

26 May 2022

Ms Anna Collyer

Chair

Australian Energy Market Commission

Level 15, 60 Castlereagh Street

SYDNEY NSW 2000

Electronic Lodgement: ERC0335

AEMC Recovering the cost of AEMO's Participant fees, Consultation paper

Dear Ms Collyer

Energy Networks Australia (ENA) appreciates the opportunity to respond to the AEMC's Consultation paper on ENA's rule change request to recover the cost of the Australian Energy Market Operators (AEMO) Participant fees.

ENA is the national industry body representing Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business across Australia.

ENA submitted a Rule change request to allow the Transmission Network Service Providers (TNSPs) to recover the costs of AEMO's Participant fees attributed to them. The background to the rule change request and supporting material is set out in the request. ENA highlights that the proposed approach is a more efficient approach and over time should therefore reduce costs for consumers (or at the very least be cost neutral), is consistent with the recently implemented arrangements for the pass-through of NTP fees and is supported by AEMO.

The overall efficiency, transparency and process for the allocation of AEMO Participant fees remains a key concern for the industry. ENA welcomes further engagement from AEMO on these costs and believe that they are better placed to justify the costs imposed to the market. ENA considers that whilst these issues remain important, they are a separate matter to this Rule change request that focuses on the need for a cost recovery mechanism.

In this submission ENA have highlighted key points from its rule change request¹ and ENA's presentation at the AEMC's public webinar on 16 May 2022. These include:

¹ ENA rule change request- Recovering the cost of AEMO's participant fees, 24 June 2021 and AEMO letter, <https://www.aemc.gov.au/sites/default/files/2021-09/ERC0335%20Rule%20change%20request%20pending.pdf>

- » ENA supports the AEMC's proposed assessment criteria and suggests that a further criterion be added – namely, accuracy and ability to address and align with the pricing principles;
- » Passing through the actual costs charged to TNSPs in a manner consistent with other components of AEMO Participant fees is the most efficient and accurate approach;
- » ENA would support consolidation and simplification of the rules to the extent that the fees are passed through to consumers in an efficient and accurate manner. Should the AEMC go down this path, we would welcome the opportunity to review the drafting before a final rule is made; and
- » The rules drafting to amend the under and overs definition is essential to allow adjustments to the TNSPs regulated revenues to occur correctly. Without it, AEMO fees would contribute towards an over-recovery on the part of the TNSP (or CNSP).

Assessment Framework

ENA supports the assessment criteria proposed and also suggests that a further criterion be added – namely the accuracy and ability to address and align with the pricing principles in the Rules. It is important that the rule change is *directly* assessed against its ability to address and align with the pricing principles. Without this, it is possible to approve a rule change that is administratively efficient and simple, yet does not provide TNSPs with a reasonable opportunity to recover the efficient costs of complying with the Participant fees – which is at the crux of the rule change request.

AEMO develops a market fee structure statement on a regular basis where the split and make-up of the NEM core fees can change every two to five years. For example, AEMO can change the split between allocated and unallocated NEM core fees, and who and what percentage allocation should be attributable to each participant, quite rapidly. Therefore, it is important that the actual fees charged to TNSPs are recoverable and not reliant on forecasts that may be very inaccurate, and unable to take into account changes in allocations each time there is a new market fee structure statement within a regulatory period.

As the AEMC notes, it is a regulatory obligation for the TNSPs to pay their portion of Participant fees. We consider that the new Participant fee allocation should be treated on the same basis as the NTP fees within the suite of AEMO fee categories. This ensures that TNSPs and their consumers do not bear the impact of differences between estimated and actual AEMO participant fees.

Issues with the current framework

ENA agrees that the existing cost pass through mechanism under the Rules² is unlikely to be practical due to the reasons outlined by the AEMC³ – namely that the one percent threshold trigger may not be met and the allocation of participant fees to TNSPs may not meet the regulatory trigger event definition.

ENA reiterates that AEMO's costs and cost allocations are outside a TNSPs' control and these can vary with each revised market fee structure statement. The timing of these updates do not align with TNSPs' regulatory periods and revenue proposals. AEMO has advised us that they are unable to provide a reasonable rolling seven year forecast to accommodate the five yearly revenue setting process. Further, ENA anticipates that forecasting future costs will become increasingly difficult to estimate as workloads for both AEMO and TNSPs fluctuate as the transition to a low emissions economy rapidly occurs.

² NER clause 6A.7.3

³ AEMC Consultation Paper, Recovering the cost of AEMO's participant fees, 28 April 22, p9

In addition, AEMO has over 500 participants registered in the NEM that it involves in the development and operations of the NEM compared to the five TNSPs. TNSPs do not control AEMO NEM core fee costs any more than other NEM participants such as retailers can control these costs. We note that AEMO's draft budget and fees for 2022/23 proposes their NEM Benchmark fee to increase by 88.5%. No market participant has any real influence on this change, but retailers can pass on those costs through changes to the tariffs they offer.

We consider that passing through the actual costs charged to TNSPs in a manner consistent with other components of AEMO Participant fees is the most efficient and accurate approach as it ensures that consumers pay no more and no less than the actual fees levied by AEMO.

Budgeting and TNSP publication of transmission charges

ENA supports notifications of the annual market Participant fee cost to each relevant TNSP and CNSP by 15 February. This aligns with the notification date of the Modified Load Export Charge (MLEC) and AEMO NTP fees. This ensures that actual charges are included in final transmission charges published on 15 March each year.

Importantly AEMO selected 5 of the 11 TNSPs registered in the NEM to charge these Participant fees, however it is the relevant CNSP that recovers these costs in the transmission charges charged to transmission connected customers and distributors.

ENA is not seeking to change how the NTP fee or Participant fee is allocated to Network Service Providers, as these decisions have been made by the AEMC and AEMO respectively. However, ENA would support consolidation and simplification of the rules to the extent that the fees are passed through to consumers in an efficient and accurate manner. Should the AEMC go down this path, we would welcome the opportunity to review the drafting before a final rule is made.

Managing regulated revenue and unders/overs

The TNSPs AEMO has selected to charge the market Participant fees (including NTP fee) are regulated under the NER. The AER approves the maximum allowed revenue for these TNSPs. The rules drafting to amend the under and overs definitions is essential to allow adjustments to the TNSPs' regulated revenues to occur correctly. Without it, any recovery of AEMO market Participant fees (incl. NTP) would contribute towards an over-recovery on the part of the TNSP which triggers an unintended downward adjustment to the TNSPs' future revenue requirements. This issue is also relevant in Victoria where AEMO is the CNSP and AusNet is the TNSP, noting that it is possible that other jurisdictions may also adopt this structure and differentiation between CNSP and TNSP in future years.

The role of the CNSP to transfer payments to the TNSP in Victoria

In many states the CNSP and the selected TNSP are the same party. In this case, where AEMO notifies the TNSP of its applicable Participant fees it allows them to include these costs and recover them directly from published transmission charges. Where the CNSP and TNSP are not the same party, ENA supports amendments within the Rules to the extent they allow for the required transfer of payments. This is the case in Victoria, where AusNet is the entity charged the market Participant fees and they seek revenue from AEMO who is the CNSP. AEMO in their Victorian transmission role publish the transmission charges in Victoria and recover the revenue. The portion of AEMO's revenue that recovers these Participant fees then goes back to AusNet who have the regulatory obligation to pay AEMO in their market operator role.

Should you have any queries on this response please feel free to contact Verity Watson,
vwatson@energynetworks.com.au.

Yours sincerely,



Andrew Dillon

CEO ENA