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23 September 2020

Mr Kevin Ly
Group Manager Regulation
Australian Energy Market Operator
Level 2, 20 Bond Street
SYDNEY NSW 2001

Submitted via email

Dear Mr Ly,

Re: Electricity Fee Structures consultation

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to provide feedback to the Australian Energy Market Operator (AEMO) on the consultation paper on the structure of participant fees from 1 July 2021 (the consultation paper).

Consumers must be at the centre of all of AEMO's decision making as fees levied by AEMO are directly accounted for in retail pricing and ultimately borne by consumers. Consistent with all participants in the electricity market, AEMO must strive to ensure that all fees charged are efficient with a constant focus on ensuring that the lowest costs are passed on to consumers.

Red and Lumo consider that in setting the electricity fee structure, transparency and efficiency are paramount. Consistent with the mechanism by which consumers are charged for electricity, the AEMO cost recovery mechanism should be based on consumption. Red and Lumo are comfortable with AEMO setting the fees for a 5 year period. We seek further transparency from AEMO regarding the \$500 million debt facility obtained by AEMO. In order to ensure that benefits are delivered to consumers, AEMO must ensure that further detail regarding the use of these funds and publication of full cost benefit assessments on market developments form part of its cost recovery.

Cost recovery of retail related fees

In the next fee period, AEMO should change the full retail competition (FRC) fee approach from per NMI to a per MWh charge. Red and Lumo consider that this approach is a simple, fairer and more balanced approach for all market customers.

The current per NMI charge unfairly transfers costs from large users to small consumers. While consumption profiles, network tariffs and operations can vary wildly for any number of reasons the only uniform measurement of all customers remains their consumption.

The use of MWh provides the most balanced measurement of different consumer segments and avoids the potential for smaller customers to subsidise the energy demands of larger customers. A fee based on NMI's is inequitable.

Since AEMO last set the structure of NEM fees, we note that regulators have re-introduced retail price regulation through the Default Market Offer and the Victorian Default Offer (VDO) respectively. Moving FRC fees to a per MWh approach is consistent with the calculation of costs, particularly within the VDO, that calculates AEMO fees as part of the cost stack before setting the final price. Moving to a charge per MWh would meet the simplicity principle, as it will ensure that AEMO fees are easily accommodated for in the setting of the regulated prices.

We consider that AEMO should recover their costs (in MWhs) that are built into the cost of energy paid for by consumers to those parties with a direct relationship with the consumer. This also extends to the cost recovery of the consumer data right, assuming that the regulatory arrangements allow AEMO to recover costs through NEM fees. An unintended consequence of including transmission and distribution networks, and at this stage, Metering Coordinators, who do not have any such relationship with the end consumer, will simply mean that they will bundle these in fees and administration charges to retailers that manage consumer relationships. This does not meet the efficiency aspect of the National Electricity Objective.

Timeframe for setting fee structure

Noting the work currently being undertaken by the Energy Security Board (ESB) on a post-2025 market design, we consider that a 5 year period would be most appropriate. Setting this timeframe provides the best balance between ensuring certainty for participants, allowing them to spread the cost and appropriately budget for future costs as well as aligning with already scheduled regulatory and market changes. Red and Lumo strongly oppose AEMO setting a 7 year period for participant fees. This would risk locking in a participant fee structure which does not properly represent the market.

In terms of the cost recovery methodology for five minute and global settlements, Red and Lumo support the proposed recovery being over ten years beginning 1 October 2021.

Transparency in the delivery of benefits to consumers

The consultation paper highlights estimates of "AEMO's capital program over the next two financial years, for which approximately \$500 million has been secured through debt facilities with costs to be recovered from participants once the programs are completed."¹ There is little detail provided in the consultation paper, raising concerns on how it is being spent, how it is planned to be recovered from participants and the return on investment delivered.

¹ Australian Energy Market Operator, Electricity fee structures consultation paper, August 2020, p10

We welcome AEMO applying additional governance through clear consultation and information provisions in relation to expenditure. This should include information on procurement and ongoing management of debt facilities, service providers and ongoing reporting regarding productivity and efficiency gains delivered. Additionally, AEMO should publish a full cost benefit analysis of all prospective, in progress and completed market changes and projects. One example of a significant rule change was five minute settlement where the Australian Energy Market Commission (AEMC) noted that the expected system costs from AEMO for this change were \$10 million. However, AEMO's Board approved "approximately \$121 million with capital expenditure for the program approximately \$80 million of the total cost."² This illustrates the importance of good governance and transparent processes.

About Red and Lumo

We are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in Victoria, New South Wales, Queensland, South Australia and the ACT to over 1 million customers.

Red and Lumo thank AEMO for the opportunity to respond to this consultation. Should you wish to discuss aspects or have any further enquiries regarding this submission, please call Stephen White, Regulatory Manager on 0404 819 143.

Yours sincerely

A handwritten signature in black ink, appearing to read "Ramy Soussou". The signature is stylized with loops and a long horizontal stroke at the end.

Ramy Soussou

General Manager Regulatory Affairs & Stakeholder Relations

Red Energy Pty Ltd

Lumo Energy (Australia) Pty Ltd

² Ibid, p27