Kevin Ly
Australian Energy Market Operator
Level 22
530 Collins St
MELBOURNE

4th February 2021

Submitted by email to: Kevin.Ly@aemo.com.au

Dear Mr Ly,

National Electricity Fee Structures
Draft Report and Determination

The Australian Energy Council (the "**AEC**") welcomes the opportunity to make a submission in response to the Australian Energy Market Operator's ("**AEMO**'s") Draft Determination on Electricity Fee Structures in the National Electricity Market ("**NEM**").

The AEC is the industry body representing 21 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia, sell gas and electricity to over ten million homes and businesses, and are major investors in renewable energy generation.

Introduction
The AEC welcomes AEMO's efforts to progress material changes in the structure of participant fees and to more fully embrace the "reflective of involvement" principle enshrined in the rules. The AEC notes AEMO's efforts to spread the fee burden more widely across those with whom AEMO is clearly engaging. In particular we welcome this recognition with respect to Network Service Providers ("**NSP**s") and with new participant categories arising with the changing industry.

Term
AEMO has proposed a five year term and the AEC continues to support this as a reasonable balance between the effort of re-determination and maintaining its relevance to the changing power system. It also has attractions in its alignment with the length of NSP regulatory resetting term, as networks become contributors to Electricity Fees.

As stated in our earlier submission, the shock of step changes in fee allocation can be eased with transition periods. The AEC agrees that AEMO's proposal to provide two years' notice is appropriate given the material changes proposed for NSPs and Market Customers.

The draft report noted a "governance and operating model review" to occur in 2021 that could "ultimately lead to changes in the regulatory regime…and impact the fee structure…". The AEC is unaware of public material on plans for such a wide-ranging review and invites AEMO to clarify.

Balancing Principles and Involvement Survey
The AEC recognises that the rules require AEMO to perform a challenging balance between competing principles in its fee determination. In particular the principles "Simplicity", "Reflective of Involvement" and "Efficiency" (i.e. National Electricity Objective ["**NEO**"]) drive in different directions. However that tension is beneficial. The AEC broadly agrees with the balance AEMO has struck in determining each of the components.

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Significant reallocations arise by AEMO placing greater focus on the “Reflective of Involvement”, determined through the survey, which the AEC supports. Most materially this has resulted in NSPs contributing 21% of allocated direct costs.

The AEC does not challenge these allocations and finds it intuitive that at least 21% of AEMO’s staff time would be involved with networks. However the survey results presented as an appendix are extremely simplified. This level of detail is consistent with previous determinations, however given the material reallocations in this determination, it may be prudent for AEMO to provide more of the underlying detail behind the survey, for example revealing the next layer of data. For the avoidance of doubt, the AEC is not suggesting AEMO prepare activity reporting.

Allocations to Networks

The AEC supports the allocations proposed and the transition period with respect to NSPs who have previously not contributed to allocated direct costs.

In particular the allocation of costs to Distribution NSPs (“**DNSP**s”) demonstrates forward thinking. It could be argued that at only 3%, it could be ignored as part of the simplicity principle. However it is beneficial that AEMO’s draft determination explicitly recognises an involvement with DNSPs already exists, and lays a path for recovery of these costs to grow as the involvement grows.

The allocation to Transmission NSPs (“**TNSP**s”) of allocated direct costs is welcome and long overdue. This mostly arises from AEMO’s power system security function, which is intricately involved with overseeing and managing the transmission grid. The survey has attributed 30% of this function being involved with transmission. The AEC considers that it would make up at least this share.

The AEC also supports AEMO’s proposed retention of the Energy Security Board’s transitional rule allocation of National Transmission Planner (“**NTP**”) costs to TNSPs since July 2020. As the NTP is now formally part of the NEM’s transmission planning stages, this has become effectively a service provision on behalf of this group of participants.

Market Customer Allocations

The AEC welcomes the survey’s allocation of a much lower share of allocated direct costs to Market Customers.

The AEC submission encouraged AEMO to investigate ways of resolving the anomalies created by variable Behind The Meter (“**BTM**”) generation, which both results in increased operational challenges for AEMO and reduced contribution from these customers towards participant fees. AEC suggested AEMO investigating sophisticated techniques such as basing fees on deemed underlying consumption.

The Draft Report agrees that AEMO should act to resolve the anomaly, but rejected such sophisticated approaches on the simplicity principle. The AEC does not necessarily disagree with that conclusion, but was disappointed the Report provided no analysis of them nor explanations of their complexities.

Instead AEMO proposes a simpler approach to make some effort to lower the dominance of consumed energy. It proposes that after the two-year transition period it will recover half of the Allocated Direct Market Customer fees through a per NMI charge, and half through volume.

The AEC agrees this allocation is simple. It remains however well short of being fully reflective of involvement, and, for customers with BTM generation, only slightly more reflective of involvement as 100% volume charging.

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The AEC understands that stability of revenue was also a key attraction for AEMO in increasing the share of per NMI charging. Revenue confidence does further the fourth principle: Recovery of Revenue. However the AEC is unsure of the significance of the uncertainty of volume charging: for example it was not greatly affected even by such a major disruption as COVID-19.

New Categories
The initial AEC submission supported extending the scope of participant fees to new categories and thus the Draft Report's efforts to do this are welcome. This includes Demand Response Service Providers ("**DRSP**s"), Small Generator Aggregators ("**SGA**s") and participants in the Market Ancillary Service Providers ("**MASP**s") who are not otherwise captured through other charges.

The AEC supports the draft approach of allocating on these categories the same charges as conventional generators, both capacity and energy. The proposal to charge MASPs the generator energy volume charge based on ancillary services enablement volume seems appropriate.

Capitalised Charges
The AEC broadly supports AEMO's proposals for term and incidence of recovering the capitalised projects of 5MS/GS and the DER program.

AEMO intends to recover less than 10% of the Wholesale Demand Response ("**WDR**") establishment costs from DRSP registration fees so as to not create a barrier which might result in zero registrations. The AEC notes WDR supporters, including AEMO[1], have argued that the WDR rule change's benefits would exceed its costs. If this is the case, then WDR revenues should be capable of funding AEMO's establishment costs. The AEC considers AEMO should attempt to ensure that DRSPs, through their registration and on-going fees, pay at least the WDR establishment cost over its first decade and thereby avoid cross-subsidising this project from uninvolved participants.

The AEC notes the Consumer Data Right ("**CDR**") program is not yet at a stage to determine recovery. The AEC expects its scale likely to trigger another capitalised project.

AEMO Budget and Finance Committee
The AEC submitted concerns regarding the insufficiently explained growth in expenditure to AEMO's June 2020 consultation into AEMO's Draft Budget and Fees[2]. The AEC recognises that the budget is outside the scope of this consultation into fee structures. Nevertheless we would like to draw to AEMO's attention to two recent reports by Cambridge Economic Policy Associates, jointly commissioned by the AEC and the Energy Networks Association, that have relevance to this area.

1. An investigation into Market Operator Governance that found that, relative to similar organisations, AEMO members have little input into AEMO's business plan and budget[3].
2. Advice on how to best structure a Budget and Finance Committee that was proposed by AEMO as part of its 2020 Review of Stakeholder engagement[4]. The AEC considers the Committee a very positive development that could go some way to addressing the concerns expressed in the first report.

Conclusion
The AEC welcomes AEMO's draft determination which more fully embraces the "reflective of involvement" principle than previous determinations, whilst at the same time respecting the simplicity principle. This "user pays" philosophy provides a valuable incentive on parties who engage with

[1] https://www.aemc.gov.au/sites/default/files/documents/aemo_1.pdf
[2] https://www.energycouncil.com.au/media/18645/20200622-aec-fees-submission.pdf
[3] https://www.energycouncil.com.au/media/690469/finalcepa_aecena_marketsystemoperatorgovernance_report.pdf
[4] https://www.energycouncil.com.au/media/691185/cepa_aecena_budgetcommittee_finalreport_20210126.pdf

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AEMO to both keep those engagements efficient, and to become engaged in AEMO's budgeting process.

The AEC supports the key conclusions of the draft determination.

The AEC expresses some disappointment that the draft determination did not investigate more options to accurately reflect involvement in the incidence of Market Customer allocated direct charges, however it accepts these options were likely to be complex compared to the allocation proposed.

Any questions about this submission should be addressed to the writer, by e-mail to Ben.Skinner@energycouncil.com.au or by telephone on (03) 9205 3116.

Yours sincerely,

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