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Thursday, 4 February 2021

Kevin Ly
Group Manager Regulation
Australian Energy Market Operator
Level 2, 20 Bond St
Sydney NSW 2001

Dear Mr Ly

RE: Electricity Markets Participant Fee Structure Draft Determination

ERM Power Retail Pty Ltd (ERM Power) welcomes the opportunity to respond to the Australian Energy Market Operator's (AEMO) draft determination on the Electricity Markets Participant Fee Structure.

About ERM Power

ERM Power (ERM) is a subsidiary of Shell Energy Australia Pty Ltd (Shell Energy). ERM is one of Australia's leading commercial and industrial electricity retailers, providing large businesses with end to end energy management, from electricity retailing to integrated solutions that improve energy productivity. Market-leading customer satisfaction has fuelled ERM Power's growth, and today the Company is the second largest electricity provider to commercial businesses and industrials in Australia by load¹. ERM also operates 662 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland, supporting the industry's transition to renewables.

<http://www.ermpower.com.au>

<https://www.shell.com.au/business-customers/shell-energy-australia.html>

General comments

Given the recent large increases in NEM fees and the forecasts for this to continue over the coming years it is important for fees to be structured in an efficient manner to ensure that a particular class of participant does not face a disproportionate share of costs. Similarly, the profound change underway in the electricity market as more distributed energy resources and greater volumes of variable renewable energy connect to the NEM along with new kinds of participants entering the market means it is important to find an efficient and understandable set of market participant fees. ERM Power largely supports the fee structure AEMO has set out in its draft determination. We consider that AEMO has proposed an approach that by and large meets the Fee Structure Principles contained in the National Electricity Law (NEL).

Broadly, we consider that AEMO's proposed approach will see fees set that better reflect participants' impact on AEMO's costs. For instance, AEMO's proposed changes to the core NEM function Allocated Costs, which will see market customers (and by extension consumers) bear a far lower proportion of costs is to be commended. This is particularly important given that all Unallocated Costs will continue to be recovered entirely from Market Customers. While we disagree with AEMO's stance to continue

¹ Based on ERM Power analysis of latest published information.



recovering all Unallocated Costs from Market Customers, the fact that this will be offset by a steep drop in the proportion of Allocated Costs recovered from Market Customers provides some much-needed fee relief to Market Customers.

The extent to which Market Customers see lower fees will be dependent on how much fees increase over the coming years, particularly with costs of policy changes like Five Minute Settlement (5MS), Global Settlements, Distributed Energy Resources (DER) integration and the Consumer Data Right flowing through to end users. Any fee relief will also be delayed by AEMO's proposal to stage the introduction of the new fee structure over the course of the next five-year fee period.

Given that AEMO's proposed approach in effect extends the existing fee period to 30 June 2023, with a three-year fee period then starting on 1 July 2023, ERM Power notes that we would prefer to see changes to the fee structure implemented sooner in order to reduce the cost burden on electricity consumers. However, we also understand that such a large change to the way in which fees are levied on market participants requires some time to implement.

5 Minute Settlement and Global Settlements Fees

AEMO has clearly put a great deal of consideration into how the costs of Five Minute Settlement (5MS) and Global Settlements (GS) should be recovered. In our submission on the consultation paper, we argued that fees should be recovered across a range of market participants rather than just market customers or generators. Additionally, we recommended that the fees be recovered over a 10-year period given that AEMO has previously outlined estimated costs for 5MS over a 10-year period.

We are therefore pleased to see that AEMO's proposed approach will see 5MS costs recovered from a range of different participants – including Generators, Market Customers and Demand Response Service Providers – over a 10-year period. We are also supportive that costs specific to 5MS will be specified as a separate line item. This will bring a great deal of transparency to the wider market about the costs of implementing this significant reform. Yet, we believe that splitting 5MS costs between legacy upgrades and specific 5MS costs will create the appearance of lower total costs for 5MS than would otherwise be the case.

Additionally, we note that Market Customers will face the bulk of costs from both legacy upgrades and new systems for the implementation of 5MS – around 70 per cent based on AEMO's estimates.² This will be recovered through the Electricity Retail Markets Fee (currently known as the Full Retail Contestability Fee). Given that the costs of 5MS will not vary based on a user's consumption, and the Electricity Retail Markets Fee will continue to be levied on a \$/NMI basis, this appears to be a sensible approach.

Conclusion

On balance, ERM Power supports AEMO's Electricity market Participant Fee Structure Review draft determination. Broadly, we expect that the revised fee structure will help to alleviate some of the cost impact that NEM fees are having on consumers. This will be achieved by levying costs more broadly across different types of market participants and rebalancing the current weighting of fees imposed on Market Customers, Generators and others.

While there are elements of AEMO's draft decision that we do not fully agree with – particularly around transitioning the full fee structure over two years and separating 5MS costs into specific and legacy costs – we understand AEMO's reasoning.

² AEMO, op cit., p 32.



Please contact me if you would like to discuss this submission further.

Yours sincerely,

[signed]

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