

RECOVERING THE COST OF AEMO'S PARTICIPANT FEES

PUBLIC WORKSHOP – 4 AUGUST 2022

DANIELLE BEINART – PROJECT EGM
JOHN MACKAY – PROJECT SPONSOR
ANDREW PIRIE – PROJECT LEADER
LILY MITCHELL – PROJECT LAWYER
VIASHIN GOVENDER – TEAM MEMBER
LUCIA ZUNIGA-MENDOZA – TEAM MEMBER

AEMC

Acknowledgement of country



Agenda

1.	Acknowledgement of country	Danielle Beinart – AEMC	5 minutes
2.	Competition protocol	Lily Mitchell – AEMC	2 minutes
3.	Overview of rule change process and purpose of this workshop	John Mackay - AEMC	5 minutes
4.	Matters raised in the directions paper	Andrew Pirie – AEMC Viashin Govender – AEMC	15 minutes
5.	Rationale for the proposed rule	Dominic Adams – ENA	10 minutes
6.	Wholesaler, Retailer and User perspectives	Ben Skinner – AEC Mark Grenning – EUAA	5 minutes each
7.	Panel Q & A John Mackay (AEMC), Dominic Adams (ENA), Ben Skinner (AEC), Mark Grenning (EUAA), Kevin Ly (AEMO) and Mark Feather (AER)	Facilitator: Danielle Beinart	40 minutes
8.	Recap and Timeframes	John Mackay - AEMC	8 minutes from the end

Competition protocol

The Commission is committed to complying with all applicable laws, including the *Competition and Consumer Act 2010* (CCA). By attending and participating in this workshop, attendees agree to adhere to the CCA at all times and to comply with this Protocol.

During this workshop, attendees **must not discuss, or reach or give effect to any agreement or understanding**, which relates to:

- **Pricing** for the products and/or services that any attendee supplies or will supply, or the terms on which those products and/or services will be supplied (including discounts, rebates, price methodologies)
- **Targeting (or not targeting) customers** of a particular kind, or in particular areas
- **Tender processes** and whether (or how) they will participate
- Any decision by attendees about the purchase or supply of any products or services that other attendees also buy or sell, to not engage with persons or the terms upon which they will engage with such persons, or to deny any persons access to any products, services or inputs they require
- **Sharing competitively sensitive information** such as non-publicly available pricing or strategic information
- **Breaching confidentiality obligations** that each attendee owes to third parties

Housekeeping

- All participants are currently in 'listen-only' mode
 - Moderators can switch your mic/video on if required.
- Asking questions
 - Use the Q&A button on the bottom of your screen
 - Questions will be answered at a dedicated Q&A session
 - We will try to answer all questions, but will prioritise questions with most 'upvotes' first
- Presentations from today will be posted on our website after the webinar.

Overview of rule change process and purpose of this workshop

Overview of rule change process

- On 28 April 2022 we commenced the rule change process by publishing a Consultation paper.
- 10 stakeholders provided submissions in response to the Consultation paper, with divergent views:*)
 - some submissions supported ENA's rule change proposal to allow TNSPs to directly recover the cost of AEMO's core NEM fees that AEMO has determined to allocate to TNSPs.
 - other submissions suggested that the current arrangements should be retained, as they provide a reasonable opportunity to recover the efficient costs of AEMO's core NEM fees.
- The Commission has not yet made a decision on this rule change request. On 21 July 2022 we published a Directions paper seeking further stakeholder feedback to assist in the decision-making process.

Purpose of this workshop

- Provide an outline of matters raised in the directions paper
- Hear ENA, AEC and EUAA perspectives on the rule change request
- Provide stakeholders with an opportunity to ask questions relevant to the rule change request
- Obtain stakeholder feedback on the key matters raised in the Directions paper.

*)One of these was a related rule change request from the Network of Illawarra Consumers (NICE), which the Commission decided to treat as a submission to ENA's rule change request. The Commission also received an objection to the use of an expedited process, which the Commission decided not to accept. Further details are available on the AEMC website.

MATTERS RAISED IN THE DIRECTIONS PAPER



ANDREW PIRIE – AEMC
VIASHIN GOVENDER – AEMC

Updated assessment criteria for this rule change

In the Consultation paper, the Commission proposed and sought stakeholder feedback on the following criteria to assess whether the rule change request is likely to contribute to the NEO:

- **Implementation considerations – cost and complexity:** whether the proposal provides efficient administrative processes that, in accordance with the NEL revenue and pricing principles, provides TNSPs with a reasonable opportunity to recover the efficient costs of complying with a regulatory obligation to pay AEMO's fees (exc. NTP fees) allocated to them.
- **Principles of good regulatory practice - Simplicity and transparency** – whether the proposal provides a simple, transparent and timely mechanism for AEMO to notify TNSPs of, and TNSPs to recover, the relevant participant fees.

Some stakeholders suggested that additional criteria were relevant. In response to this stakeholder feedback, the Commission intends to add the following criteria:

- **Efficiency of costs** – applying incentive-based regulation where practicable, including the extent to which TNSPs' involvement with AEMO may lower costs associated with participant fees.
- **Appropriate risk allocation** – whether risk has been allocated to parties that are best placed to manage the cost risk associated with AEMO's participant fees.

Stakeholders had mixed views on whether there is a substantive issue with the current arrangements that warrants the proposed solution – 1 of 2

	Stakeholder arguments that there <u>IS</u> a substantive issue	Stakeholder arguments that there <u>IS NOT</u> a substantive issue
Efficiency of costs	<p>TNSPs do not have direct control over:</p> <ul style="list-style-type: none">• AEMO's total costs, or• the allocation of AEMO's costs to TNSPs.	<p>Network businesses incur a number of diverse costs which have similar characteristics to AEMO's fees, that are all classified as opex. Allowing these costs to be directly passed through, on the basis that they are largely uncontrollable, erodes incentive-based regulation.</p> <p>There is benefit in exposing TNSPs to cost minimisation incentives for AEMO's core fees because:</p> <ul style="list-style-type: none">• it is consistent with "reflective of involvement" principle• it provides incentives for TNSPs to minimise AEMO's costs• guaranteeing full cost recovery may create perverse incentives for TNSPs to move functions/costs to AEMO.
Appropriate risk allocation	<p>TNSPs are unable to accurately forecast AEMO's fees for a 5 year regulatory period. This may leave TNSPs out of pocket and increase their risk profile.</p>	<p>Allowing TNSPs to directly pass through AEMO's fees to customers would not appropriately allocate the risk to the party best placed to manage the risk.</p>

Stakeholders had mixed views on whether there is a substantive issue with the current arrangements that warrants the proposed solution – 2 of 2

	Stakeholder arguments that there <u>IS</u> a substantive issue	Stakeholder arguments that there <u>IS NOT</u> a substantive issue
Implementation considerations – cost and complexity	<p>Passing through AEMO's fees is desirable because it:</p> <ul style="list-style-type: none">• allows TNSPs to exactly and transparently recover their costs• ensures consumers pay no more (and no less) than the actual fees levied by AEMO.	<ul style="list-style-type: none">• Existing arrangements provide TNSPs with a reasonable opportunity to recover their efficient costs, in accordance with the revenue and pricing principles, notwithstanding variability in sub-components from year to year and determination to determination.• There is no need to introduce another mechanism.
Simplicity and transparency	<p>Directly passing through AEMO's fees:</p> <ul style="list-style-type: none">• is more efficient than a revenue determination process• aligns with the treatment of AEMO's NTP fees.	<ul style="list-style-type: none">• AEMO's core NEM fees could be readily incorporated within existing revenue determination processes.• The 2020 NTP rule should not be a precedent for this rule change. NTP fees relate to a specific new function conferred on AEMO, to develop the ISP, which does not directly substitute for historical TNSP activities.

NICE's rule change request

NICE's proposed rule

- During this rule change process, we received a rule change request from NICE which we decided to treat as a submission to ENA's rule change request.
- NICE's proposed rule sought to prevent AEMO from being able to charge participant fees to MNSPs, such that the need for direct cost recovery by TNSPs is unnecessary.
- NICE considered that charging participant fees to TNSPs is administratively inefficient, as it only has the effect of increasing costs to consumers through unnecessary billing of charges.

If there is not a substantive issue with the current arrangements - should the definitions of under- and over-recovery amounts be amended to exclude AEMO's NTP function fees?

ENA's issue with the current arrangements

- The definitions of under-recovery and over-recovery are related to TNSPs' allowed revenue, however, a TNSP's revenue allowance does not include recovery of AEMO NTP fees. This means that AEMO's fees, which are added to pre-adjusted non-locational TUOS under clause 6A.23.3(e)(6), will always result in additional revenue recovery for TNSPs - an over-recovery amount – and subsequently given back to consumers in the subsequent year.

Stakeholder views

- In discussions with AEMC staff, AER staff supported ENA's proposal to exclude AEMO's NTP function fees (not AEMO's core NEM fees) from the definitions of under- and over-recovery amount.

AEMC staff preliminary analysis

- If the AEMC decides to not make ENA's proposed rule relating to AEMO's core NEM fees, it may be appropriate to make narrower clarifying changes to amend the definitions of under- and over-recovery amounts to exclude NTP fees.
- NTP fees are not included in a TNSP's revenue allowance, such that revenue that a TNSP receives for NTP fees may be calculated as an over-recovery amount and clawed back by consumers through reduced transmission prices the following year. Amending these definitions may help to ensure that the rule works as intended.

Question: If the core element of ENA's proposed rule is not made, would it be useful to amend the definitions of over-recovery amount and under-recovery amount?

If there is not a substantive issue with the current arrangements - should transfer payment arrangements between CNSPs and TNSPs be clarified?

ENA's proposed change

- The 2020 rule on the Reallocation of NTP costs did not address the collection or transfer of NTP fees by Co-ordinating Network Service Providers (CNSPs) on behalf of TNSPs. Currently this transfer payment arrangement only exists in Victoria between AEMO (the CNSP) and AusNet Services (the TNSP).
- ENA proposed to clarify in the NER that, where a CNSP recovers AEMO's fees (including NTP fees) on behalf of a TNSP, the amount of any financial transfer should include the recovery of AEMO's participant fees. This would apply across the NEM.

Stakeholder views

- ENA and AEMO supported clarifying transfer payment arrangements between CNSPs and TNSPs. ENA noted that, where the CNSP and TNSP are not the same party (i.e. AusNet Services in Victoria), AusNet Services is charged AEMO's fees and seeks revenue from AEMO, who is the CNSP. AEMO recovers revenue through published transmission charges.

AEMC staff preliminary analysis

- If the core element of ENA's proposed rule is not made, these proposed clarifications may not be strictly necessary.
- However, there may be benefit in clarifying these arrangements in the NER. We note that while this transfer payment arrangement only exists in Victoria, potential exists for such transfer payment arrangements to exist between other CNSPs and TNSPs across the NEM.

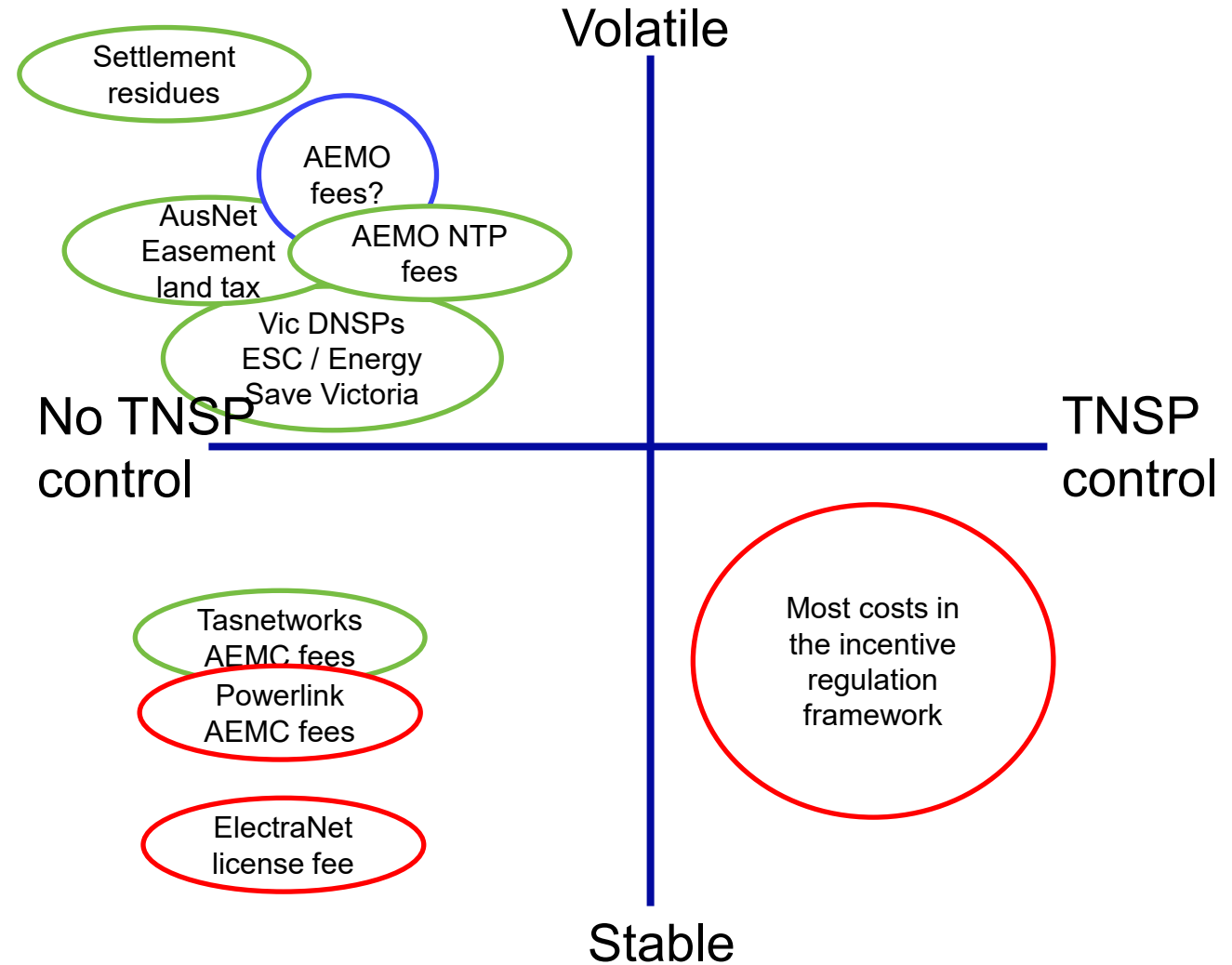
Question: If the core element of ENA's proposed rule is not made, would it be useful to clarify transfer payment arrangements between CNSPs and TNSPs?

RATIONALE FOR THE PROPOSED RULE

DOMINIC ADAMS (ENA)

AEMO fees are difficult to forecast and largely outside the control of TNSPs

- AEMO allocates fees based on “involvement” - with fee methodologies set for 5-year periods
- The energy transition (large IBR connections) is driving TNSP involvement
- 18 months ago AEMO decided TNSPs to pay 17.5% of core fees from 2023 (2 yrs grace period)
- **Actual fees for a TNSP for an FY = AEMO total fees x 17.5% x % energy consumed in region**
- **AEMO total fees are difficult to forecast:**
 - change on an annual basis (Board sign-off)
 - change rapidly due to factors outside AEMO control – e.g. government and rule maker direction (i.e. NEM post-2025) or “energy crisis”
- **AEMO fees largely outside TNSP control (detail in next slide)**



There is little scope for control and this gives rise to material risks

Tools to control AEMO fee costs

- » TNSPs mostly work with AEMO on:
 - **Planning** (joint planning, security services planning, forecasting, connections, protection schemes etc.)
 - **Operations** (load shedding, secure operation, maintenance and market related information)
- » **Functions are largely prescribed** (rules and guidelines) and implementation occurs collaboratively (committees)
- » **Very little scope for shifting functions**
 - due to prescription and committee processes, and
 - AEMO has enough on its plate and wouldn't allow it
- » **Other forums to impact AEMO costs** include the Reform Delivery Committee and the Financial Consultative Committee
 - NSPs already engage constructively and actively in these forums – it's important to all of us to keep total costs of the transition to a minimum
 - These are *advisory* committees where AEMO retains ultimate decision-making authority
- » **Lobbying on fee allocations**

Scale and nature of the risk

Current reg periods

Many TNSPs don't have allowances to include (it's not a change of law)
Some do (e.g. Ausnet), but AEMO fees have risen and these forecasts are already underwater by \$ millions

Future reg periods

AEMO fees and TNSP "involvement" are driven largely by external factors (the transition)
Very feasible AEMO fees significantly higher than a 5-6 year forecast – possible also lower at times

Case study under current fee allocation methodology

Say AEMO annual fees end up \$100 m higher in a given year (feasible given 6 year projections)
TNSP share under current fee settings is \$17.5 m
Powerlink and Transgrid likely cover approx. \$5 m each and the rest share the remaining \$7 m
Still under 1% of MAR cost pass-through threshold
A massive hit to opex budgets

Key Q: would TNSPs be able to materially influence AEMO costs to a degree that outweighs the negative impacts (to consumers) of the risk placed on them?

WHOLESALE, RETAILER AND USER PERSPECTIVES

BEN SKINNER (AEC)

MARK GRENNING (EUAA)



AEMC

NER doesn't auto pass-through costs - for good reason

- Incentive-based regulation
 - Opex forecast in review, variations absorbed
 - Creates incentive to minimize costs
- Fees allocation principle
 - “Reflective of involvement”
 - Creates ownership of your segment's costs
 - Generators and Retailers dealing with this for 25 years
 - acutely aware of AEMO costs
 - AEC welcomed including TNSPs in recent determination
 - warmly welcomes subsequent TNSP active interest in AEMO budgeting
 - Pass-through undermines fees principle *and* CPI-x

CONSUMERS' POSITION – WE DO NOT SUPPORT THE RULE CHANGE

- Commission ruled that this was a 'non-controversial' rule change under the rules
 - The range of views expressed in submissions suggests there needs to be a review of what 'non-controversial' should mean in the context of the NEO
 - Just because an issue in isolation might not have a significant impact on the NEM, does not mean it is non-controversial – there has to be a role for 'principle' where approval of a small matter may have important subsequent precedent impact
- Pleased that the Commission has decided to issue this Directions Paper to allow further discussion
- Consumers' position is:
 - Agree with the addition of efficiency of costs and appropriate risk allocation to the assessment framework
 - The incentive based regulatory framework is designed to provide an incentive to networks to manage their costs efficiently to achieve the NEO – rule change negates this
 - A direct pass through means consumers have no ability to influence whether these costs are efficient – TNSPs can through engagement with AEMO eg function and CAM
 - Including these participant fees in the costs the AER assesses as 'prudent and efficient' is simple, transparent and easily incorporated as part of the existing revenue reset process

THERE IS BOTH PRINCIPLE AND PRACTICE INVOLVED

- Principle
 - The level of proposed ‘pass throughs’ will increase in the future as AEMO expands its role and we should not provide an incentive for TNSPs to push more functions on to AEMO
 - Difference from a pass through like the Victorian land tax
- Practice
 - Not confident that AEMO’s costs are ‘prudent and efficient’ – last March consumers told AEMO was >\$100m in accumulated losses over the last 4 years; now consumers paying
 - CEPA 2020 study commissioned by the ENA and AEC highlighted AEMO accountability and governance issues with recommendations for improvements
 - AEMO commissioned BCG report but consumers yet to see the report and how AEMO is tracking
 - AEMO April Financial Consultative Committee slide pack [Slide 30](#) ‘Mitigating Fee Impacts’ of these new functions:

“AEMO is conscious of our costs both on end-consumer as well as the companies who immediately pay our fees.”

And proposed that one way to show this was:

“**3** Networks: AEMO to support ENA rule change for recovery of TNSP fee component.”
- So how to ensure AEMO costs are prudent and efficient? Two parts:
 - Part 1 – AEMO needs to transparently show it is efficient and accepts the risk of a 5 year forecast
 - Part 2 – AEMO costs to be part of AER assessment in incentive based framework and allow cost pass through if ‘regulatory change event’

QUESTIONS FOR THE PANEL

JOHN MACKAY (AEMC), DOMINIC ADAMS (ENA),
BEN SKINNER (AEC), MARK GRENNING (EUAA)
KEVIN LY (AEMO) AND MARK FEATHER (AER)

Recap and timeframes

Milestone	Date
Directions paper published	21 July 2022
Stakeholder submissions due	18 August 2022
Final determination to be published	22 September 2022