

23 September 2020

Kevin Ly
Group Manager Regulation
Australian Energy Market Operator

Submitted via email [kevin.ly@aemo.com.au]

AEMO Consultation Paper - Structure of Participant fees in AEMO's electricity markets

Dear Mr. Ly,

Energy Networks Australia welcomes the opportunity to provide a submission to the Australian Energy Market Operator's (AEMO) Consultation Paper on the development of the structure of participant fees to apply from 1 July 2021.¹

Energy Networks Australia (ENA) is the national industry body representing Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business across Australia.

Allocations of fees should be transparent and reliable, and should enable the charged party to pass on those costs appropriately and efficiently, without significant administrative burden. ENA is supportive of a simple fee structure that takes into close consideration who the true beneficiaries are when allocating costs.

Further context is required

This consultation only applies to the structure of AEMO's participant fees. The actual amount charged for each fee is determined on an annual basis via the AEMO budgeting process.

While we welcome this consultation, we note the recent CEPA report on system/market operator governance² found that, relative to organisations with similar roles, AEMO's members have very little input into developing AEMO's business plan and its budget.

Suggestions of better engagement from AEMO on the scope of its operations, associated cost levels and importantly, governance controls over that budget, are very welcome as this would provide stakeholders with a more complete picture against which to provide feedback.

¹ Australian Energy Market Operator, *Consultation Paper: Electricity Fee Structures*, August 2020.

² CEPA, *Governance and regulation of market/system operators*, 9 September 2020.

Proposed significant increases in the levels of AEMO fees³ and forecast further increases have intensified the priority of understanding in a holistic manner the level of fee recovery, proposed fee structure and mechanisms to ensure efficient cost management.

National Transmission Planner

With the development of the Integrated System Plan (ISP), amendments to the National Electricity Rules now require AEMO's national transmission planner (NTP) costs to be recovered from transmission network service providers (TNSPs).⁴

ENA supports AEMO's rule change proposal⁵, which seeks to address a number of issues relating to timing and uncertainty in administrative arrangements for the budgeting and charging of AEMO's NTP costs to TNSPs. The AEMO proposed NTP rules amendments create a necessary and clear transition to meet the policy intent of the Energy Security Board in relation to the ISP.

ENA is supportive of the proposed allocation methodology (*TNSPs levied based on their respective jurisdiction's consumption for the latest completed financial year, and equal monthly invoicing*) continuing post 30 June 2022, and does not consider that another method should be applied thereafter. However, we consider that further transparency is required on what constitutes an NTP cost and the criteria that AEMO applies to determine that.

DER Integration

Distributed energy resources (DER) are becoming an increasingly significant part of Australia's energy mix and ENA is supportive of reforms that better integrate DER into the power system. ENA supports an incremental 'as-needed' approach to DER integration that is based on clear cost/benefit assessments to prevent passing avoidable costs onto consumers.

The Consultation Paper outlines AEMO's work, undertaken in collaboration with stakeholders, to design and implement technical integration of DER. AEMO notes that there will be a cost needed to be recovered from participants for this work, and proposes a number of options for fee structure for stakeholder feedback, including recovering from distribution network service providers (DNSPs).

Under the current regulatory framework, ENA considers that these costs should be recovered from the existing registered participant class of market customers for the following reasons:

- The allocation of fees should enable the charged party to pass on those costs appropriately and efficiently, without significant administrative burden. Retailers have a direct relationship with customers, the end-beneficiaries, and can therefore pass through fees to customers more efficiently than a DNSP.
- Due to the regulatory framework and cycle, DNSPs will not have the ability to recover these costs from the commencement of the new structure (1 July 2021). The introduction of any new charges needs to consider alignment with the Australian Energy Regulator's five-yearly regulatory

³ CEPA, *Governance and regulation of market/system operators*, 9 September 2020, Figure 2.1, Page 13.

⁴ The reallocation of NTP costs to TNSPs was opposed by Energy Networks Australia on the basis that it did not result in any demonstrable benefit to consumers and Energy Networks Australia continues to hold that view.

⁵ AEMC, *Reallocation of national transmission planner costs*, Consultation paper, 3 September 2020.

determination process. To impose new costs on participants (in order to provide full cost recovery for AEMO) who do not then have the ability to recover these costs is not considered to be an equitable outcome that is in the long term interests of consumers, or consistent with the Revenue and Pricing Principles of the National Electricity Law.

- DNSPs have no control over AEMO costs and are unable to forecast them up to seven years in advance for inclusion in revenue proposals. Any costs allocated in such a manner could be over or under-estimated with the potential to impact DNSPs or consumers.
- If costs are allocated to a new entrant's category such as a demand response service provider (DRSP), then given the smaller number of participants and the difficulty in predicting recovery based on consumption or NEMs, it may mean that the allocation is subject to over or under recovery for AEMO and the smaller participant category. This may then become a barrier to or stifle the innovative services.

5MS, Digital platform, system and cyber refresh, & CDR

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

- The Five-Minute Settlement (5MS) program, which seeks to lead to more efficient bidding and operational decisions, along with providing a better price signal for investment in fast response technologies.
- The Energy Consumer Data Rights (CDR) 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 on the basis of providing benefits to end-consumers. Therefore ENA considers that consistent with the fee structure principles, and for the many of the same reasons outlined in the DER section above, the current attribution of National Electricity Market (NEM) fees to participants should be retained as per Figure 1 (*Current attribution of NEM fees to participants*) in the Consultation Paper.⁶

It is worth highlighting that the Energy Security Board acknowledged in its decision on the ISP rules that AEMO's costs are outside TNSPs' control and so should not be subject to incentive regulation. For this reason, a pricing adjustment mechanism was included in the ISP rules to allow for the direct pass through of NTP costs to consumers. It follows that if there is any further allocation of costs to network service providers, which ENA does not support, it must be accompanied by a pricing adjustment mechanism.

Non-energy synchronous services should not attract fees

The synchronous condensers provided by TNSPs are to meet a declared shortfall in system strength in the NEM. It is a requirement on TNSPs that once AEMO has declared a shortfall of inertia or system strength,

⁶ Australian Energy Market Operator, *Consultation Paper: Electricity Fee Structures*, August 2020, Figure 1, Page 16.

then TNSPs need to procure services or install equipment to fill the gap and meet the minimum requirements for the power system.

The Consultation Paper notes that no generator fees are charged to the synchronous condensers operating in South Australia. This is a prescribed transmission service and should not incur AEMO generator fees going forward. Non-energy synchronous services should not attract any generator fees as they are there to support the power system and provide system strength, not to generate electricity. ENA does not support any future charging based on the revenues that these services develop.

As has been noted with the transmission towers down earlier this year, significant FCAS revenues were earned during this period. If AEMO was to allocate a portion of budget to be collected based on the revenues earned by these service providers then the budget could over or under recover significantly based on events, which can impact on the need and duration of the service.

We once again welcome this consultation, and thank AEMO for the opportunity to provide input. If you wish to discuss any of these matters raised in this letter further, please contact Lucy Moon, Head of Regulation, at lmooon@energynetworks.com.au.

Yours sincerely,



Tamatha Smith
Acting Chief Executive Officer