our spending plans are scrutinised not only by the Australian Energy Regulator, but increasingly, by customers. Customers are demanding to see the long term benefits of any money we spend. Our capital expenditure plans are subject to rigorous cost benefit analysis to ensure that the benefits of our spending plans outweigh the costs.

Given the fundamental changes occurring across the energy system and the new participants registering in the market, the expiry of AEMO's previous participant fees structure provides a timely opportunity to review how the costs of running the NEM are structured. That said, we are concerned that the proposed arrangements in the Draft Report introduce unnecessary complexity in the way market costs are recovered. Our submission therefore provides views on several issues raised in the Draft Report, including:

- The efficiency of the proposed fee structure
- Assessment against the NEM principles
- Transparency of cost allocation
- The ability of participants to recover any new participant fees

The efficiency of any new fee structure

Any changes to AEMO's fee structure should be targeted at delivering more efficient outcomes for customers. This is particularly important given that to recover their costs market participants must incorporate the fees associated with running the NEM into the price of their services. These fees are then, either directly or indirectly, included in the energy bills of customers.

Under existing arrangements, participant fees are paid by generators, market network service providers, and market customers (i.e. retailers). Transmission Network Service Providers (TNSPs) and Distribution Network Service Providers (DNSPs), which are regulated entities, are not currently allocated any of the core NEM function fees.

In its Draft Report, AEMO proposes allocating NEM costs to TNSPs and DNSPs from 1 July 2023. This approach does not appear to align with the views of most stakeholders, given only 2 out of 15 submissions favoured extending the NEM fees to network service providers.¹ AGL, for instance, submitted that:

For participants which are service providers to other NEM participants including TNSPs, DNSPs, and metering coordinators, the allocation of AEMO fees will most likely lead to these fees (and a potential surcharge) being passed onto retailers and end customers. It may therefore be more efficient to exclude these participants from the allocation of AEMO fees, except to the extent that they are involved in activities beyond their role as contemplated in the NER.²

EnergyAustralia similarly submitted:

¹ AEMO, *Electricity Fee Structures Draft Report and Determination*, November 2020, p24

² AGL submission to AEMO Electricity Fee Structures consultation paper, 23 September 2020, p1.

...EnergyAustralia does not support the splitting and allocation of fees to every component in the supply chain such as metering and network parties. EnergyAustralia considers this would only result in more inefficient cost recovery compared with aggregated costs being passed directly through to retailers. As such, we believe the AEMO should not apply fees to any participant where their recovery of the fees could be more simply and efficiently applied under the current structure.³

Red/Lumo submitted:

An unintended consequence of including transmission and distribution networks, and at this stage, Metering Coordinators, who do not have any such relationship with the end consumer, will simply mean that they will bundle these in fees and administration charges to retailers that manage consumer relationships. This does not meet the efficiency aspect of the National Electricity Objective.⁴

We agree with these statements. AEMO must keep in mind that any new fee structure is likely to result in an inefficient 'reshuffling' of fees amongst market participants and therefore does not promote the National Electricity Objective. This is because although costs may be allocated more efficiently, the greater administrative burden across the industry may not result in a more efficient operation and use of electricity services. It is likely to be a more efficient outcome for retailers, rather than other market participants, to pass on the NEM fees to customers.

This point is even more significant when one considers the magnitude of the core NEM function being attributed to DNSPs. The Draft Report proposes to allocate 3% , or approximately \$3 million⁵ of core NEM fees to DNSPs, with this allocation subject to change in the final report.⁶ It is questionable whether the significant administrative burden that will be generated from this allocation across all the DNSPs in the NEM will be outweighed by a more cost reflective allocation of fees, particularly when the costs will ultimately be passed on by DNSPs anyway.

Assessment against the NEM principles

Clause 2.11.1 of the National Electricity Rules (the Rules) states that the structure of participant fees must, to the extent practicable, be consistent with five principles (**Participant Fees Principles**), the first of which is that 'the structure of participant fees should be simple'.

When assessing the option of a new allocation of NEM fees to TNSPs and DNSPs against the Participant Fees Principles, AEMO considers that the 'Simplicity' principle is 'Not relevant / neutral / minimal change'. This is shown in the principles assessment key on page 16 of the Draft Report (see Figure 1) and AEMO's assessment of the options for charging network service provider (see Figure 2).

Figure 1

The principles assessment key is as follows:

	Increases consistency with the principle
	Decreases consistency with the principle
	Not relevant / neutral / minimal change

³ EnergyAustralia submission to AEMO Electricity Fee Structures consultation paper, 23 September 2020, p1

⁴ Red/Lumo submission to AEMO Electricity Fee Structures consultation paper, 23 September 2020, p2

⁵ Based on \$95.8 million NEM revenue in 2020-21, see *AEMO Electricity Revenue Requirement and Fee Schedule 2020-21*, June 2020

⁶ AEMO, *Survey Result of Allocation to the core NEM Function*, December 2020, p1.

Figure 2

Separate allocation to TNSPs and DNSPs (on the basis of energy consumed as per the NTP function fee metric)	Simplicity	Pros
	Reflective of involvement	<ul style="list-style-type: none"> Consistent with cost allocation survey results which showed significant involvement of TNSPs with AEMO's revenue requirements and some involvement with DNSPs
	Not unreasonably discriminate	Cons
	Recovery of AEMO's budgeted requirements on a specified basis	N/A
	NEO	

In our view, the separate allocation of NEM fees to TNSPs and DNSPs cannot reasonably be considered 'Not relevant / neutral / minimal change' when assessed against the Simplicity principle, as shown in Figure 2.

There are many reasons why the proposal to allocate NEM fees to TNSPs and DNSPs increases the complexity of NEM fee allocation and decreases consistency with the Simplicity principle. These reasons include:

- TNSPs and DNSPs have not been charged NEM fees before, and a significant administrative effort will be required should they be introduced. Establishing cost recovery arrangements, in particular, will increase costs for the TNSPs and DNSPs, and provide extra workload for the AER, AEMC and potentially State Governments.
- The two year transitional period, during which TNSPs and DNSPs will not be charged NEM fees, demonstrates that the introduction of NEM fees for these market participants will not be a simple process. In the Draft Report, AEMO states:

Despite several uncertain administrative arrangements and timing and transitional issues associated with charging TNSPs and DNSPs Participant Fees under the Rules, these issues and uncertainties are not strong considerations in deciding whether to allocated costs and charge Participant Fees to NSPs as part of AEMO's determination.⁷

This statement shows that the process of charging TNSPs and DNSPs participant fees reduces the simplicity of NEM fee allocation. We do not understand how these issues are not strong considerations when assessing the options against the Participant Fees Principles.

- There will need to be a consideration of how costs will be allocated in Victoria, given the division of TNSP functions between the provider of shared network services in Victoria (AEMO) and the network operators (Declared Transmission Operators). Similar issues could also exist in NSW/ACT where TransGrid has been appointed the co-ordinating network service provider responsible for pricing all transmission and dual function assets owned by the NSW distributors, ActewAGL and Directlink.

The above issues demonstrate that the Simplicity principle should be assessed as 'Decreases consistency with the principle' and coloured red, rather than grey. This would lead to the option of maintaining the status quo being ranked *equal* with the proposal to have a separate allocation to

⁷ AEMO, *Electricity Fee Structures Draft Report and Determination*, November 2020, p25

TNSPs and DNSPs, since both will have four principles ranked as ‘Increases consistency with the principle’ and one principle ranked as ‘Decreases consistency with the principle’ (see Table 1 below).

Table 1

Feasible options	Principles assessment
Status quo – no change to TNSPs or DNSPs	Simplicity
	Reflective of involvement
	Not unreasonably discriminate
	Recover of AEMO’s budgeted requirements on a specified basis
	NEO
Separate allocation to TNSPs and DNSPs (on the basis of energy consumed as per the NTP function fee metric)	Simplicity
	Reflective of involvement
	Not unreasonably discriminate
	Recover of AEMO’s budgeted requirements on a specified basis
	NEO

With this more reasonable rating of the options against the Participant Fees Principles, there is discretion for AEMO to propose a simpler, more efficient fees structure, that is consistent with the views of most stakeholders. Such an approach will also avoid a significant regulatory burden associated with the introduction of NEM fees for TNSPs and DNSPs, for little apparent gain.

The ability of participants to recover any new fees

As a regulated business, Ausgrid, will not have the ability to recover any new costs from the date DNSPs will be charged NEM fees, that is, 1 July 2023. This is because any new fees will not be included in our expenditure forecasts, and hence our network tariffs, for the FY24 financial year.

The Draft Report recognises this, and AEMO has proposed a two year transition period to provide time for TNSPs and DNSPs to seek arrangements for cost recovery.

This will not be a simple process, given that regulatory periods for distributors across the NEM are not aligned. Implementing transitional cost recovery arrangements as well as long term arrangements is likely to consume a significant amount of resources from both market bodies and the network service providers.

As part of these arrangements, it will be necessary for distributors to accurately forecast the amount they will be required to pay up to seven years in advance, given that distributors’ five year revenue proposals are due 17 months in advance of the five year regulatory period commencing.

These issues will add significant complexities to the implementation of any new fee arrangements.

Transparency of cost allocation

With an increased focus on the cost of providing essential services to customers, it is important that there is transparency over not just the quantum of fees but the way the costs of running the NEM are allocated to market participants, and ultimately to consumers.

The structure of participant fees must be consistent with the Participant Fees Principles set out in the Rules. AEMO has considerable discretion in how those principles are interpreted.

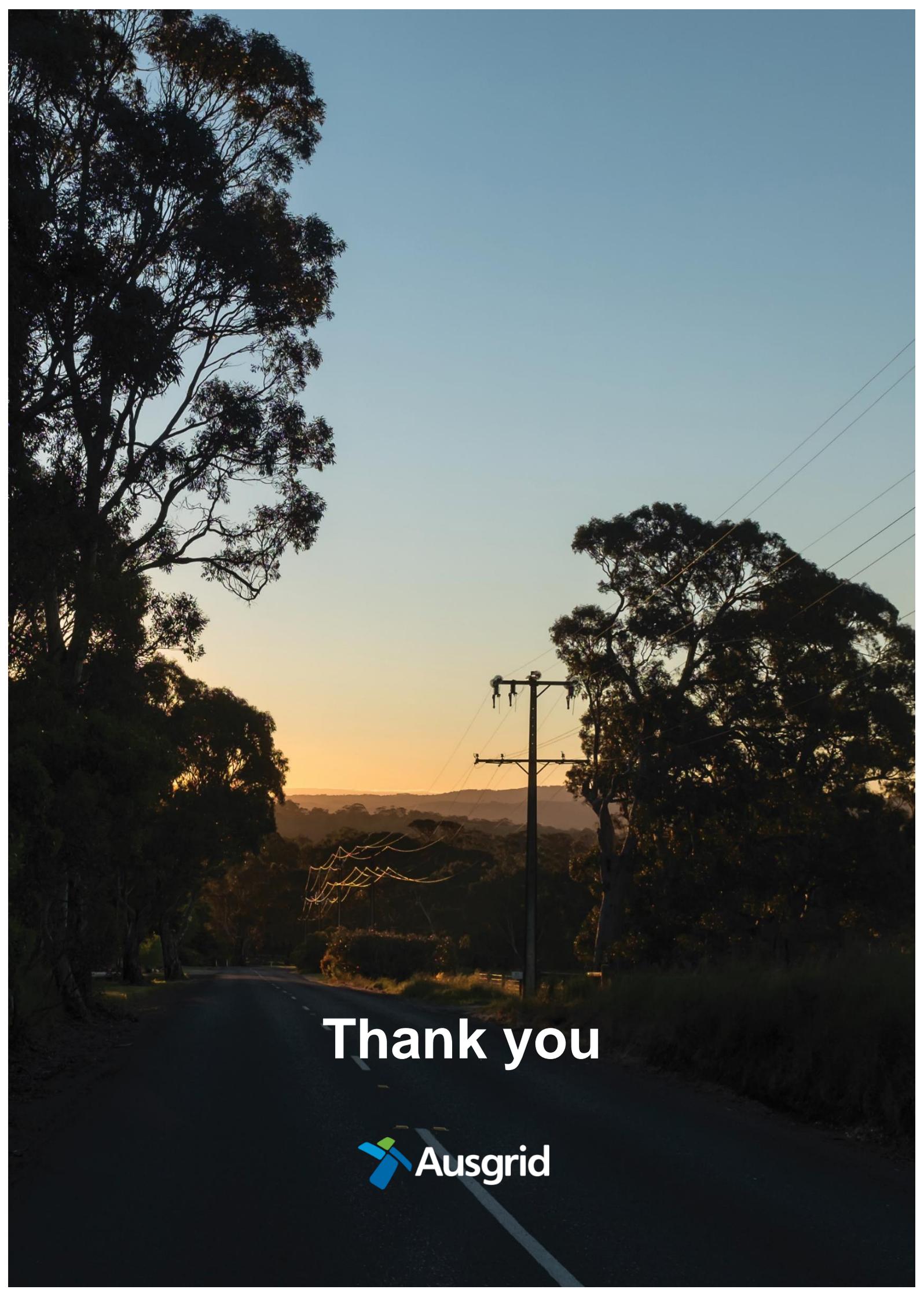
At present, AEMO relies on the experience and expertise of its general manager and staff in determining the allocation of fees to market participants.⁸ Following a request from network service providers, AEMO published the results of its internal staff survey which show the overall allocation of the core NEM function.⁹

Despite the publication of the Survey Results, there is still little visibility over how the survey was conducted, or the questions that were used as part of the survey. Given the dynamic changes happening in energy markets, it is important that a replicable, well understood and well communicated methodology is developed to facilitate the allocation of costs amongst registered participants. Such an approach will provide certainty for stakeholders and ensure that customers are only paying for the AEMO services that they use.

An appropriate methodology could draw on the approaches employed by DNSPs in their own cost allocation methodologies (CAM) approved by the AER under clause 6.15 of the Rules. Each DNSP's CAM outlines how costs are allocated to services using causal allocators. Importantly, the CAM must enable the AER to replicate reported cost allocation outcomes. This provides stakeholders with confidence that businesses are reporting and allocating costs correctly.

⁸ AEMO, *Electricity Fees Structures consultation paper*, August 2020, p12

⁹ AEMO, *Survey Result of Allocation to the core NEM Function*, December 2020

A scenic landscape at sunset. A paved road curves through a lush, green area with large trees on both sides. In the distance, rolling hills are visible under a sky transitioning from a warm orange glow near the horizon to a clear blue above. A utility pole with power lines stands prominently in the middle ground. The overall mood is peaceful and serene.

Thank you

