



24 February 2023

Australian Energy Market Operator

Submitted via email: [reformdevelopmentandinsights@aemo.com.au](mailto:reformdevelopmentandinsights@aemo.com.au)

Dear Sir/Madam

### **Submission: Structure of Participant Fees for AEMO's NEM 2025 Reform Program**

CS Energy welcomes the opportunity to provide a submission to the Australian Energy Market Operator's (**AEMO's**) consultation on the Structure of Participant Fees for AEMO's NEM 2025 Reform Program.

#### **About CS Energy**

CS Energy is a proudly Queensland-owned and based energy company that provides power to some of our state's biggest industries and employers. We employ almost 500 people who live and work in the Queensland communities where we operate. CS Energy owns and operates the Kogan Creek and Callide B coal-fired power stations and has a 50% share in the Callide C station (which it also operates). CS Energy sells electricity into the National Electricity Market (**NEM**) from these power stations, as well as electricity generated by Gladstone Power Station for which CS Energy holds the trading rights.

CS Energy also provides retail electricity services to large commercial and industrial customers throughout Queensland and has a retail joint venture with Alinta Energy to support household and small business customers in South-East Queensland.

CS Energy is creating a more diverse portfolio of energy sources as we transition to a new energy future and is committed to supporting regional Queensland through the development of clean energy hubs at our existing power system sites as part of the Queensland Energy and Jobs Plan (**QEJP**).

#### **Key views and feedback**

The NEM is changing and will continue to do so as it transitions to a market with more Variable Renewable Energy (**VRE**) and an overall lower carbon footprint. This transition will bring changes in how the NEM is managed, with reforms underway affecting the market composition and AEMO's management of the reform agenda. CS Energy supports the review of the structure of Participant fees by which AEMO will recover the costs of

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implementing the program of reform, however the consultation paper leaves too many questions unaddressed, and thus presents the market with too much uncertainty.

### Transparency and governance

Energy prices are a focus of the current climate and are anticipated to remain so in the foreseeable future. Any impacts to energy prices resulting from the NEM 2025 Program will need to be managed by Participants as they defend these increasing costs to customers. AEMO's consultation provides no clarity on fees for Participants, claiming projects will cost a total of \$600 million  $\pm$  40%. Whilst CS Energy appreciates a degree of uncertainty in reform costs,  $\pm$  40% presents an unacceptable risk to Participants and ultimately, consumers.

The consultation provides little transparency or governance on the constitution of this \$600 million price tag:

- It is unclear how each project contributes to the \$600 million. For example, CS Energy would expect the implementation of incentives for primary frequency response to be relatively low cost given the mandatory market for primary frequency response has already been established.

The projects cited in the consultation were originally scoped by the Energy Security Board (**ESB**) as part of the then NEM 2025 Program, a program that has largely petered out as reforms developed. For example, the development of a capacity mechanism was a headline reform of the NEM 2025 Program that has since been rejected by both the market and Energy Ministers.

Similarly, several of the projects that constitute a large component of the \$600 million have not been endorsed by the market or Energy Ministers and are in the very early stages of reform. These include Flexible Trading Arrangements (**FTA**), Operating Reserves, Operational Security Mechanism (**OSM**) and Scheduled Lite. Given the significant amount of work that needs to be conducted before any of these projects reach a final rule change (if deemed worthy), it is not clear what governance process will be applied if these projects substantially change or are not passed into regulation.

- Learnings from the implementation of five-minute settlement (**5MS**) have not been demonstrated. The 5MS declared project saw a significant budget blow-out that Participants were not expecting. Participants were informed that the much higher costs of the reform allowed for AEMO to get its systems "future ready" for the upcoming reforms. It is unclear from this consultation where the resultant savings are manifesting, and which projects are leveraging the systems implemented under 5MS.

A stronger governance process is suggested for managing the variation of the NEM 2025 program budget, with any variation to the \$600 million requiring independent approval. The NEM 2025 declared project should be treated like a project of public interest such as Snowy Hydro 2.0, with material budget variations subject to estimate hearings.

### Scope

Funding should not be approved for reforms that are in the current rule making process as identified above. Of these, several have not even started consultation while FTA and the OSM have received significant opposition from the market, the latter so much so that the Australian Energy Market Commission (**AEMC**) has delayed the consultation due to the need to "go back to the fundamentals".

Projects this immature in scope should not be included in the NEM 2025 Program or at the very least, have an independent governance structure that is stronger than the proposed stage-gate process. CS Energy proposes that only projects that are subject to a final rule change or have been explicitly endorsed by Energy Ministers be included in the NEM 2025 declared project. This will provide some certainty to Participants, and thus consumers, on the resultant costs.

### **Final recommendations**

Participants and consumers need certainty and transparency in AEMO spending and subsequent recovery of funds. While CS Energy agrees that a fee structure for recovery needs to be determined given the current fee cycle, introducing the level of uncertainty represented by the consultation paper onto the market will adversely impact consumers.

AEMO should be more cognisant of the volume of funds it is seeking to recover not just the recovery mechanism. CS Energy agrees that the Integrating Distributed Energy Resources (DER) workstream should be incorporated into the existing DER program fee but considers that all projects that are not in final regulatory stages should not be part of the NEM 2025 Program.

CS Energy also disagrees with recovery of funds commencing once a project has reached its regulatory "go live" date. Implementation is generally designed such that projects are bundled together with a common go live date. This would see recovery of funds for multiple projects initiated at the same time, placing huge pressure on Participants, particularly smaller retailers who are already under pressure.

CS Energy considers there should be an overall threshold that is applied to the recovery of fees from the NEM 2025 Program. This threshold could be imposed annually, providing Participants with a level of certainty. For example, the consultation paper proposes a total program cost of \$600 million to be recovered over five years, which would equate to a recovery threshold of \$120 million per annum. Such an approach would allow Participants to better manage the cost to consumers.

If you would like to discuss this submission, please contact myself on 0407 548 627 or [ademaria@csenergy.com.au](mailto:ademaria@csenergy.com.au).

Yours sincerely



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