



19 October 2015

Mr Jack Fitcher
Chief Financial Officer
Australia Energy Market Operator Limited
GPO Box 2008
Melbourne 3001

By email to jack.fitcher@aemo.com.au

Dear Mr Fitcher

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

ERM Power Limited (ERM Power) welcomes the opportunity to respond to the Australian Energy Market Operator's (AEMO) Consultation Paper on the structure of Participant fees in the National Electricity Market (NEM).

About ERM Power Limited

ERM Power is an Australian energy company that operates electricity generation and electricity sales businesses. Trading as ERM Business Energy and founded in 1980, we have grown to become the fourth largest electricity retailer in Australia, with operations in every state and the Australian Capital Territory. We are also licensed to sell electricity in several markets in the United States. We have equity interests in 497 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland, both of which we operate.

Electricity Full Retail Competition

ERM Power recommends amendment to AEMO's current approach to recovering costs associated with electricity Full Retail Competition (FRC).

AEMO's costs associated with FRC include the system and personnel requirements to enable the transfer and servicing of NEM customers, as well as the development and governance of B2B procedures by the Information Exchange Committee. These are recovered from Market Customers, and are currently apportioned on a variable basis by the volume of electricity consumed (or on-sold to end users).

We note AEMO's guiding principles for consideration in determining the Participant fee structure, pursuant to the National Electricity Law. In particular, we have considered FRC fees with respect to the third guiding principle:

Components of Participant fees charged to each Registered Participant should be reflective of the extent to which AEMO's budgeted revenue requirements involve that Registered Participant.

We do not believe the current allocation of FRC fees to participants is adequately cost-reflective.

The costs incurred by AEMO due to FRC can be categorised as either fixed or variable. Fixed costs include those associated with the development of Business to Business (B2B) procedures and the Information Exchange Committee; these costs will be incurred regardless of the number of connection points or the

volume of energy consumed in the NEM. Variable costs largely relate to system and personnel requirements associated with managing B2B transactions. The number of transactions that AEMO must support varies by connection point, not by the volume of energy consumed. Put another way, AEMO's FRC costs are more likely to increase if the number of connection points increases, rather than if electricity demand per connection point increases. Therefore, apportioning variable FRC fees by connection point would be a more cost-reflective approach than the current volume-consumed basis.

While cost-reflectivity alone suggests that FRC costs should be recovered as separate fixed and variable components, we understand that this may be considered to increase complexity, which is not desirable (consistent with AEMO's first guiding principle on simplicity). Therefore, ERM Power considers that recovering FRC costs on a fully variable basis, as a rate per connection point, reflects the optimal balance. We do not believe that this compromises the other guiding principles relating to non-discrimination or full cost recovery on a not-for-profit basis. Further, with gas FRC fees already recovered on a connection point basis, this represents an opportunity to introduce a more consistent approach across both fuels.

We therefore recommend that the Participant fee structure is amended from 1 July 2016 to apportion FRC fees to Participants based on a rate per connection point.

Staged Implementation

AEMO's Final Report is due for publication on 31 March 2016, and will indicate the fee structure to apply from 1 July 2016. Even in the case of material changes to the fee structure being determined through this consultation process, ERM Power does not foresee any impediments to implementing the amended structure by the effective date. Further, where fee structure amendments have been made to more efficiently allocate costs to Participants, ERM Power believes that it is important that implementation is not delayed.

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

Yours sincerely,

[signed]

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