Energy Networks Australia

26 June 2026

Ms Anna Collyer

Chair

Australian Energy Market Commission

Submitted via email: submissions@aemc.gov.au

Dear Anna

Rule change request – Recovering AEMO's participant fees

Energy Networks Australia (ENA) is pleased to submit to the Australian Energy Market Commission (AEMC) a rule change request to enable Transmission Network Service Providers (TNSPs) to recover the costs of the Australian Energy Market Operator's (AEMO) participant fees from transmission customers transparently through annual transmission pricing adjustments.

This proposal seeks to ensure the regulatory framework continues to deliver efficient and transparent outcomes for consumers. Evidence since the AEMC's 2022 determination indicates that AEMO participant fees have been materially more volatile, less predictable and further outside TNSP control than originally anticipated. Consequently, the current framework risks distorting cost recovery and undermining the efficiency objectives of incentive regulation.

The transitional arrangements established under the October 2022 rule, which currently allow TNSPs to recover AEMO participant fees directly, are due to expire. As TNSPs enter their next regulatory control period, beginning with AusNet on 1 April 2027, these fees would instead be required to be forecast as part of operating expenditure (opex) allowances and be subject to the Efficiency Benefit Sharing Scheme (EBSS).

When the 2022 rule was made, it was anticipated that participant fees would become more stable and predictable over time, and that TNSPs would be able to exert a degree of influence on outcomes through engagement with AEMO, supporting their treatment under incentive-based regulation. In practice, however, the magnitude and unpredictability of fee movements over the past three years has been significantly greater than expected, driven by four key sources of volatility:

1. Changes to the **underlying quantum of costs** to which the share of fees applies – updated annually as part of AEMO's budget.
2. Changes to the **share of fees allocated to TNSPs as a group** - reviewed every five years when AEMO revisits its participant fee structure, resulting in a 54% increase between FY26 and FY27.
3. Changes to the **share of TNSP fees allocated to individual TNSPs** - also updated every five years when the participant fee structure is reviewed, with AusNet's share increasing by 200% and other TNSPs' by between 25% and 54%.
4. Introduction of **new fee categories**, which can occur at any time – for example, the new cyber security and resilience fee increased fees for most TNSPs by approximately 20% between FY25 and FY26.

These drivers operate independently and can compound over time, making forecasting inherently uncertain.

While TNSPs continue to engage constructively with AEMO, this engagement can at best influence cost allocation at the margin and does not materially affect overall cost levels or volatility, reflecting the constraints on what AEMO can do given the external influences on its budget.

ENA provides further detail on these key points in the attached submission. We also explain that the AEMO Governance review, while potentially introducing greater oversight of AEMO's budget and fees, will not resolve these issues.

Including volatile, unpredictable and uncontrollable fees within opex allowances exposes consumers to additional costs, including:

- funding EBSS rewards to TNSPs where fees are lower than forecast – rewards that, unlike typical efficiency gains, do not reflect any ongoing benefits to consumers
- funding more expensive works in future where efficient expenditure is deferred to accommodate fees that are higher than forecast
- experiencing potential service quality impacts from deferred expenditure.

ENA notes that the AEMC last considered this issue in 2022. However, the experience of the past three years and anticipated poorer outcomes for consumers once the 2022 rule's transitional arrangements end, warrants the issue being revisited.

ENA proposes to amend the Rules to enable participant fees to be recovered directly through annual transmission pricing adjustments, consistent with the existing treatment of National Transmission Planner (NTP) fees. This approach ensures optimal risk allocation, as consumers pay only the actual annual fees allocated to TNSPs through transparent annual adjustments, and removes the risk from consumers of over-recovery, payment of inefficient EBSS rewards and the inefficient deferral of other expenditure. This approach appropriately leaves controllable costs with TNSPs, while treating uncontrollable and unpredictable statutory-style charges on an actual-cost basis.

As explained in the attached submission, the proposed rule change promotes the National Electricity Objective and the revenue and pricing principles in the National Electricity Law. It does so by ensuring that transmission prices reflect the efficient costs of providing transmission services - supporting efficient investment in and use of the electricity network in the long-term interests of customers.

AusNet and Powerlink are currently progressing their 2027-32 revenue determinations and need to lock in estimates of AEMO participant fees for that period, with AER decisions expected by 31 January 2027 and 30 April 2027 respectively. ENA recognises that concluding the rule change process in time for these decisions may be challenging. However, it would be beneficial to all stakeholders if the cost recovery arrangements for participant fees were clarified prior to the AER making its final decisions or as early as possible in this process.

Finally, we note that the AEMC is expected to consider risk allocation as part of its upcoming review of electricity network regulation. This rule change request provides an opportunity for the AEMC to consider risk allocation in a tangible context that may help inform its broader review and deliver immediate benefits for customers.

ENA is grateful to all stakeholders we have engaged with who have helped shape this proposal. ENA looks forward to working with the Commission and your team in relation to this rule change request. In the meantime, if you would like to discuss this submission, please contact Catherine Gip (cgip@energynetworks.com.au) in the first instance.

Yours sincerely

Dominic Adams
Acting CEO

Attachment

1. Nature and scope of the problem

1.1 Context

Since July 2023, TNSPs have been charged a share of the Australian Energy Market Operator's (AEMO) participant fees.[1] The Australian Energy Market Commission (AEMC) made a rule in October 2022 that, among other things, introduced transitional arrangements to allow TNSPs' share of AEMO's participant fees to be recovered directly from transmission customers through an adjustment to transmission prices. However, these transitional arrangements are ending and, as TNSPs enter their next regulatory cycle, these fees will instead need to be included in their proposed operating expenditure (opex) allowance and subject to incentive regulation.

1.2 What has changed?

When the rule to allow TNSPs to recover AEMO participant fees was made, there was an expectation that these fees would become more stable over time. However, experience has shown that these fees are significantly more volatile than expected, and there is limited practical ability for TNSPs to influence them. For example, AEMO has recently decided to increase TNSPs' allocation of the direct[2] NEM Core fee from 17.5% to 26.9% from 1 July 2026.[3] This would raise the allocation to TNSPs for this fee category from $28.0 million in 2025/26 to $43.2 million[4], an increase of 54%. In addition, since 1 July 2025, TNSPs have also been charged a third of AEMO's cyber security and resilience costs. This resulted in an increase in AEMO fees between 1 July 2024 and 1 July 2025 of over 20% for some TNSPs, although cyber fees are expected to reduce slightly in the next financial year.

With the addition of the cyber security fee and the step change in NEM core fees allocated to TNSPs, total AEMO participant fees as a percentage of TNSPs' maximum allowed revenue (MAR) is increasing – or expected to increase – sharply. For example, Transgrid's total fee allocation represented 1.2% of its MAR in FY24 and, based on AEMO's draft FY27 budget, this will increase to 1.7% of its MAR in FY27.

While TNSPs can absorb some volatility, the materiality of volatility in fees and the degree of unpredictability experienced over the last three years has been significantly greater than expected. In addition, TNSPs have proven to have very little control over the level of fees. Exposing TNSPs to the volatility of these costs does not benefit consumers but risks them paying more than necessary, for reasons discussed below. In addition, consumers will not be protected from cost volatility, which will flow through when TNSPs' opex is adjusted at the subsequent revenue reset.

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[1] TNSPs are also charged National Transmission Planner (NTP) fees to recover the costs of AEMO performing its NTP functions. NTP fees are treated separately to AEMO's participant fees and are already recovered directly from transmission customers via an adjustment to transmission prices. Where this rule change request refers to participant fees, it is excluding NTP fees unless otherwise stated.

[2] TNSPs are not charged for indirect NEM Core related costs, which are recovered from Market Customers.

[3] AEMO, NEM Participant Fee Structures, Final Report and Determination, February 2026

[4] AEMO, FY27 Draft Budget and Fees, 30 March 2026, p. 62.

1.3 Why are consumers worse off?

Cost recovery arrangements for TNSPs should ensure that consumers pay the cost of TNSPs' share of AEMO participant fees and no more. Including volatile, unpredictable and uncontrollable fees in TNSPs' opex allowances, and applying the Efficiency Benefits Sharing Scheme (EBSS) to those costs, does not achieve this outcome. Rather, it exposes consumers to the risk of additional costs due to:

- having to fund the cost of any rewards to TNSPs if AEMO participant fees are lower than forecast, which unlike other rewards under the EBSS does not reflect an efficiency improvement that will have ongoing benefits to consumers
- having to fund potentially more expensive works in future as a result of delaying otherwise efficiently planned expenditure in order to fund AEMO participant fees that are higher than expected
- any reduction in service quality as a result of deferred expenditure

These impacts can also compound over time as annual participant fees diverge from fixed expenditure allowances that are set on a five-yearly basis.

1.4 AEMC's previous rationale for subjecting participant fees to incentive regulation

ENA notes that the AEMC considered participant fee cost recovery in 2022 in response to a rule change request from ENA, supported by AEMO. However, the continued volatility and unpredictability in the level of AEMO's participant fees over the last three years, combined with the anticipated poor outcomes for consumers once the 2022 rules transitional arrangements end, warrants the issue being revisited.

In 2022 the AEMC determined that participant fees (excluding NTP fees) should be subject to incentive regulation on the basis of the view that:[5]

- TNSPs are better placed than consumers to work with AEMO to minimise costs and volatility of fees
- TNSPs have some ability to manage ups and downs in individual operating cost components
- The EBSS provides TNSPs with an incentive to minimise operating expenditure and the mechanism is symmetrical, meaning that TNSPs have the same incentive to minimise cost, regardless of underspend or overspend
- While TNSPs have a level of risk associated with the volatility in participant fees, this risk is reduced by the EBSS which shares efficiency losses with consumers
- The fees are similar to other TNSP operating costs that are subject to incentive regulation, e.g. AEMC levy and licence fees
- While TNSPs' control over AEMO's costs is limited, they have some ability to minimise costs and reduce cost volatility by engaging with AEMO, including through AEMO's Financial Consultation Committee (FCC).

However, the AEMC decided that it was appropriate to introduce transitional arrangements to allow participant fee costs initially to be passed through to consumers. This was because TNSPs had not had an opportunity to seek an allowance for the cost of participant fees in their current regulatory

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[5] AEMC, Recovering the cost of AEMO's participant fees, Rule determination, 20 October 2022. p.ii.

control period and/or had not had enough time to understand the likely quantum of the fees and so develop forecasts. The transitional arrangements covered the following periods:

- AusNet Services and Powerlink – four years from 2023-24 to 2026-27
- ElectraNet and Transgrid – five years from 2023-24 to 2027-28
- TasNetworks – six years from 2023-24 to 2028-29.

To facilitate the transitional arrangements, AEMO was required to calculate and advise each TNSP, by 15 February prior to the relevant financial year, of the amount of AEMO participant fees allocated to each TNSP.[6]

Once the transitional arrangements end, costs associated with AEMO's participant fees will form part of the opex allowance and be subject to the EBSS. As discussed further below, participant fees have proven to be volatile and unpredictable, with very limited ability for TNSPs to manage these costs through engagement with AEMO.

1.5 AEMO participant fees continue to exhibit significant volatility and unpredictability

TNSPs have engaged closely with AEMO to attempt to help manage volatility and unpredictability in participant fees. AEMO has agreed to several measures that have assisted in this regard. For example, TNSPs are not allocated NEM reform fees, which tend to be more volatile than NEM core fees. In addition, AEMO has indicated it intends to provide forward cost estimates in the future.[7]

Nonetheless, there is a limit to what AEMO can do to assist TNSPs in managing these fees, and to how much TNSPs can influence AEMO's costs, given that AEMO's own budget is influenced by external factors. As discussed further below, AEMO can be allocated new roles and functions by governments or via rule changes that require additional funding. While these additional roles and functions are important for maintaining a safe and reliable transition to renewable energy, they impose additional costs that can be unpredictable. We note that a review of AEMO governance has commenced that could have further implications for AEMO's ongoing functions.[8]

In addition, the measures agreed to by AEMO to help manage fees will not address most sources of volatility. For example, providing forward cost estimates will only address one of the four sources of volatility highlighted below.

In its final decision on participant fees in 2022, the AEMC considered that AEMO participant fees would "*become more stable over time as AEMO's processes for implementing market reforms mature, and as engagement processes mature between AEMO and new participants that are allocated AEMO's participant fees*".[9] As discussed below, this has proven not to be the case.

For TNSPs, there are four sources of volatility which, when combined, materially impact the level of fees that TNSPs are required to pay. These issues are summarised in Figure 1 and considered in detail in turn below.

It is also important to note that volatility does not just impact consumers and TNSPs in a single year, but the effects are compounded over ten years due to the operation of the EBSS across multiple regulatory periods.

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[6] AEMC, Recovering the cost of AEMO's participant fees, Rule determination, 20 October 2022. p.6.
[7] AEMO, NEM participant fee structures, Final Report and Determination, February 2026, p.69.
[8] Review of AEMO Governance – Terms of Reference, 4 February 2026, accessed at energy.gov.au.
[9] AEMC, Recovering the cost of AEMO's participant fees, Rule determination, 20 October 2022, p.21.

Figure 1. Four key sources of variability in TNSP Share of AEMO NEM Participant Fees

1 NEM Core Revenue Requirement $

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- Annual budget setting process creates annual uncertainty
- AEMO expects NEM core fees to rise by approx. 6-8% p.a.
- Quantum reflects AEMO core functions, which are increasingly complex
- Projections are "indicative only and subject to change based on evolving market conditions, regulatory requirements and operational priorities

NEM Core Revenue Requirement
FY24: $201.7m → FY27:$231.2m
↑14.6%

NEM Core Direct Costs[1]
FY24: $143.4M → FY27: $163.9M

2 TNSP Group Allocation %

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- Set through AEMO's participant fee structure reviewed every five years
- Allocation of direct NEM Core costs informed by survey of AEMO's Senior Leadership Team with limited transparency
- Can shift materially between review periods, particularly for TNSPs with regulatory reset periods misaligned to AEMO's participant fee structure review cycle

TNSP Group Allocation
FY24: $25.11M→ FY27:$43.5M

% of total NEM Core Revenue
FY24: 12.2% → FY27: 18.8%

% of total NEM Core Direct Costs
FY24: 17.5% → FY27: 26.9%

3 Individual TNSP Allocation %

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- Set through AEMO's participant fee structure reviewed every five years
- Allocation based on the proportion of energy (GWh) consumed in the last financial year
- Variations in AEMO's approach to allocating fees across the five TNSPs can contribute to uncertainty and forecasting challenges
- From 1 July 2026, for most TNSPs, the percentage allocation will increase by 25-54%

NEM Core (direct cost) fee allocation

	FY24	FY27
AusNet	1.7%	3.5%
Transgrid	7.5%	7%
PowerLink	5.8%	5.8%
ElectraNet	1.3%	1.4%
TasNetworks	1.1%	1.1%

4 Cyber Security & Resilience Fee Allocation $

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- A new, discrete fee introduced from FY25
- Adopts a different participant split to NEM Core —recovered equally from Market Customers (1/3), Wholesale Participants (1/3) and TNSPs (1/3)
- Additional step-change risk
- AEMO is anticipating further reforms that will increase its cyber security costs

TNSP Group Allocation
FY24: $0 → FY27:$3.33M

5 TNSP Fee $

- Volatility in any one driver flows through to total TNSP exposure — four moving parts compound unpredictably

Note:
1. 70% of budgeted revenue requirements reflect allocated (direct) costs and are apportioned across participant types based on AEMO's participant fee structure.

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1.5.1 NEM Core Revenue Requirements (Quantum of costs)

AEMO updates its budget annually. While AEMO has not historically provided forecasts of its fees, it has previously noted that NEM core fees can be expected to rise by approximately 6-8% per annum.[10] AEMO has indicated that it will provide forward cost estimates. However, this is not guaranteed, and actual fees could be higher or lower. As AEMO notes, its projections are "indicative only and subject to change based on evolving market conditions, regulatory requirements and operational priorities".[11]

Further, AEMO's core functions, including power system security and reliability, market operations and systems, and near-term energy forecasting and planning, are becoming more complex as the energy system transitions to one dominated by renewable energy. Accordingly, historical expenditure may not be a reliable indicator of future budget requirements. For example, in its Budget and Fees for FY26, AEMO noted that additional resources were required to manage the increasing complexity of maintaining energy reliability and security. It also identified additional costs associated with developing its Engineering Roadmap following the conclusion of 18 months of funding by ARENA.[12]

In respect of the cyber security fee, AEMO is anticipating further reforms that will increase its cyber security costs, stating "Anticipating further reforms over the new fee structure period, AEMO considers it is timely to expand the scope of the existing Cyber Security fee to accommodate such cyber-related reforms that may arise over the fee period".[13] However, AEMO is unable to provide an estimate of these fees.

In summary, TNSPs have little practical influence over the total quantum of AEMO's core revenue requirements.

1.5.2 TNSP Group Allocation (Share of fees allocated to TNSPs as a group)

AEMO reviews, and consults on, its participant fee structure every five years. The fee structure determines how costs are allocated to each Registered Participant or group of Registered Participants. The fee structure is then applied to AEMO's budget requirements to determine the actual fee amounts each year.

Under the current fee structure, TNSPs as a group are allocated 17.5% of direct NEM core fees. However, under its final determination on fee structures to apply from 1 July 2026, this share will jump to 26.9%. This represents a 54% increase in the proportion of NEM core fees allocated to TNSPs.

The following chart shows the actual allocation of direct NEM core fees to TNSPs since the TNSP allocation commenced in FY24, and an estimate of FY27 costs using the updated fee structure and based on figures from AEMO's FY26 budget. The chart shows that the change in fee structure translates into an increase in costs of approximately $15m.

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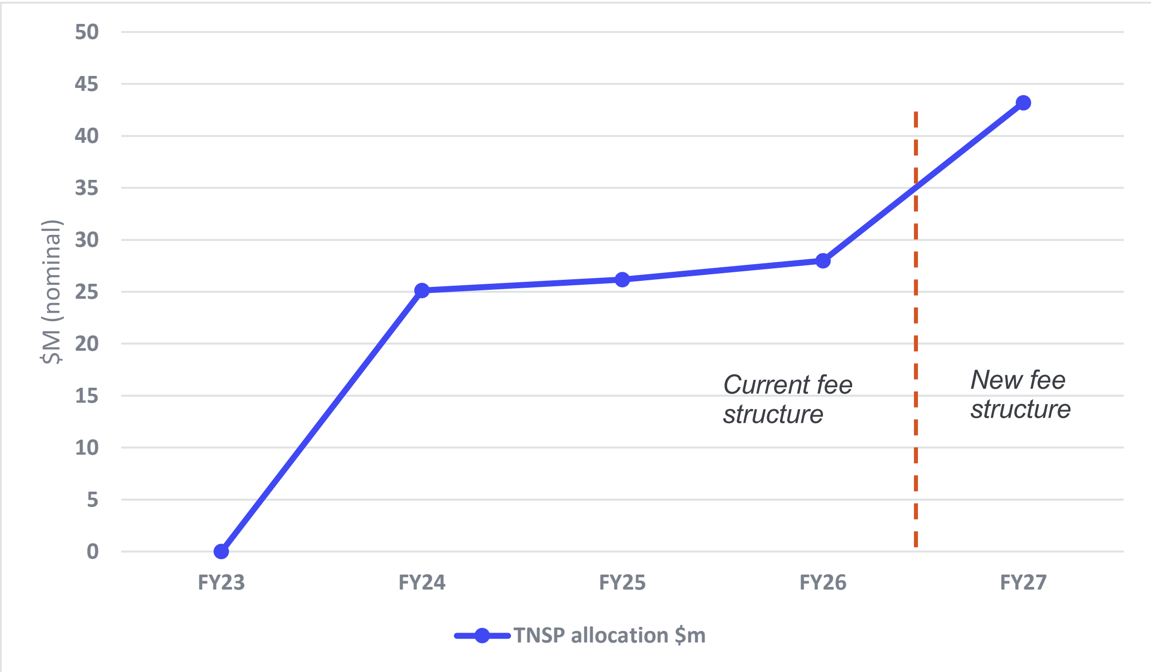
[10] AEMO, Budget and Fees FY26, p.8. NEM core fees rose by 4% between FY24 and FY25, and by 7% between FY25 and FY26.

[11] AEMO, Budget and Fees FY26, p.8.

[12] AEMO, Budget and Fees FY26, p.18.

[13] AEMO, NEM participant fee structures, draft report and determination, September 2025, pp.40-41.

Figure 2. TNSP allocation of NEM core fees



Sources: AEMO final budget and fees FY26, p43; AEMO budget and fees FY24, p25; and draft budget and fees FY27, p62.

The allocation of NEM core fees across Registered Participants is based on a survey of members of AEMO's Senior Leadership Team (SLT) and considers factors such as the degree to which a category of Registered Participant interacts with, uses or benefits in relation to an identified output of core NEM activities.[14] This is inherently difficult to predict, as it will depend on relative interactions, uses or benefits compared to other Registered Participants, which TNSPs are not in a position to know. Further, TNSPs do not have much visibility of the process/steps taken by SLT in developing the survey or the reason behind the result which make it very difficult for TNSPs to validate the outcomes.

In practice, TNSPs have little ability to influence the group allocation of costs. Further, any change in the percentage allocation to TNSPs does not actually reduce the total quantum of fees to be recovered but merely shifts it to other market participants.

The potentially significant, but unpredictable, change in TNSP allocation particularly impacts TNSPs whose regulatory proposals are not aligned with AEMO's participant fee structure review cycle. For example, ElectraNet and TransGrid will need to develop forecasts of AEMO participant fee costs from FY29 to FY34. However, there will presumably be a new fee restructure applying from FY32, making it very difficult for these TNSPs to forecast participant fees for the last two years of their regulatory period. Even where timing is more aligned, TNSPs remain exposed to changes in fees due to the timing of the regulatory process. A firm 7-year forecast of AEMO's participant fee structure would be required to remove cost recovery exposure, while AEMO's participant fee structure process gives a maximum of five years.

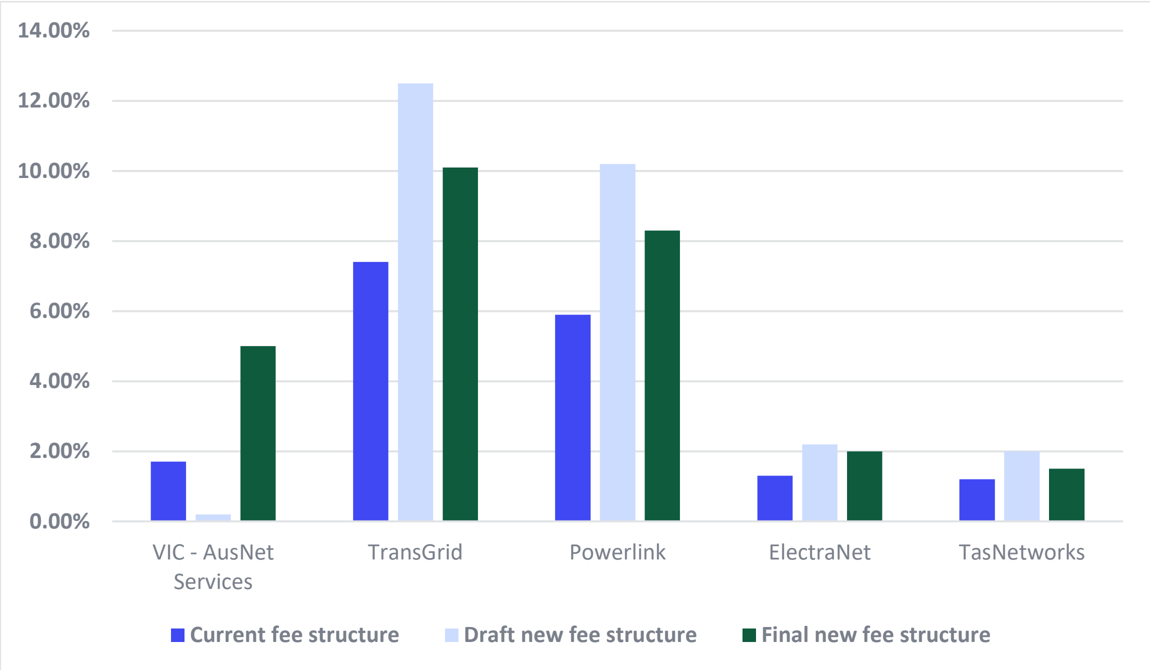
[14] AEMO, NEM Participant Fee Structures, Final report and determination, February 2026, p.61.

1.5.3 Individual TNSP Allocation (Share of TNSP fees allocated to individual TNSPs)

When AEMO reviews the allocation of NEM core fees to TNSPs, it also reviews the allocation to individual TNSPs. This creates an additional source of potential volatility and makes it more difficult to forecast costs for revenue proposals.

The chart below shows the percentage allocation of NEM core fees to each TNSP under the current fee structure and under AEMO's new fee structure to apply from 1 July 2026. For most TNSPs, the percentage allocation will increase by 25-54%, while AusNet's will increase by almost 200%.

Figure 3. NEM core fees % allocation to individual TNSPs



Sources: AEMO Participant fee structures, final determination, March 2021; and AEMO Participant fee structures, final determination, February 2026.

The individual TNSP allocations are based on the proportion of energy consumed in the last financial year. However, in its draft determination on participant fee structures, AEMO made additional adjustments to AusNet's allocation of NEM core fees on the basis that AusNet is not involved in some activities relating to power system planning and reliability. This had the effect of reducing AusNet's draft allocation, with the remainder allocated across the other TNSPs. This approach was amended under the final determination, and AusNet's allocation increased substantially instead.

Variations in AEMO's approach to allocating fees across the five TNSPs can contribute to uncertainty and forecasting challenges. TNSPs have no practical influence over these factors.

1.5.4 New fee categories

AEMO is undertaking significant work to support the reform agenda, including to inform the energy transition and other market and operational developments. This work can be driven by external factors such as rule change requests submitted by third parties and developments in government policy. From time to time, this may result in new fee categories being introduced, and TNSPs may be allocated a portion of these fees. Cyber security is an example where this has recently occurred.

In December 2024, AEMO's responsibilities in respect of cyber security coordination were formalised and clarified in the NER.[15] As part of the rule change process, AEMO advised the AEMC that the associated establishment and business-as-usual costs in years one to three were forecast to range between $8 million and $10 million per year. Ongoing costs were forecast to range between $8.5 million and $9.5 million per year. ENA was involved in this consultation process and supportive of AEMO being allocated these functions. However, TNSPs have no ability to influence AEMO's costs of performing these functions.

AEMO created a new cyber security participant fee category to recover cyber security costs and decided to allocate TNSPs a third of the costs.[16] AEMO began charging TNSPs this fee in FY25. Under the current transitional arrangements for participant fees, TNSPs can more or less align the level of payments to AEMO with cost recovery. However, once the transitional arrangements end, TNSPs will have to wait until their next regulatory period and seek to have the costs associated with new fee categories recognised as efficient expenditure by the AER, creating a mismatch between when costs are incurred and when they can be recovered.

1.6 Overall impact on TNSPs

The table below demonstrates how these various sources of uncertainty lead to volatility in fees for TNSPs as a group, noting that for individual TNSPs the level of volatility may be higher or lower:

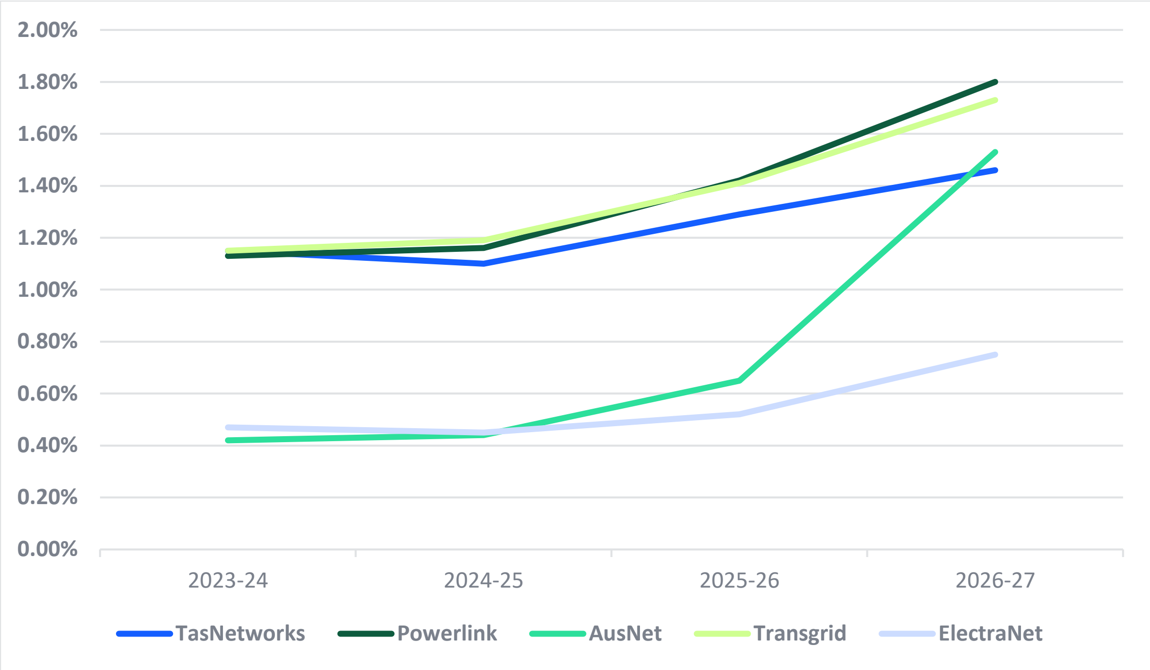
	FY24	FY25	FY26	FY26 + new cyber fee	FY27 allocation
Total participant fees	$25.11m	$26.18m	$28m	$32.9m	$46.5m
Percentage increase	-	4.3%	7.0%	25.7%	41.4%
Annual CPI		2.05%	2.42%	2.42%	~2-3%

Volatility and uncertainty of the quantum of fees contributes to unpredictability and therefore an inability to accurately forecast and justify any estimates as efficient expenditure for the purposes of a revenue proposal. This exposes TNSPs to uncontrollable EBSS penalties and rewards, as demonstrated in the case study below. This also has negative consequences for consumers, as discussed in section 1.8.

AEMO participant fees are also making up an increasing share of TNSPs' MAR. The following chart shows total AEMO participant fees (both NEM core fees and cyber security fees) as a percentage of MAR for each TNSP. It shows AEMO participant fees reaching 1.4-1.8% of MAR for most TNSPs, up from 0.4-1.2% in FY24.

[15] AEMC, Cyber security roles and responsibilities, Rule determination, 12 December 2024.
[16] AEMO, AEMO's new cyber security roles and responsibilities, 23 June 2025, p.4.

Figure 4. AEMO participant fees (including cyber) as a percentage of MAR



Sources: ENA analysis of AEMO's budget and fees for each financial year and AER determinations of MAR for each TNSP.

1.7 Case study: AusNet

AusNet provides an example of how volatility and unpredictability in AEMO participant fees can impact EBSS rewards and penalties with, as noted above, negative consequences for consumers.

AusNet was in the process of finalising its 2022-27 revenue proposal when AEMO decided to allocate participant fees to TNSPs in 2021. As no other cost recovery mechanism was in place at that time, the Australian Energy Regulator (AER) allowed these fees to be included as a step change in the opex allowance. This decision was made in January 2022 – well before the fees commenced in July 2023. At that time, only the NEM core fees were anticipated to be allocated to TNSPs so no allowance was made for the cyber fee introduced in July 2025.

In October 2022, after AusNet's revenue allowance was finalised, the AEMC made its final decision on the cost recovery approach for AEMO participant fees. The AEMC allowed transitional arrangements whereby participant fees could be passed directly to transmission customers for a specified period of time (until FY27 for AusNet). Additional transitional arrangements were made for AusNet to account for the allowance already built into AusNet's opex allowance.

In practice AusNet has been able to pass through its allocated AEMO participant fees to its customers. Nevertheless, this experience highlights how volatility and unpredictability in participant fees can materially affect outcomes under the EBSS.

AusNet is now in the process of having its revenue allowance determined for 2027-32 and must lock in an estimate of AEMO participant fees for that period.

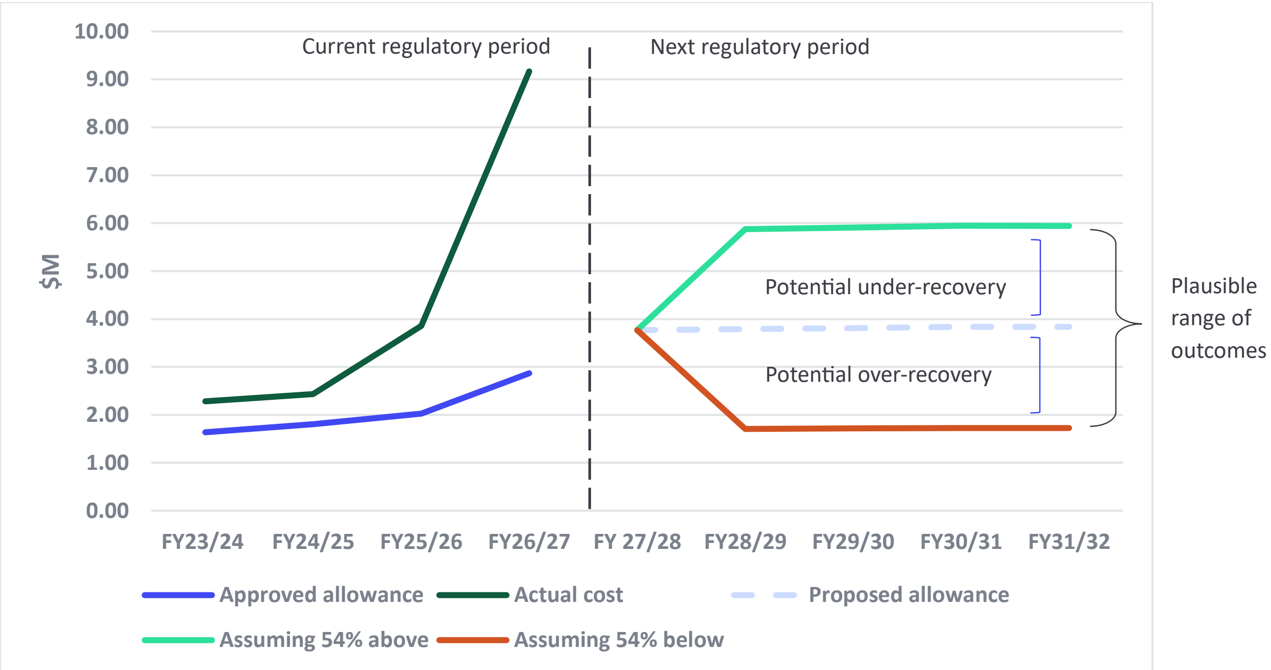
The chart below shows:

- AusNet's approved allowance for AEMO participant fees for FY 2024-27 and its proposed allowance for FY 2028-32 – noting that the proposed fees were developed prior to AEMO finalising the new participant fee structure
- AusNet's actual AEMO participant fees for FY2024-27
- The range of plausible outcomes if AusNet's actual AEMO participant fees were up to 54% above, or 54% below, AusNet's approved allowance for FY 2029-32[17].

The analysis demonstrates:

- The challenges in forecasting the future quantum of fees, noting that by the time AusNet was charged participant fees in July 2023, the actual fee was already approximately a third higher than the opex allowance.
- The potential volatility associated with changes to the participant fee structure and the potential consequences for under-recovery (or over-recovery) of costs via EBSS penalties and rewards.
- The potential volatility associated with additional charges. The cyber security fee could not have been foreseen when the initial allowance was set, resulting in a total fee for FY26 that was almost double the figure included in the allowance.

Figure 5: Impact of volatile and unpredictable AEMO participant fees on AusNet



Note: figures have been adjusted to be in $September 2025 and to align AusNet's allowance for AEMO participant fees with the financial year.

[17] Under the new participant fee structure, TNSPs as a group will face an increase in NEM core participant fees of 54% in FY27. As discussed above, TNSPs faced an increase between FY25 and FY26 of over 20% due to the introduction of the cyber security fee.

In aggregate, TNSP NEM Core fees for FY27 are estimated to be $43.2m, plus cyber security fees of $3.3m. If fees were to increase or decrease by 20% as they did following the introduction of the cyber security and resilience fee, then total over- or under-recovery could be $8.6m or more in a year, with no obvious benefit for consumers. If fees were to increase or decrease by 54%, as they did following the participant fee restructure, then total over- or under-recovery could be $23.3m in a year.

The compounding effect of these variances exacerbates the impact on customers. In the case of AusNet for example, a sustained over-recovery of $2m pa would lead to excess payments of $8-10m from customers across the regulatory period. The operation of the EBSS carries the impact forward into the next regulatory period through bonus payments.

1.8 Exposing TNSPs to uncontrollable costs results in poor outcomes for consumers

Under the current arrangements whereby TNSPs bear the annual volatility of participant fees customers are exposed to the cost impacts of an over-recovery or under-recovery scenario.

1.8.1 Poor outcomes may arise if TNSPs have to redirect cashflows away from beneficial and efficient investments

As noted above, where AEMO participant fees exceed forecast levels, TNSPs will be exposed to additional costs that were not anticipated when their opex allowance was approved by the AER. In this scenario, TNSPs have two options: either absorb the resulting shortfall and incur a penalty under the EBSS, or redirect expenditure away from other activities so as to remain within the approved opex allowance.

We note that the AER does not approve a program of work that it considers to be prudent and efficient, but rather approves an opex allowance that TNSPs allocate as they see fit to meet their regulatory obligations and subject to incentive mechanisms to drive efficient prioritisation. Nonetheless, the effect is the same where AEMO participant fees are higher than expected: TNSPs must choose how to allocate a lower than expected level of approved opex across the same planned program of work. This is because:

- TNSPs do not have any flexibility in paying NEM fees. They are an expense that must be incurred each year and cannot be deferred like other types of operating expenses.
- The incentive frameworks embedded in the economic regulatory framework, including the “revealed cost” approach to setting opex and the EBSS, already drive TNSPs to achieve possible efficiencies.
- Within this framework, any material and unexpected movements in AEMO participant fees can only be absorbed by overspending the opex allowance and incurring penalties under the EBSS, or by deferring planned work.

Subject to meeting their regulatory obligations to provide a safe, secure and reliable service, the most likely response is that TNSPs will redirect funding away from other planned activities to remain within the approved allowance. This results in cashflows being diverted from efficient expenditure. In effect, TNSPs are compelled to make economically inefficient decisions, not because underlying expenditure is inefficient, but to manage exposure to costs that are volatile, unpredictable and beyond their control.

These outcomes ultimately disadvantage consumers. The need to manage uncontrollable AEMO fees within the approved opex allowance could compromise a TNSP’s ability to deliver expenditure programs as intended, increasing the risk of deferred or foregone investments that would otherwise support efficient network operation and long-term consumer value.

1.8.2 Applying incentive regulation to participant fees may result in consumers paying more, rather than less

Where AEMO's participant fees are lower than forecast, consumers will pay more than is necessary, as the resulting underspend will flow through to an efficiency reward for TNSPs under the EBSS. That reward is then locked into revenues for a five year period, notwithstanding that the reduction in costs does not reflect any efficiency improvement or cost management initiative undertaken by the TNSP. Unlike other categories of operating expenditure, where underspends may arise from genuine and enduring efficiency gains that deliver ongoing benefits to consumers, variations in AEMO participant fees are driven by factors external to TNSPs and do not generate improvements in network performance, service delivery or long-term cost efficiency.

Further, TNSPs have only very limited capacity to influence AEMO participant fees. In practice, any engagement by TNSPs with AEMO can, at most, affect the relative share of costs allocated between different classes of Registered Participants. TNSPs — like other Registered Participants — have no ability to influence AEMO's overall budget or total expenditure, which is determined by AEMO's statutory functions, regulatory obligations and broader policy and reform requirements. As a result, engagement efforts merely redistribute costs between participant groups rather than reducing total costs.[18]

Assuming AEMO's participant fees are ultimately recovered from consumers through prices charged by TNSPs or other market participants, this reallocation does not deliver any net savings to consumers.

Allowing AEMO's participant fees to be passed through directly to consumers would ensure consumers pay the actual cost of these fees and no more and removes their current exposure to the above risks. In addition, such an approach would provide a more transparent and simpler mechanism for cost recovery. The EBSS, while important for providing incentives for TNSPs to make efficiency gains that ultimately benefit consumers, introduces additional complexity and its effectiveness is diminished in relation to volatile and unpredictable costs that TNSPs cannot meaningfully control.

1.9 The AEMO governance review will not resolve the identified issues

A review of AEMO's governance arrangements is currently under way. Among other things, the review is considering how the determination, oversight and scrutiny of AEMO's budget can be enhanced. While any improvements in this area are welcome, they would not be expected to mitigate the issues identified in this rule change request.

Any improvements to the oversight and scrutiny of AEMO's budget are unlikely to reduce the unpredictability or volatility of AEMO participant fees allocated to TNSPs or provide TNSPs with any meaningful influence over these costs. Rather, additional scrutiny would increase confidence that fee levels are efficient and reasonable, and should therefore be collected in the most transparent, efficient and simple manner possible.

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[18] For example, AGL, Alinta, Australian Energy Council and Origin Energy provided submissions to AEMO's Participant Fee Structure Review, along with several TNSPs, the ENA and AEMO's Consumer and Community Reference Group. In contrast, only AusNet Services and Energy Users Association of Australia provided submissions to AEMO's draft FY26 budget and fees consultation.

1.10 Scope of this rule change request

The scope of this rule change request is limited to changes to the treatment of AEMO's participant fees, excluding NTP fees.

TNSPs are also charged NTP fees to recover the costs associated with AEMO performing its NTP functions. These fees are treated separately to AEMO's participant fees under the NER and are already recovered directly from transmission customers via an adjustment to transmission prices. ENA is not proposing any changes to the existing treatment or recovery of NTP fees, which are operating as intended.

2. Description of the proposed rule

We have proposed amendments to the pricing methodology[19] so that AEMO's annual costs of all AEMO participant fees allocated to TNSPs can be included in each TNSP's transmission prices for that financial year. The effect of this change is to enable each TNSP to recover the exact amount of its allocated participant fee costs as notified by AEMO directly through transmission pricing adjustments - and no more or no less. The proposed approach is to expand the provisions that enable the recovery of NTP fees to also include participant fees. If the proposed rule is made, transitional provisions may be required if TNSPs have, prior to the rule commencing, included any participant fee costs in their opex allowances.

Proposed rule drafting has been provided with this rule change request.

2.1 How the proposed rule would address the identified issue

The proposed rule would address the identified issue by enabling AEMO's participant fees to be recovered directly from transmission network users through the annual pricing process. This approach would align cost recovery with actual, notified fee outcomes, rather than requiring TNSPs to absorb or manage these costs within a fixed opex allowance that was set based on inherently uncertain and uncontrollable forecasts of participant fee costs.

By allowing participant fees to be passed through directly, the proposed rule would remove TNSP exposure to costs that are volatile, unpredictable and beyond their reasonable control. In doing so, it would avoid the inappropriate application of incentive regulation to expenditure that cannot be efficiently managed or influenced by TNSPs.

In turn, this would lead to improved outcomes for consumers. Consumers would not be exposed to the costs of efficiency rewards paid to TNSPs for underspends that do not reflect genuine efficiency improvements, nor to the adverse consequences that arise when TNSPs are required to defer or reallocate otherwise efficient expenditure in order to manage overspends. The compounding impacts of these exposures over a regulatory period would also be avoided. Instead, expenditure would be directed to its most efficient and productive use as approved by the regulator, supporting efficient network management and promoting long-term consumer value.

Transparency would also be improved through clear visibility of the exact amount of participant fees to be recovered from transmission customers each year.

2.2 Other options considered

As noted above, ENA and TNSPs have worked with AEMO to manage volatility in costs. However, while AEMO has adopted some proposals, these are not sufficient by themselves to resolve the issue,

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[19] Clause 6A.23.3(e).

particularly as AEMO has limited control over new roles and responsibilities that are conferred on it and inevitably require additional funding.

Some TNSPs are seeking exclusion of AEMO participant fees from the EBSS in their revenue proposals, based on a lack of clear forecasts and challenges in projecting costs. For example, Powerlink has developed category specific forecasts for AEMO participant fees, including cyber security fees, due to "uncertainty around future forecasts and the absence of revealed actual costs to trend these fees".[20] Categories of opex not forecast using a single year revealed cost approach may be excluded from the EBSS in certain circumstances.

The AER is yet to decide on whether AEMO participant fees should be treated as category specific expenditure and excluded from the EBSS. However, even if approved, this approach does not fully address the issue as TNSPs are still exposed to overspends and underspends as a result of including AEMO participant fees in opex – and therefore consumers will still face the negative consequences set out above within each regulatory period.

We have considered several other solutions. These include a hybrid approach whereby TNSPs remain exposed to some costs while others are passed through. We also considered solutions aimed at reducing the volatility and unpredictability of the participant fees by amending the way that AEMO determines these fees. However, the proposed rule provides the most straightforward and transparent approach with the most benefits for consumers and is the only solution that fully addresses the issues raised. Further, we do not expect the review of AEMO governance which includes consideration of how the determination, oversight and scrutiny of AEMO's budget can be enhanced will address the issues identified by this rule change request as explained above.[21]

3. How the proposed rule would contribute to the NEO

The proposed rule promotes the National Electricity Objective (NEO) by improving the efficiency of cost recovery arrangements, ensuring consumers pay no more than necessary, and avoiding distortions that lead to inefficient expenditure outcomes.

Drawing on the AEMC's assessment criteria,[22] the proposed rule would contribute to the NEO in the following ways:

- Improve **outcomes for consumers** by ensuring that consumers pay the cost of TNSPs' share of AEMO's participant fees and no more, and that these costs are transparent and readily understood. That is, consumers are not exposed to:
  - the cost of any rewards to TNSPs that do not reflect an efficiency improvement, but simply reflect AEMO's participant fees being lower than forecast
  - any additional costs because TNSPs have had to delay planned efficient expenditure to avoid a penalty and, as a result, incur additional costs in a later period
  - any reduction in service quality as a result of diverting efficient network expenditure
- Promote **principles of market efficiency** in respect of risk allocation by ensuring that TNSPs are not exposed to costs that they do not have any control over.
- Reduce **implementation costs** by providing a simple and transparent way of passing through AEMO's participant fee costs as efficiently as possible. It leverages familiar pricing adjustments and established annual notification practices. This simple approach should promote consumer trust by, as identified above, adopting an approach whereby consumers

[20] Powerlink, 2027-32 Revenue Proposal, January 2026, pp.102-103.
[21] Review of AEMO Governance – Terms of Reference, 4 February 2025 [sic], accessed at energy.gov.au.
[22] AEMC, How the national energy objectives shape our decisions, Final guidelines, 27 March 2025, p.2.

are only required to pay what TNSPs are required to pay AEMO for participant fees and no more.

ENA notes that in 2022 the AEMC considered that applying incentive regulation to participant fees would better contribute to the NEO. That conclusion was formed before there was evidence of how the arrangements would operate in practice once TNSPs began incurring material participant fees. Experience since then indicates that key expectations—particularly regarding fee stability and the extent of TNSPs' influence over fees—have not been borne out. Re-examining the issue now, on the basis of observed outcomes, is therefore justified and consistent with good rule making practice.

The first column in the following table sets out the AEMC's views on why incentive regulation should apply to AEMO participant fees, based on the information available in 2022. The second column sets out why observed outcomes since 2022 suggest that these views should be revisited.

3.1 Response to the AEMC's 2022 decision based on practical experience since 2022

2022 decision	Updated assessment based on experience since 2022
TNSPs are better placed than consumers to work with AEMO to minimise costs and volatility	• TNSPs have engaged constructively, but have limited practical ability to influence AEMO's total expenditure or the volatility of participant fees. • TNSP engagement can at most affect the relative allocation between participant classes, not the total amount, which does not reduce total costs recovered. • Consumer groups can also provide submissions to AEMO's budget and fees processes, and Energy Users Association of Australia (EUAA) is a member of AEMO's FCC. Consumer groups have at least an equal ability to influence AEMO's costs if not more, since AEMO's costs are ultimately recovered from consumers. • For these reasons, TNSPs are no better placed to bear the risks of cost changes than consumers.
TNSPs have some ability to manage ups and downs in individual operating cost components	• TNSPs have no ability to manage ups and downs in AEMO participant fees. • Some (but not all) other costs incurred can sometimes be managed by the TNSP by changing suppliers and seeking better outcomes. Alternatively, TNSPs can sometimes adjust expenditure by bringing work forward or pushing it back. This is not possible with the AEMO fees which must be paid based on invoiced amounts each month. • As discussed above, TNSPs can only avoid penalties for higher than expected participant fees by diverting their opex allowance away from other planned, efficient expenditure. • Further, opex allowances are fixed for five years while participant fees vary annually.
The EBSS provides TNSPs with an incentive to minimise operating expenditure and the mechanism is symmetrical, meaning that there is the same incentive to minimise cost,	• As above, TNSPs cannot influence AEMO fees once budgeted and levied – they are fixed amounts which, unlike other costs, cannot be "minimised", avoided or deferred by TNSPs. • As discussed in section 2, the effect of applying the EBSS to AEMO participant fees is to either divert opex from other efficient uses (in the case that fees are higher

2022 decision	Updated assessment based on experience since 2022
regardless of underspend or overspend	than forecast) or require customers to pay more than is necessary (if fees are lower than forecast).
The fees are similar to other TNSP operating costs that are subject to incentive regulation, e.g. AEMC levy and licence fees	• AEMO's participant fees are significantly larger and more variable than the AEMC levy and licence fees. • The AEMC levy paid by Powerlink is smaller than AEMO participant fees and becoming relatively smaller as participant fees increase. In FY26, the AEMC levy was \$6m while AEMO participant fees were almost \$11m. Further, Powerlink has been provided with a forecast for the AEMC levy for their upcoming regulatory period that indicates minimum growth. While Powerlink has no control over the AEMC levy, it is relatively small and predictable compared to AEMO's participant fees. • Similarly, licence fees for ElectraNet have been fixed from FY24-FY27 and are less material than AEMO's participant fees. In FY26, licence fees were \$1.4m while AEMO participant fees were \$2.3m. Additionally, annual licence fees are generally fixed in advance for each regulatory period, providing stability of cost recovery.
While TNSPs' control over AEMO's costs is limited, they have some ability to minimise costs and reduce cost volatility by engaging with AEMO, including through AEMO's FCC	• TNSPs have worked with AEMO to mimimise volatility as much as possible. However, as discussed in section 2.3, this has not proven sufficient and costs remain volatile. • The role of the FCC is advisory only. While members can provide feedback on AEMO's programs of work and budgets, the purpose of the FCC is to provide transparency, not for members to influence these.[23] • TNSPs are not well placed to assess the prudency and efficiency of system operator expenditure and the National Electricity Law and Rules framework for governance and oversight of AEMO participant fees does not envisage this role for TNSPs. • If the efficiency of AEMO's costs are of concern, this should be addressed through reforms to the NEL and rules framework for governance and oversight of AEMO participant fees. In this regard, we note the review of AEMO governance may consider increased oversight, but will not address the issues underlying this rule change request as explained above.[24]

[23] See the Terms of reference for the FCC.
[24] See the Terms of reference for the review of AEMO governance.

4. Expected impacts of amending the NER

The proposed amendments to the NER are expected to have positive impacts on consumers and TNSPs. There are no material impacts on other entities or stakeholders. AEMO would continue to recover its costs in full, and the proposal would not affect the allocation of participant fees to other market participants, which would remain subject to AEMO's existing budget and fee-setting processes.

4.1 Impacts on consumers

The proposal ensures optimal risk allocation byremoving the risk from consumers of over-recovery, payment of inefficient EBSS rewards and the inefficient deferral of other expenditure caused by the annual volatility of AEMO participant fees against a fixed forecast used to set the allowance.

Where AEMO participant fees are higher than forecast, consumers would pay higher prices under the proposed amendments than if these fees remain subject to incentive regulation. Under the current arrangements, once the transitional provisions end, TNSPs would bear the difference between forecast and actual fees through the application of incentive regulation through either overspending or deferral of efficient expenditure. Under the proposed approach, these costs would be passed on in full via amendments to transmission prices.

However, any detriment associated with being exposed to the full cost of AEMO's fees would be offset by the benefits associated with TNSPs no longer having to divert operating expenditure away from other prudent and efficient uses in order to manage exposure to unpredictable participant fees. Further, the proposal is consistent with the revenue and pricing principles, which require that regulated network service providers have a reasonable opportunity to recover efficient and prudent costs.

Conversely, where AEMO participant fees are lower than forecast, consumers would benefit from paying less under the proposed amendments. Once the transitional arrangements end, such underspends would flow through to an efficiency reward for TNSPs under the EBSS, funded by consumers, perpetuating the impacts of any over-recovery for a further 5 years. The proposed amendments would remove this outcome, ensuring that consumers pay no more than the actual cost of participant fees.

The proposal may result in some price volatility, as participant fees would be passed through directly as they change from year to year. However, consumers are already exposed to this underlying volatility under the current model, together with additional distortions arising from annual under and over recoveries and the application of incentive regulation to costs that are not controllable. Further, passing these costs through would provide a more simple, direct, transparent and readily understood approach, enabling consumers to better understand the nature of these costs.

4.2 Impacts on TNSPs

For TNSPs, the proposal would mean that they would no longer be eligible to receive EBSS rewards in circumstances where participant fees are lower than forecast. This outcome is appropriate, as such rewards would not reflect efficiency improvements or cost management actions undertaken by TNSPs, and consumers should not be required to fund rewards that do not deliver ongoing efficiency benefits.

At the same time, TNSPs would benefit from no longer being exposed to penalties or the need to revisit and re-prioritise efficient opex plans in circumstances where participant fees are higher than forecast. This would reduce the risk of inefficient expenditure deferrals and allow TNSPs to focus on delivering expenditure programs that have been determined to be efficient and prudent by the regulator.

The proposed approach would require additional post MAR adjustments to transmission prices. However, TNSPs already manage similar adjustments for NTP function fees, and this is a simple and transparent approach that promotes efficient cost recovery for costs that TNSPs cannot control.

More broadly, by removing exposure to volatile and uncontrollable participant fees, the proposal would allow opex to be directed to its most efficient use, supporting the safe, secure and reliable supply of electricity and facilitating the energy transition.

ENA looks forward to consideration of this rule change request by the AEMC and would be happy to engage further on any aspects, including suggested rule drafting to give effect to this proposal.