



Ausgrid Submission
AEMO Participant Fees Consultation Paper
September 2020



23 September 2020

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

Dear Mr Ly,

Ausgrid appreciates the opportunity to comment on AEMO's Participant Fees consultation paper (consultation paper), published on 18 August 2020.

Energy systems are going through a period of significant change. An efficient and well-functioning national energy market (NEM) is more important than ever if this transition is to occur as seamlessly as possible.

Enabling this transition will not be without cost. It is vital, however, that there is full transparency about how these costs are allocated and that the impact on customers is considered as part of any changes to how the market is financed. This will ensure that all stakeholders, including customers, have confidence that the institutions that provide them with their essential services are providing value for money and acting in their long term interests.

Our submission below provides views on a number of matters raised in the consultation paper. Importantly, any proposed changes to the way participant fees are structured must recognise the ability of market participants to recover those costs. Any restructuring of fees must result in a more efficient allocation of costs among market participants.

If you have any queries in respect of this submission, please contact John Skinner on (02) 9269 4367 or john.skinner@ausgrid.com.au.

Regards,

A handwritten signature in black ink, appearing to read "Alex McPherson", written in a cursive style.

Alex McPherson
Head of Regulation

Submission

Ausgrid owns and operates a shared electricity network that powers the homes and businesses of more than 4 million Australians living and working in an area that stretches from the Sydney CBD to the Upper Hunter. Customers have told us that energy affordability is their number one concern, and over the past six years we have worked tirelessly to become a more efficient business. Since 2014, our network prices have reduced by \$226 for the average residential customer in our network area.

As a regulated business, our spending plans are scrutinised not only by the Australian Energy Regulator, but increasingly, by customers. Customers are demanding to see the long term benefits of any money we spend. Our capital expenditure plans are subject to rigorous cost benefit analysis to ensure that the benefits of our spending plans outweigh the costs.

Given the fundamental changes occurring across the energy system and the new participants registering in the market, the expiry of AEMO's previous participant fees structure provides a timely opportunity to review how the costs of running the NEM are structured. Our submission provides views on a number of issues raised in the consultation paper, including:

- Transparency of cost allocation
- The efficiency of any new fee structure
- The ability of participants to recover any new participant fees

Transparency of cost allocation

With an increased focus on the cost of providing essential services to customers, it is important that there is transparency over not just the quantum of fees but the way the costs of running the NEM are allocated to market participants, and ultimately to consumers.

The structure of participant fees must be consistent with the principles set out in clause 2.11.1(b) of the *National Electricity Rules* (the Rules). As recognised in the consultation paper, AEMO still has considerable discretion in how those principles are interpreted.

The principle that is most likely to require new thinking is the 'reflective of involvement' principle. That principle says:

The components of Participant fees charged to each Registered Participant should be reflective of the extent to which the budgeted revenue requirements for AEMO involve that Registered Participant;

At present, AEMO relies on the experience and expertise of its general manager and staff in determining the extent to which a budgeted revenue requirement involves a class of Registered Participant.¹ This suggests that there is some arbitrariness in the way fee structures are currently established.

If AEMO is considering charging other categories of Market Participant electricity fees, that decision must be made on the basis of a transparent and replicable cost allocation methodology. Such an approach will provide certainty for stakeholders and ensure that customers are only paying for the AEMO services that they use.

¹ AEMO, *Electricity Fees Structures consultation paper*, August 2020, p12

An appropriate methodology could draw on the approaches employed by distributors in their own cost allocation methodologies (CAM) approved by the AER under clause 6.15 of the Rules. Each distributor's CAM outlines how costs are allocated to services. Importantly, the CAM must enable the AER to replicate reported cost allocation outcomes. This provides stakeholders with confidence that businesses are reporting costs correctly.

In its consultation paper, AEMO has raised the possibility of regulated distributors being charged participant fees. Under the existing regulatory framework, it is not clear that the functions performed by distributors are sufficiently linked to AEMO's systems such that distributors can be said to have given rise to, or caused, AEMO's costs. Compared to competitive market participants we also have much less choice in how we participate in the market.

In the future, however, as distributors play a greater role in managing the incorporation of distributed energy resources onto the network, we can see a future where regulated distributors may be required to pay participant fees. The evolution of regulatory frameworks, through processes such as the Energy Security Board's post-2025 review, will inform this outcome.

Given the dynamic changes happening in the market, it is important that a replicable and well understood methodology is developed to facilitate the allocation of costs amongst registered participants. AEMO has indicated that a cost allocation survey will be used to determine how costs are allocated.² This process must also be transparent and involve significant stakeholder consultation.

The efficiency of any new fee structure

Ultimately, the fees associated with running the NEM are paid for by customers. AEMO's review is a timely opportunity to look at how the fees are allocated to market participants.

Currently, the fees are paid by generators, market network service providers, and market customers (i.e. retailers). AEMO is considering whether a wider range of Registered Participants could also be charged, including transmission network service providers (TNSPs), distributors, meter coordinators and market ancillary service providers.

As part of its review, AEMO must keep in mind that any new fee structure may simply result in a 'reshuffling' of fees amongst Registered Participants and not actually lead to a promotion of the National Electricity Objective. This is because although costs may be allocated more efficiently, the greater administrative burden across the industry may not result in a more efficient operation and use of electricity services. For example, all retailers have a direct relationship with customers, and it may be a more efficient outcome for retailers to pass on the NEM fees to customers, rather than distributors.

The ability of participants to recover any new fees

AEMO is consulting on the fee structure that will apply from 1 July 2021. As a regulated business, Ausgrid, as well as the other distributors, will not have the ability to recover any new costs from the commencement of the new fee structure. This is because any new fees will not be included in our expenditure forecasts, and hence our network tariffs, for the financial years from FY22 to FY24.

If we were required to pay new participant fees during these years and we were not able to recover any material costs in some way, this could impact our ability to deliver safe and reliable network services for our customers. This outcome would not be in the long term interests of our customers.

² AEMO, *Electricity Fees Structures consultation paper*, August 2020, p18

Assuming that distributors do fall into a category of Registered Participant that pays market fees, it will be necessary for distributors to accurately forecast the amount of fees they will be required to pay up to seven years in advance, given that distributors' five year revenue proposals are due 17 months in advance of the five year regulatory period commencing.

These two issues combined could add significant complexities to any restructuring of fees.

Preferred length of time for new fee structure

Given the significant changes occurring in the market, it may be that five years is too long for the fee structure to remain in place and a shorter period (say three years) may be more appropriate.

Regardless of the time period, however, there will be complexities if regulated transmission or distribution businesses are required to pay fees. Transitional arrangements should be included so that the commencement of any new obligation on distributors to pay fees aligns with the commencement of an upcoming regulatory period.

A scenic landscape at sunset. A paved road curves through a wooded area. Large trees are silhouetted against the bright orange and yellow sky. A utility pole with power lines stands on the right side of the road. The overall mood is peaceful and serene.

Thank you

