

4 February 2021

Mr K Ly
Australian Energy Market Operator

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

Dear Mr Ly

Draft Report and Determination – Electricity Fee Structures (November 2020)

SA Power Networks welcomes the opportunity to provide a submission to the Australian Energy Market Operator's (AEMO's) draft determination on Participant fee structures to apply from 1 July 2021.

When AEMO was established, an additional obligation was included in the National Electricity Rules (the Rules) to ensure that it has regard to the National Electricity Objective (NEO) when determining Participant fees. The NEO¹ states:

“The objective of this Law is to promote efficient investment in, and efficient operation and use of, electricity services for the long-term interests of consumers of electricity with respect to:

- (a) price, quality, safety, reliability and security of supply of electricity; and*
- (b) the reliability, safety and security of the national electricity system.”*

In its draft determination AEMO is proposing to, for the first time, allocate core National Electricity Market (NEM) costs to Distributor Network Service Providers (DNSPs) on the basis of AEMO's internal survey results. This is despite most submissions to AEMO's previous Consultation Paper on this matter not supporting extending core NEM cost recovery to Network Service Providers.

AEMO cites increasing involvement between AEMO and DNSPs – due to the increasing volume of Distributed Energy Resources (DER) on distribution networks – as justifying the allocation of some of its costs to DNSPs. DER is becoming an increasingly significant part of Australia's energy mix and SA Power Networks is supportive of, and is actively pursuing, reforms that can better integrate DER into the power system.

The Consultation Paper outlined AEMO's work, undertaken in collaboration with stakeholders, to design and implement the technical integration of DER. AEMO noted that its costs in managing DER are increasing and that these increased costs must be recovered from Participants. The Consultation Paper proposed several fee structure options for stakeholder feedback, including recovering some fees from DNSPs. AEMO is now proposing to allocate costs to DNSPs on a \$/MWh of energy consumed basis.

SA Power Networks strongly believes that these costs should be recovered from the existing registered participant class of Market Customers for the following reasons:

¹ The NEO is detailed in the National Electricity Law section 7.

- These costs arise to facilitate services provided to customers of DNSPs, not from the actions of DNSPs per se and, ultimately, all AEMO costs are recovered from electricity customers. AEMO's proposal to allocate these fees based on a \$/MWh basis better aligns with the charging mechanisms employed by Market Customers (ie retailers). DNSPs' cost-reflective charges - which are largely recovered from customers via their retailers - necessarily have significant fixed demand and supply components. Charging AEMO's costs to Market Customers on a \$/MWh basis will be more efficient and more aligned to the NEO.
- The introduction of any new charges on DNSPs needs to consider alignment with the Australian Energy Regulator's five-yearly regulatory determination processes. DNSPs have no ability to recover these costs prior to their next regulatory determination. To impose new costs on participants (to provide full cost recovery for AEMO) who then do not have the ability to recover these costs is not an equitable outcome in the long-term interests of consumers.
- A Rule change would be required to enable DNSPs to effectively recover AEMO participant fees from our customers (and with minimal long-term forecasting of AEMO costs). Any Rule change proposal is not trivial, requiring extensive consultation, adds further costs and is subject to satisfying the NEO. It is likely the AEMC would not support such a Rule change and take the view that a more efficient and effective outcome would be to charge retailers these Participant fees.
- DNSPs have no control over AEMO costs and are unable to accurately forecast them up to seven years in advance for inclusion in future distribution revenue proposals. Any costs allocated in such a manner could be over or under-estimated with the potential to adversely impact DNSPs or consumers. The additional complexity, timing issues and administrative burden does not align with the NEO and should not be pursued.

The Consultation Paper outlined a number of major reform initiatives including:

- The Five-Minute Settlement (5MS) program, which seeks to promote more efficient bidding and operational decisions, along with providing a better price signal for investment in fast response technologies.
- The Energy Consumer Data Rights program, which seeks to enable consumers to make more informed decisions about their energy supply and investments by offering them greater control over, and easy access to, their energy consumption data.
- A significant refresh of AEMO's systems, including the development of a modern digital platform that will provide more reliable and transparent data.

These reforms are being pursued based on providing benefits to end-consumers. SA Power Networks considers that, consistent with the fee structure principles and for reasons outlined above, the current attribution of NEM fees to participants should be retained as per Figure 1 (Current attribution of NEM fees to participants) in the Consultation Paper.

If you have any queries or wish to discuss any aspect of our submission, please contact Grant Cox on 08 8404 5012.

Yours sincerely



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