

19 August 2022

Anna Collyer
Chair
Australian Energy Market Commission
Sydney South NSW 1235

By online submission

Dear Ms Collyer,

Recovering the cost of AEMO's Participant fees rule change – ERC0335

AEMO welcomes the opportunity to provide feedback on the AEMC's Directions Paper published on 21 July 2022 on a rule change request from Energy Networks Australia (ENA) on Recovering the cost of AEMO's participant fees.

The AEMC, in their Directions Paper, have specifically requested feedback from stakeholders on the extent that TNSPs can influence AEMO's costs and overall efficiency of delivering functions for which AEMO charges them Participant fees.

In the last 12 months, AEMO requested Boston Consulting Group (BCG) to benchmark its costs against other system operators. BCG presented this work to the Financial Consultation Committee (FCC) which found that AEMO's costs were low relative to peers.

To improve the efficiency of AEMO, we are implementing a broad package of organisational improvements, including realigning our operating model to provide greater clarity and accountability; transforming the way AEMO governs, funds, and executes reform delivery; investing in models, tools, and processes to manage increased complexity in core activities; and reducing cost in digital 'run-the-business' activities. To keep costs down, AEMO has taken, and is continuing to implement, actions to identify, quantify and reduce costs and drive operational efficiencies.

The TNSPs, Registered Participants, and other Stakeholders can already influence AEMO costs in delivering its functions in a number of ways such as engagement through the annual budget revenue requirements consultation, through formalised committees such as the FCC and the National Electricity Market Operations Committee (NEMOC) and through regular engagement with AEMO staff at all levels. AEMO welcomes these interactions and is always looking to reduce costs in meeting its obligations.

On balance, there are costs/risks as outlined by the ENA at the AEMC public workshop on 4 August 2022 that outweigh benefits from incentive regulation for the TNSPs Participant fees. The following outlines additional factors that support the ENA proposal:

- AEMO's budget and fees, that is, our costs, are consulted on with stakeholders annually for each financial year through a process that is separate to the participant fees structure consultation that determines which participants are charged.



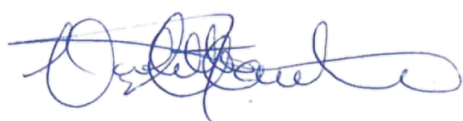
- AEMO's participant fees structure is determined for the fee period in consultation with stakeholders in accordance with clause 2.11 of the National Electricity Rules (NER). This clause incorporates five principles (under clause 2.11.1(b)) that AEMO must, to the extent practicable, comply with when making the determination of which Registered Participants are charged and the fee metric that is to apply to that participant category. Once a determination on the fee structure is made it cannot be changed during the fee period unless an amendment to the NER allows the participant fee structure to be re-opened by AEMO or there is a declared NEM project consultation to determine the structure of an additional fee.
- AEMO's budgeted revenue requirements allocated to TNSPs through the participant fee determination are mainly related to the system security obligations AEMO must perform as outlined in the NER clause 4.3. These are obligations to AEMO as a System Operator which cannot be transferred to TNSPs to fulfill.
- For reasons outlined in the participant fee consultation, each applicable Registered Participant class (including the TNSPs) are allocated a fixed percentage of NEM core fees for the duration of the fee determination. For the current determination, the percentage is fixed for a 5 year period.
- TNSPs, can already influence AEMO overall costs in delivering its functions in a number of existing ways as outlined earlier.

For these reasons, AEMO remains in support of the ENA's proposal that seeks to recover AEMO's participant fees directly from customers through adjusted annual revenue requirements, rather than recovery through an AER revenue determination.

The remainder of our submission provides an overview of the process in determining AEMO's participant fees structure, and also outlines the nature of the operational activities AEMO undertakes that have required increased interaction and involvement with TNSPs for the current participant fee period.

AEMO looks forward to continuing to work with the Commission and other stakeholders on this rule change. Should the Commission like to discuss any of the matters in our submission please contact Kevin Ly, Group Manager - Reform Development & Insights, on kevin.ly@aemo.com.au.

Yours sincerely,



Violette Mouchaileh

Executive General Manager – Reform Delivery

AEMO's process to determine its Participant fees structure

AEMO commenced a two-stage consultation process in late 2020 to determine the current participant fee structure for the period 1 July 2021 to 30 June 2026 in accordance with clauses 8.9 and 2.11 of the NER. In particular, the Participant fee structure must, to the extent practicable, be determined on the basis that it meets a set of principles outlined in clause 2.11.1(b) of the NER. Once determined, the fee structure cannot be changed for the fee period unless there is a rule change that allows AEMO to re-open the current fee structure, or there is a declared NEM project consultation to determine the structure for an additional fee.

The consultation process in 2020/21, received input from all categories of stakeholders including Network Service Providers (NSPs), consumer groups, generators and retailers, and concluded that TNSPs would be charged 17.5% of AEMO's budgeted revenue requirements in relation to the NEM (referred to as AEMO's core NEM fees) from 1 July 2023 to 30 June 2026. AEMO's budgeted revenue requirements for the core NEM fee, that is, the quantum to be recovered from TNSPs and other Registered Participants for each financial year of the participant fee period, are subject to a separate annual consultation prior to the commencement of each financial year¹.

As part of AEMO's participant fee structure consultation, AEMO outlined the approach taken to determine the allocation of its core NEM fees to TNSPs, which was determined by understanding the services and functions provided by AEMO to participants. This involved using AEMO's 2020/21 budget for its core NEM functions as the basis for 23 of AEMO's senior managers to allocate NEM direct costs across AEMO's key outputs.

Once determined, this allocation (17.5%) to TNSPs is fixed for the five-year participant fee period and cannot be adjusted until consultation for the next participant fee period commences². TNSPs were given a two year grace period to pursue this current rule change, with fees applicable from 1 July 2023.

Further detail on AEMO's methodology for the final attribution of the core NEM fee to TNSPs, as well as AEMO's senior managers' survey results, can be found on AEMO's website³. It is important to note the survey is not an exclusive approach to complying with 2.11.1(b)(3), and the use of this approach, modification of it, and interpretation of this clause relative to the other principles set out in 2.11.1, is reassessed in each determination

AEMO's interactions and involvement with TNSPs

Prior to the current participant fee period, TNSPs were not allocated any of AEMO's core NEM fees. The rationale for this was due to the interdependent relationship between TNSPs and AEMO. In the past there was also a dependency on the TNSPs in fulfilling AEMO functions, however this is no longer the situation.

The NEM has transitioned to an environment of increasing complexity with increased regulatory requirements affecting planning and operational activities. AEMO has increased efforts to forecast, model and operate the power system. Subsequently, the survey approach indicated that TNSPs are involved in AEMO's budgeted revenue requirement for the NEM including its power system security

¹ [AEMO | 2022-23 AEMO Budget and Fees](#)

² Or unless there is a rule change that allows AEMO to re-open the current fee structure, or there is a declared NEM project consultation to determine the structure for an additional fee, within the current fee period.

³ [AEMO | Electricity Market Participant Fee Structure Review](#)

obligations under the NER. This informed the current determination that TNSPs are to be charged a portion of AEMO's core NEM fees.

AEMO provides some examples of operational activities⁴ that would have led the survey to indicate an extent of involvement with TNSPs:

- Undertaking due diligence on transmission limits advice provided to AEMO by TNSPs to ensure the more complex power system continues to operate within the limits of the technical envelope (NER 4.3.1(f) and (g)):
 - This also includes limits relating to system strength i.e. derivation of setting schedules and conducting regular reviews or assessments on system strength and inertia under various operational conditions (NER 4.3.1(p2) and 4.3.1(p3)) including identifying minimum synchronous generators to be kept online for system strength and inertia during system normal and outage (planned and forced) conditions.
- Analysis for transmission outage scheduling is performed by AEMO to support the development of operational advice before these outages are approved to proceed and includes how system security and quality of supply can be maintained under some complex outages:
 - TNSPs have network outages they submit to AEMO through the Network Outage System (NOS) – AEMO ensures prior to approval that the TNSP's requested network outages do not negatively impact system security and reliability, as well as quality of supply, due to other constraints or outages such as Generator planned outages.
- Voltage control and contingency violations analysis that can have adverse simultaneous impacts across the NEM (e.g. responsibilities captured under NER 4.3.1(d) and 4.3.1(k)):
 - Voltage control is increasingly becoming an issue across multiple NEM regions and AEMO is working with the TNSPs to develop a joint approach to how this can be managed through NEMOC working groups
- Development, coordination and provision of mainland wide-area PSS/E⁵ and PSCAD models for generator connection and system security studies:
 - AEMO also undertakes generator connection and system security studies as due diligence in order to meet many of its power system security obligations under NER 4.3.1
- Development and coordination of emergency frequency control schemes (such as UFLS, OFGS, SIPS) in accordance with NER 4.3.1(p1).
- Other operational interactions with TNSPs related to transmission lines tripping, voltage issues arising and also when contingency analysis violations are alerted – this can occur at real-time, and in short-term and medium-term timeframes and is part of many of AEMO's obligations under clause 4.3.1 for power system security.

All of the aforementioned operational activities (or any part of them) cannot be transferred across to TNSPs in an attempt to reduce AEMO's costs that are charged to them. As noted above, the activities are AEMO power system security obligations captured in some form under clause 4.3.1. Additionally, they are most efficiently undertaken by AEMO rather than TNSPs for the following reasons:

⁴ Transmission planning activities undertaken by AEMO are excluded from the core NEM fee as they are separately accounted for through the National Transmission Planner (NTP) fee.

⁵ TNSPs are provided with access to this data via AEMO's Operational Data Management System, OPDMS

- In order for TNSPs to undertake analysis relating to transmission outage scheduling, they would need to obtain the necessary information on other constraints or Generator planned outages from AEMO. This could also lead to confidentiality issues with AEMO sharing some Generator outage information with TNSPs.
- AEMO is to provide the approval for transmission outages proceeding, therefore it would be inefficient and duplicative to transfer these studies across to TNSPs, only for the TNSPs to then have to pass the analysis back to AEMO for due diligence and approval.
- AEMO is best placed to undertake voltage control and contingency violation analyses, including real-time, short-term and medium-term contingency violation alerts, due to our NEM-wide operational knowledge and tools readily available. While TNSPs are aware of their own regional issues, simultaneous or subsequent inter-regional or NEM-wide impacts could be missed.
- It is more efficient for AEMO to produce and share the NEM 5-state PSCAD models to TNSPs, as AEMO already has all data and individual regional models required. Otherwise, TNSPs would need to collaborate with each other to share models between themselves and assign one party (possibly a third party) to combine the models together for their mutual use.
- The development and coordination of emergency frequency control schemes is a requirement under the NER's power system security obligations that AEMO must fulfil and requires AEMO's NEM-wide operational control in order to coordinate the schemes. This is a responsibility that cannot be transferred across to TNSPs.

As highlighted, TNSPs would require increased NEM-wide operational control and expertise to undertake the operational responsibilities outlined above, and in all instances, AEMO would suggest it would be less efficient if TNSPs were to do so.