Michael Bradley
Executive General Manager, Retail and Wholesale Markets
Australian Energy Market Commission
GPO Box 2603
SYDNEY NSW 2001

By email to Michael.Bradley@aemc.gov.au

CC: Violette.Mouchaileh@aemo.com.au

25 February 2021

Dear Michael

National Electricity Market – Non-Energy Cost recovery

The Australian Energy Council (the AEC) wishes to draw to your attention issues with the recovery of non-energy charges in the National Electricity Market (NEM), and the opportunity for an Australian Energy Market Commission (AEMC) review.

The Energy Council is the industry body representing 21 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses.

During November 2020 the Australian Energy Market Operator (AEMO) identified a critical and urgent issue; where regional demand falls to zero or negative, settlement systems cannot solve for the recovery of non-energy charges. Following a brief consultation with participants, AEMO proposed an urgent rule change to settlement formulae[1]. Given their late identification of the issue, the AEC supports AEMO's actions.

In developing its solution, AEMO is appropriately focussed on the primacy of market continuity and has proposed a minimalist design that has no effect during positive demand times. One of our members, Infigen Energy, has submitted an alternative rule change that seeks to also address some anomalies at times of low positive regional demand.

These developments caused our membership to reflect on whether the allocations of non-energy charges at all times remain appropriate in today's market. They remain largely unchanged since the introduction of the Frequency Control Ancillary Services (FCAS) markets in 2001. Since that time energy production and consumption have changed dramatically, but these allocations have not been holistically revisited. The charges are (without limitation):

- FCAS recovery;
- Non-market ancillary services recovery;
- Funding of Compensation for directions;
- Affected Participant Compensation (AEMO interventions);

[1] https://www.aemc.gov.au/sites/default/files/2021-02/ERC0326%20Rule%20change%20request%20pending.pdf

Level 14, 50 Market Street
Melbourne 3000
GPO Box 1823 Melbourne Victoria 3001

P +61 3 9205 3100
E info@energycouncil.com.au
W energycouncil.com.au

ABN 98 052 416 083

- Compensation due to Market Suspension or Administered Price Cap and Floor;
- Reserve Settlements (Reliability and Emergency Reserve Trader); and
- Participant compensation fund (Scheduling Errors).

The existing charging allocations were developed at a time when electricity was produced from large conventional generators and consumed by stable customer categories. That is out of date, as a wide range of generation technologies and sizes exist across the market, whilst consumption has become bi-directional and partially controllable. Storage technologies and new market participant categories have arisen.

In 2001 the total energy consumed by a customer reasonably reflected its proportional engagement with the market, and so presented a convenient basis for the recovery of socialised costs necessary to support the market. However this is evidently no longer the case; electricity consumers with behind the meter generation, despite remaining reliant on the grid, now consume small or negative energy over time.

The list above intentionally excludes Participant Fees. AEMO is required to periodically consult upon the Participant Fee structure, subject to certain principles, and has thus repeatedly reviewed those allocations in light of the changing industry. The AEC suggests it is timely for the AEMC to similarly review the structure of all the other non-energy charges.

The AEC recognises the many competing priorities for the AEMC at this time. The AEC envisages a relatively tight review of a similar scale to that of an AEMO participant fee structure review. Despite the large number of charges listed above, it is likely that once the AEMC develops the appropriate principles for efficiently recovering socialised costs in today's NEM, it will be straightforward to propose methods for each.

Should you have any questions please contact the undersigned at 03 9205 3116 or at Ben.Skinner@energycouncil.com.au.

Yours sincerely,

Ben Skinner
GM Policy and Research

Level 14, 50 Market Street
Melbourne 3000
GPO Box 1823 Melbourne Victoria 3001

Phone +61 3 9205 3100
Email info@energycouncil.com.au
Website www.energycouncil.com.au

ABN 98 052 416 083