4 February 2021

Mr Nino Ficca
Interim Chief Executive Officer
Australian Energy Market Operator
GPO Box 2008
MELBOURNE VIC 3001

Submitted on 4 February 2021 via email: Kevin.Ly@aemo.com.au

Dear Mr Ficca

Consultation - Electricity Fee Structures

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Australian Energy Market Operator (AEMO) in response to its *Electricity Fee Structures* consultation. This submission is provided by Energy Queensland, on behalf of its related entities, including:

- Distribution network service providers (DNSPs), Energex Limited and Ergon Energy Corporation Limited;
- Retailer, Ergon Energy Queensland Pty Ltd (Ergon Energy Retail); and,
- Affiliated contestable business, Yurika Pty Ltd (Yurika) and its subsidiaries including Yurika Metering.

Energy Queensland agrees with the position that market generators should be accepting a larger portion of AEMO's fees, particularly as variable renewable energy is driving more frequent market interventions. However, in relation to the proposal to allocate core national electricity market function fees to DNSPs, we submit that DNSPs should only commence paying the fees after their next distribution determinations, when the fees are factored into their forecast revenues. Under AEMO's proposed two-year transition, some DNSPs would be forced to absorb the fees for a longer period than others.

Energy Queensland is extremely disappointed that AEMO has departed from a long-standing approach to charging fees on a \$/MWh, moving to a \$/MWh + \$/NMI (combination) approach from 1 July 2023. We suggest that AEMO's full retail contestability costs are already charged on a \$/NMI basis and moving the 'market customer tariff' to the combination approach disadvantages retailers who serve predominantly small customers. We acknowledge an increasing trend in customer solar photo-voltaic installations which reduce the amount of energy we purchase from the market. However, in our view the combination approach will result in higher AEMO fees flowing to small customer retail tariffs due to retailers being unable to absorb these costs as a result of the lower margin associated with this customer type.

It is our view that new entrants to the market who have undertaken appropriate due diligence ahead of commencing trading are aware of the AEMO fees and charges upon entry and build these into their operating costs. Consequently, the market customer tariff should remain as a $/MWh charge to protect the interests of small customers and the retailers serving these customers.

Finally, Energy Queensland acknowledges the significant and costly regulatory reforms in the energy market that have occurred (Power of Choice), those underway (5MS, Global Settlement and the Wholesale Demand Response Mechanism) and the increasing number of regulatory reforms which are in the pipeline (the Energy Security Board's Post 2025 Wholesale Market Reforms) all of which have sizeable operational and capital costs for energy businesses. These reforms are placing a significant financial burden on businesses across the energy chain and will ultimately flow through to customers. We therefore consider that AEMO's costs associated with implementing all future regulatory reforms should be subjected to a more rigorous cost benefit analysis, with a hard cap applied to AEMO's future operating and capital expenditure costs to ensure they are maintained at a reasonable level to minimise cost impacts for customers.

Should AEMO require additional information or wish to discuss any aspect of this submission, please contact me on 0467 782 350 or Laura Males on 0429 954 346.

Yours sincerely

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