

DRAFT REPORT – STRUCTURE OF PARTICIPANT FEES IN AEMO’S ELECTRICITY MARKETS 2015

DRAFT REPORT

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1. EXECUTIVE SUMMARY

1.1 Background

AEMO is conducting a consultation on the structure of Participant fees to apply from 1 July 2016 for:

- The National Electricity Market (NEM).
- The Electricity Full Retail Competition (FRC).
- The National Transmission Planner (NTP) function.
- The Energy Consumers Australia (ECA) fees collected by AEMO from NEM participants.
- NEM Participant Compensation Fund (PCF).

The current structure of Participant fees commenced 1 July 2011 and expires on 30 June 2016 (i.e. five year fee structure length).

The objective of the consultation is to provide stakeholders with the opportunity to have input into the development of the structure of Participant fees to apply from 1 July 2016.

This consultation only applies to the methodology in regard to the structure of fees. The actual amount charged for each fee will be determined on an annual basis, through the AEMO budgeting process.

1.2 Guiding principles to electricity fee structure

In determining the structure of Participant fees, AEMO must have regard to the National Electricity Law (NEL), and the National Electricity Rules (NER) detail principles that need to be considered when determining the structure of Participant fees. AEMO must also have regard to the National Electricity Objective (NEO).

- The structure of Participant fees should be **simple**.
- The **components of Participant fees charged to each registered participant should be reflective** of the extent to which AEMO's budgeted revenue requirements involve that registered participant.
- Participant fees should **not unreasonably discriminate** against a category or categories of registered participants.
- Fees and charges are to be determined on a **non-profit basis** that provides for full cost recovery.
- The structure of the Participant fees should **provide for the recovery of AEMO's budgeted revenue requirements** on a specified basis.

These principles can be found in NER clause 2.11.1.

1.3 Summary of key changes in the proposed fee structure to the existing structure

AEMO issued a notice of the first stage of consultation and initial consultation paper on 14 September 2015. AEMO received five submissions in the first stage of consultation. AEMO has considered the issues raised in the submissions and has now produced a draft position and report.

Submissions on the draft position and report are not restricted to these areas and comments are welcome on any relevant issue, regardless of whether it is detailed in this document.

	Existing structure	Proposed fee structure (to commence 1 July 16)
National Electricity Market	<p>- Allocated direct costs:</p> <ul style="list-style-type: none"> • 70% of AEMO’s general budgeted revenue requirements are “allocated costs” and are apportioned on the following basis: <ul style="list-style-type: none"> (a) 54% Market Customers; and (b) 46% Generators and Market Network Service Providers of which: <ul style="list-style-type: none"> (i) two-thirds is apportioned to Market Generators in respect of their market generating units, Non-Market Scheduled Generators in respect of their non-market scheduled generating units, Semi-Scheduled Generators in respect of their semi-scheduled generating units and Market Network Service Providers in respect of their market network services; (ii) one-third is apportioned only to Market Generators in respect of their market generating units and Market Network Service Providers in respect of their market network services; and (iii) none is apportioned to Non-Market Non-Scheduled Generators in respect of their non-market non-scheduled generating units. • Generator and Market Network Service Provider charges: 50% charged as a daily rate based on aggregate of the higher of the greatest registered capacity and greatest notified maximum capacity in the previous calendar year of generating units and market network services and 50% charged as a daily rate based on MWh energy scheduled or metered (in previous calendar year). • Market Customers charges – Rate per MWh for a financial year based on AEMO’s estimate of total MWh to be settled in spot market transactions by Market Customers during that financial year. Rate applied to actual spot market transactions in the billing period. <p>- Unallocated costs:</p> <ul style="list-style-type: none"> • 30% of AEMO’s general budgeted revenue requirements are “unallocated costs” and are allocated 100% to Market Customers. • Market Customers charges – Rate per MWh for a financial year based on AEMO’s estimate of total MWh to be settled in spot market transactions by Market Customers during that financial year. Rate applied to actual spot market transactions in the billing period. 	<p>No change to the existing structure.</p>

	Existing structure	Proposed fee structure (to commence 1 July 16)
Electricity FRC	Charged to Market Customers with a retail licence and levied for a financial year at a rate per MWh based on AEMO's estimate of total MWh to be settled in spot market transactions by Market Customers with a retail licence during that financial year against regional reference nodes. Rate applied to actual spot market transactions in the billing period.	Continue to charge to Market Customers a retail licence but levied on a rate per connection point. A trigger clause to be incorporated to allow for a separate consultation to be conducted at AEMO's discretion for Electricity FRC to consider the impact of significant Power of Choice projects being implemented.
National Transmission Planner	Charged to Market Customers and levied at a rate per MWh based on AEMO's estimate of total MWh to be settled in spot market transactions by Market Customers during that financial year. Rate applied to actual spot market transactions in the billing period.	No change to the existing structure.
Energy Consumers Australia fee	Charged to Market Customers and levied at a rate per small customer (as defined in the National Energy Retail Law) connection point.	No change to the existing structure.
NEM Participant Compensation Fund	Charged to Scheduled Generators, Semi Scheduled Generators and Scheduled Network Service Providers in accordance to the NER, levied on 50% maximum capacity and 50% energy generated in the previous calendar year.	No change to existing structure.
Registration fees	The fee structure for registration fees along with the amounts to be charged for each different application type was set in the determination.	The fee structure for registration fees for each application type to continue to be charged. A proposed new type of applicant, 'Metering Coordinator', to be charged a new registration fee. The actual registration fee amounts are proposed to be set as part of the annual budget.
Incremental charges	Where it is practical for AEMO to identify that doing something specific for a participant or another party, and that action causes identifiable and material costs for AEMO, AEMO can seek to levy fees to recover the incremental costs incurred.	No change to the existing structure.
Staged implementation	No staged implementation in the current determination.	All fee structures to commence 1 July 2016, except for the FRC Electricity fee (to be levied on a rate per connection points), to commence 12 months later, 1 July 2017, to allow for implementation work such as changes to IT systems or retailer billing systems. No other staged implementation proposed.



	Existing structure	Proposed fee structure (to commence 1 July 16)
Period of fee structure	5 year term.	5 year term. However a trigger clause to be incorporated into the final determination to allow for the period of the structure of the Electricity FRC fees to be less than 5 years if, within the period of the final determination, AEMO considers it appropriate to conduct a consultation on the structure of the FRC fees to consider the impact of any changes to any electricity market, rules or procedures associated with recommendations made in the AEMC Power of Choice Review final report which are to become effective within the period of the final determination.

2. NOTICE OF SECOND STAGE OF CONSULTATION

2.1 Consultation timetable

This is the second stage of consultation on the structure of Participant fees in AEMO's electricity markets.

AEMO received five submissions in the first stage of consultation. These submissions are published on AEMO's website.

<http://www.aemo.com.au/Consultations/National-Electricity-Market/Electricity-Markets-Structure-of-Participant-Fees>

The table below lists the steps in the consultation process, together with the proposed dates for completion of the remaining steps. Please note that the proposed dates are subject to change by AEMO.

Milestone	Date
Consultation paper published (<i>completed</i>)	September 2015
First stage consultation submissions closing date <i>-five submissions received</i>	20 October 2015
Draft Report published	18 December 2015
Second stage consultation submissions closing date	By 29 January 2016
Final Report published	By 31 March 2016
Commencement of new electricity fee structure	1 July 2016

2.2 Second Stage submissions closing date

AEMO has considered the issues raised in the submissions in the first stage of consultation and has now produced a draft position and report.

We invite you to provide submissions in response to the second stage of consultation by 5.00pm AEDT 29 January 2016 to sandra.chui@aemo.com.au.

Alternatively, you may post submissions to: Ms Sandra Chui Group Manager, Commercial Services Australian Energy Market Operator Ltd GPO Box 2008 MELBOURNE VIC 3001.

AEMO has discretion to consider late submissions. Any late submission should explain:

- the reason for the lateness; and
- the detriment to you if AEMO fails to consider your submission.

AEMO prefers that submissions be forwarded in electronic format (both pdf and Word) as they will be published on the AEMO website. All submissions will be published on the AEMO website unless specifically requested due to confidentiality reasons. Respondents should note that if material identified as confidential cannot be shared and validated with other interested persons then it may be accorded less weight in AEMO's decision-making process than published material.



2.3 AEMO contact for inquiries

For all queries on the electricity fee structure review, please contact Ms Sandra Chui, Group Manager Commercial Services on (03) 9609 8623 or sandra.chui@aemo.com.au.



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3. SUBMISSIONS RECEIVED IN FIRST STAGE OF CONSULTATION

This is the second stage of consultation. AEMO received five submissions in the first stage of consultation. These respondents were:

- Origin Energy
- AGL
- Red Energy/Lumo Energy
- ERM Power
- CS Energy

All submissions were considered in drafting the proposed fee structure and these views are presented with AEMO's responses in section 4.

4. PROPOSED ELECTRICITY MARKET FEE STRUCTURE

The Australian Energy Market Operator Limited (AEMO) convened an internal committee to assist the preparation of this draft determination.

We invite you to provide a submission on the proposed structure for each of the relevant areas.

4.1 National Electricity Market

4.1.1 Draft position

No changes are proposed to the existing structure for the National Electricity Market (NEM) fees.

Table 1 NEM proposed fee structure

	Existing structure	Proposed fee structure (to commence 1 July 16)
<p>National Electricity Market</p>	<p>- Allocated direct costs:</p> <ul style="list-style-type: none"> • 70% of AEMO’s general budgeted revenue requirements are “allocated costs” and are apportioned on the following basis: <ul style="list-style-type: none"> (a) 54% Market Customers; and (b) 46% Generators and Market Network Service Providers of which: <ul style="list-style-type: none"> (iv) two-thirds is apportioned to Market Generators in respect of their market generating units, Non-Market Scheduled Generators in respect of their non-market scheduled generating units, Semi-Scheduled Generators in respect of their semi-scheduled generating units and Market Network Service Providers in respect of their market network services; (v) one-third is apportioned only to Market Generators in respect of their market generating units and Market Network Service Providers in respect of their market network services; and (vi) none is apportioned to Non-Market Non-Scheduled Generators in respect of their non-market non-scheduled generating units. • Generator and Market Network Service Provider charges: 50% charged as a daily rate based on aggregate of the higher of the greatest registered capacity and greatest notified maximum capacity in the previous calendar year of generating units and market network services and 50% charged as a daily rate based on MWh energy scheduled or metered (in previous calendar year). • Market Customers charges – Rate per MWh for a financial year based on AEMO’s estimate of total MWh to be settled in spot market transactions by Market Customers during that financial year. Rate applied to actual spot market transactions in the billing period. <p>- Unallocated costs:</p> <ul style="list-style-type: none"> • 30% of AEMO’s general budgeted revenue requirements are “unallocated costs” and are allocated 100% to Market Customers. • Market Customers charges – Rate per MWh for a financial year based on AEMO’s estimate of total MWh to be settled in spot market transactions by Market Customers during that financial year. Rate applied to actual spot market transactions in the billing period. 	<p>No change to the existing structure.</p>

4.1.2 Consultation submissions and key comments

Submissions received from stakeholders largely support the existing structure to reflect user pays and simplicity.

Other key stakeholder comments raised in regards to the current structure and considered and evaluated in drafting the position are discussed and responded to in detail in the relevant sections in 4.1.

4.1.3 NEM services

The NEM function provides the following broad services:

- Power system security, market operations and systems.
- Power system reliability and planning.
- Wholesale metering and settlements.
- Prudential supervision.

The proposed NEM fee structure is presented below, in sections 4.1.4 to 4.1.8.

4.1.4 Allocation of costs between categories of Participant

AEMO first identified the costs that are deemed to be direct, attributable costs to key NEM outputs, and those deemed to be indirect costs that are allocated to the NEM function. This resulted in 70% of costs being deemed to be direct and 30% being indirect. This allocation is unchanged from the current determination.

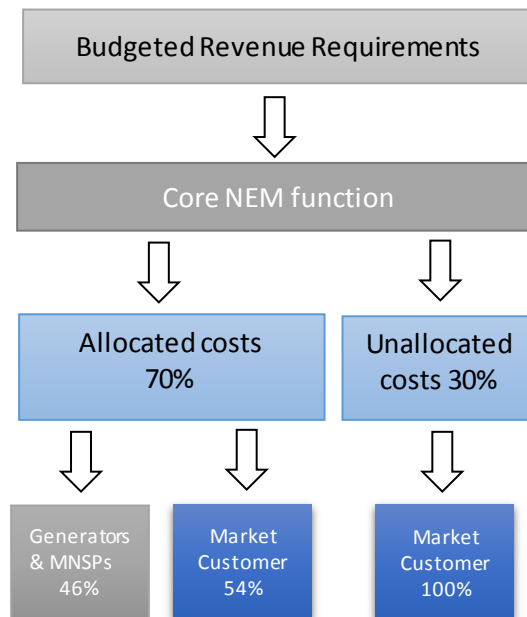
AEMO then identified the key broad activities (e.g. power system security, metering and settlements) and allocated NEM direct costs to each of the outputs.

Following this, AEMO allocated the activities to categories of Registered Participants based on the 'reflective of involvement' and 'no unreasonable discrimination' criterion and the simplicity principle.

This analysis resulted in 46% of direct allocated costs being apportioned to Generators and Market Network Service Providers (MNSPs) and 54% to Market Customers.

More detail on the activities survey can be found in Appendix A.1.

The indirect or unallocated costs are apportioned to Market Customers. Due to the nature of these costs, it is not possible to apply the reflective of involvement criterion. It was determined that a reasonable and efficient method of recovering unallocated costs is from end users via Registered Participants that are closest in the electricity supply chain to those end users. This allocation is no change from the current determination.

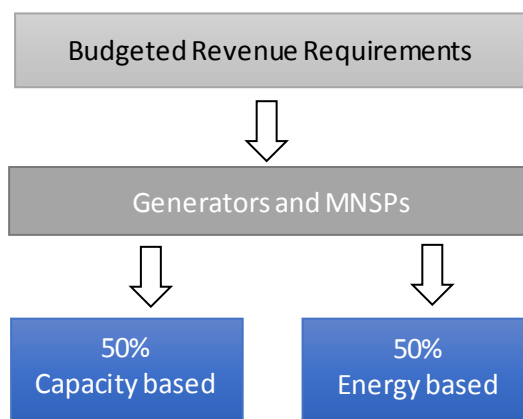


Consultation respondents’ comments

This approach was not raised as an issue by any respondent.

4.1.5 Generators

Generators and Market Network Service Providers share of the 46% of direct costs are to be charged using a combination of capacity and energy (using previous calendar year information). This is unchanged from the current determination.



Consultation respondents’ comments

Four of the five submissions received from consultation support the current structure.

CS Energy suggested the Generator energy generated fee be applied for the current year’s generation as opposed to the prior year. CS Energy then also state that since generators could pass this cost

through to customers via bid prices, it would be simpler for AEMO to re-allocate this energy charge directly upon customers.

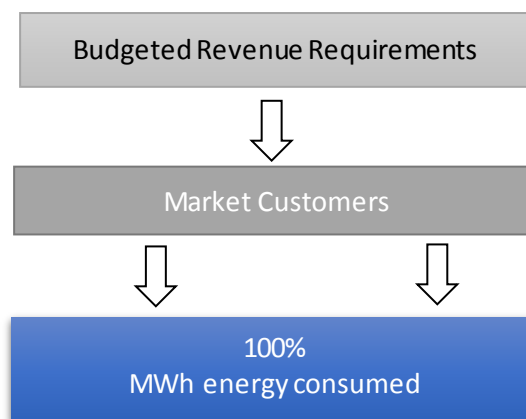
In considering CS Energy’s submission, AEMO refers to advice previously provided by Allen Consulting “Allen” that was used in the 2006 and 2011 Determinations¹. In that advice, Allen preferred, where possible, a combination of fixed and variable fees upon all participant classes. However it concluded that “there does not appear to be any practical basis for levying variable fees on generators to avoid such fees being passed downstream to Market Customers”. This would then defeat the purpose of the ‘reflective of involvement’ principle to levy fees upon Generators.

Allen further states that fixed fees is more appropriate as “two kinds of fixed fees on Generators which would satisfy the criteria set out in clause 2.11.1(b) of the Rules and section 50 of the NEL, as well as satisfying the NEM objective of efficiency, are fees based on historical capacity, and fees based on historical amounts of electricity scheduled”.

AEMO considers there is no strong reason to change from the current charging approach.

4.1.6 Market Customers

Market Customers are to be charged based on a rate multiplied by the actual megawatt (MWh) settled in spot market transactions for that Market Customer in respect of each billing period.



Analysis undertaken on the method to determine Market Customer charges

Under the current determination and as recommended by Allen, market customer charges are based on current year’s energy. AEMO’s costs relate to managing the energy consumed by end-use customers, on behalf of whom retailers engage with AEMO. Therefore it is appropriate for fees to be levied on retailers in such a way (i.e. customer billing system) that they can readily be passed through to the end-user.

In reviewing the direct costs that are directly related to Market Customers, we acknowledge that there are fixed costs that AEMO incurs regardless of the amount of energy dispatched.

A detailed review of drivers of AEMO’s costs (see appendix A.1) found that although there are fixed costs to AEMO, these do not increase in proportion to the number of Market Customers (i.e. registered

¹ 2011 Determination is found <http://www.aemo.com.au/About-AEMO/Corporate-Publications/Energy-Market-Budget-and-Fees/Structure-of-Participant-Fees-in-the-National-Electricity-Market-July-to-June>. 2006 Determination is found at <http://www.aemo.com.au/About-AEMO/Corporate-Publications/Energy-Market-Budget-and-Fees/Structure-of-Participant-Fees-in-the-National-Electricity-Market-1-July-2006-to-30-June-2011>

retailers). In considering an approach for levying a fixed portion of direct costs to Market Customers the following approaches were explored and evaluated using the guiding principles.

Table 2 Alternate methods to determine Market Customer charges

Fixed cost approach	Appropriate?
Flat fixed fee per retailer	The small administrative costs of additional Market Customer registrations is recovered through AEMO’s fee structure for New registration fees. This approach does not seem to be reflective of involvement and appears to unreasonably discriminate against small retailers.
Levying a fixed tariff or charge based on number of connection points	Under this approach, costs currently allocated to large customers would be transferred to small customers. Outside of retail contestability systems, AEMO’s costs were not found to materially increase according to the number of customers. Therefore this approach does not appear to be reflective of involvement.
Levying a fixed tariff or charge based on peak demand of a Market Customer	<p>Much of NEM direct allocated costs relate to AEMO’s capacity to manage peak demand rather than energy. Energy charging therefore potentially results in customers with flat load profiles contributing above their level of involvement. Levying a charge based on peak demand of a Market Customer could meet this principle better. A relevant consideration was the growth of rooftop photovoltaic generation which results in some customers’ energy demands being very small relative to their peak demand.</p> <p>However there are challenges with this approach as</p> <ul style="list-style-type: none"> • AEMO does not have all the data to perform these calculations without estimations. • It would require AEMO system changes. • Is likely to cause retailer customer billing challenges in determining an appropriate and transparent on-charge of AEMO market fees to end-users and also significant system changes. <p>These challenges violate the simplicity principle, which, on balance, exceeds its attractiveness in more closely meeting the involvement principle. It was considered that the current penetration and forecast growth rates of rooftop photovoltaic generation would not alter this conclusion for the period of this determination.</p>

Consultation respondents’ comments

Two of the five respondents (Origin and Red Energy) support the current recovery method based on \$/MWh energy. However AGL and CS Energy considered that a fixed and variable charge may be a more accurate reflection of AEMO’s cost drivers, and that a fixed charge could be considered in the fee structure.

AGL’s preference for a “fixed charge” was a charge per Market Customer registration such that all retailers pay the same, regardless of the number of end-use customers they supply.

CS Energy preference for a “fixed charge” was a charge based on number of connection points, rather than based on \$/MWh energy.

AEMO acknowledges it incurs fixed costs regardless of amount of energy dispatched. AEMO evaluated some different methods (see Table 2) of applying fixed charges.

After considering the alternate methods, AEMO proposes that Market Customers continue to be charged based on \$/MWh.

4.1.7 Unallocated costs

These costs relate to general AEMO overheads and are not linked to any specific activity. Thus an involved participant category cannot be identified. These costs have historically been allocated to Market Customers on the basis of energy consumed as this is considered to best meet the principle of simplicity as well as market efficiency.

For the 2011 determination AEMO sought Allen Consulting's view on this approach, who confirmed it as appropriate². AEMO proposes to continue this approach.

Consultation submissions and key comments

No comments were received on unallocated costs.

4.1.8 Transmission Network Service Providers (TNSP) and Distribution Network Service Providers (DNSP)

AEMO does not propose fees be levied on TNSPs or DNSPs.

In the current and 2006 determination, AEMO did not allocate any of its budgeted revenue requirements to TNSPs or DNSPs.

The relationship between TNSPs and AEMO has two aspects. TNSPs may be considered to be involved in AEMO's NEM functions – for example the security and integrity of equipment of TNSPs is preserved by AEMO's power system security activities and TNSPs make use of the reports AEMO publishes as part of its NTP function. AEMO has substantial interaction and involvement with the TNSPs on a consistent basis and considers whilst the TNSPs are critical to the operation of the NEM, the involvement is supportive to the market. In addition, TNSPs also provide services to AEMO that contribute to AEMO's ability to manage power system security and perform its National Transmission Planner role and other NEM functions.

Some of these services are provided to AEMO under agreements entered into between AEMO and the relevant TNSP. For the most part, however, they are provided as a result of obligations imposed on TNSPs under the Rules. If AEMO were to charge TNSPs Participant fees, they are likely to seek to charge AEMO for the services they provide AEMO that support the NEM.

AEMO has less extensive interaction with DNSPs in relation to power system security and reliability outputs and that interaction, like that with TNSPs, involves mutual services. Accordingly, AEMO considers it should not charge DNSPs fees.

Consultation respondents' comments

No submissions commented on charging to TNSPs or DNSPs.

4.2 Electricity Full Retail Competition (FRC)

4.2.1 Draft position

It is proposed that FRC electricity costs be recovered from Market Customers with a retail licence on the basis of a charge per connection point for retail customers in those jurisdictions that have implemented FRC³. A retail customer is a customer for which the Financially Responsible Market Participant (FRMP) for that customer's connection point is a Market Customer with a retail licence.

² Allens 2010 letter to AEMO

³ Currently all NEM participating jurisdictions have implemented FRC

The amount charged to a participant in a billing week will be calculated by multiplying the FRC fee rate (expressed as a daily rate) by the number of days in the billing period, and by the applicable number of active NMI’s for which the participant is the FRMP. AEMO is currently considering the timing and frequency for updating the number of active NMI’s, and in particular the practicality and materiality of different arrangements, and would welcome any feedback on this.

Table 3 Electricity FRC proposed fee methodology

	Existing structure	Proposed fee structure (to commence 1 July 16)
Electricity FRC	Charged to Market Customers with a retail licence and levied on a rate per MWh for a financial year at a rate per MWh based on AEMO’s estimate of total MWh to be settled in spot market transactions by Market Customers with a retail licence during that financial year against regional reference nodes. Rate applied to actual spot market transactions in the billing period.	<p>Continue to charge to Market Customers with a retail licence but levied on a rate per connection point.</p> <p>A trigger clause to be incorporated to change the ‘period of determination’ for this function only to allow for a separate consultation to be conducted at AEMO’s discretion for Electricity FRC to consider the impact of significant Power of Choice projects being implemented.</p> <p>Phased implementation to cope with system changes (AEMO and retailers). To charge this proposed new fee structure from 1 July 2017 will allow for sufficient time for system changes for AEMO and retailer customer billing systems and notifications.</p>

Currently Electricity FRC fees are charged to Market Customers with a retail licence and levied on a rate per MWh settled in spot market transactions.

AEMO proposes, consistent with the ‘reflective of involvement’ principle, that a connection point recovery method is a more appropriate reflection of AEMO’s cost drivers. In addition, a connection point recovery method is also aligned to the approach adopted in AEMO’s gas FRC markets.

4.2.2 Consultation submissions and key comments

Four of the five respondents’ submissions considered that charging on a connection point basis is more appropriate.

Origin and AGL support charging on a connection point basis. However, they raised concerns that new entrants such as the Metering Coordinator and new services under rule changes such as the Shared Market Protocol, needs to be considered.

In response to Origin and AGL’s comments, AEMO proposes a trigger clause be incorporated. This is to allow for a separate consultation to be conducted at AEMO’s discretion for Electricity FRC as a result of implementation of significant Power of Choice projects.

Red Energy/Lumo Energy’s submission to AEMO disagreed with charging on a connection point basis. It supports the current approach of charge based on \$/MWh as more appropriate as it applies a consistent and uniform methodology approach in both the NEM and FRC. Red Energy/Lumo Energy also further stated that charging MWh in Electricity FRC will be more accurate when interval data becomes available with the introduction of metering competition.

In response to Red Energy/Lumo Energy’s submission, AEMO considers the principle of charging a fee based ‘reflection of involvement’ were better served by a fee on a connection point basis rather than by costs driven by MWh energy settled on spot market transactions. This view is supported by AEMO’s analysis of its cost drivers for this function. A connection point recovery method is also aligned to the approach adopted in AEMO’s gas FRC markets.

Furthermore, the technique of charging by connection point has been implemented in the recovery of Energy Consumers Australia costs.

4.3 National Transmission Planner (NTP)

4.3.1 Draft position

NTP function is to be recovered from Market Customers based on \$/MWh energy basis.

This is not changed from the existing structure.

Table 4 NTP proposed fee methodology

	Existing structure	Proposed fee structure (to commence 1 July 16)
National Transmission Planner	Charged to Market Customers and levied at a rate per MWh based on AEMO's estimate of total MWh to be settled in spot market transactions by Market Customers during that financial year. Rate applied to actual spot market transactions in the billing period.	No change to the existing structure.

AEMO's main activity since 2010 as NTP is preparation and maintenance of the annual National Transmission Network Development Plan (NTNDP). Current NTP activities also involve preparing the Independent Planning Reports for New South Wales, Tasmania and Queensland, Connection Point Forecasts and work on the Network Capability Incentive Performance process.

There are strong synergies between the NTP and NEM functions. In the first stage of consultation, respondents were invited to comment on whether the NTP should be consolidated into the NEM under the simplicity principle. Respondents to the consultation expressed the desire to retain the separation of NTP costs to retain transparency over the costs of this function. AEMO accepts this view and proposes that the NTP continue to be charged separately.

4.3.2 Consultation submissions and key comments

All respondents that commented on the NTP supported the current structure to recover costs from Market Customers based on \$/MWh energy and to keep NTP function separate to the NEM for cost transparency.

4.4 Energy Consumers Australia (ECA)

4.4.1 Draft position

ECA fees for electricity to be levied are based on fee per connection point for small customers.

This is no change to the existing structure.

Table 5 ECA Electricity proposed fee methodology

	Existing structure	Proposed fee structure (to commence 1 July 16)
Energy Consumers Australia fee	Charged to Market customers and levied at a rate per small customer (as defined in the National Energy Retail Law) connection point.	No change to the existing structure.

The Council of Australian Governments (COAG) Energy Council approved establishment of Energy Consumers Australia (ECA) by 1 January 2015, providing a focus on national energy market matters of strategic importance for energy consumers, in particular residential and small business consumers.

The ECA replaced the existing Consumer Advocacy Panel (CAP) for which AEMO currently collects funds through participant fees in the National Electricity Market (NEM) and gas markets. AEMO is also required to collect funding for the ECA, and changes need to be made to AEMO’s fee schedules to allow the new mechanism to be operational when the ECA commences.

In October 2014, before ECA fees were introduced, AEMO conducted an accelerated consultation process about the fee structure to be charged to participants (i.e. applicable date 30 January 2015). The determination was that AEMO would revisit the ECA fee structure in this review.

4.4.2 Consultation submissions and key comments

All respondents supported the existing structure to charge the ECA electricity fee on a connection point basis.

One respondent, Red Energy/Lumo Energy, suggested that the participant pool to recover the ECA electricity fee currently collected only from small customers also be charged to large customers. Red Energy/Lumo Energy believes that the fees should be shared by all consumers who benefit from ECA’s funding.

This matter was considered within the 2014 ECA consultation. AEMO notes that the establishment of the ECA, its constitution, and mandate of activities is to provide a focus on national energy market matters of strategic importance in particular to benefit the residential and small business consumers. Therefore AEMO considers it appropriate for the costs associated with ECA to be apportioned on the basis of small customers only.

4.5 NEM Participant Compensation Fund (PCF)

4.5.1 Draft position

NEM PCF to be recovered from Scheduled Generators, Semi Scheduled Generators and Scheduled Network Services Providers (under the NER), based on 50% maximum capacity as registered in the previous calendar year and 50% energy generated in the previous calendar year.

Table 6 NEM PCF proposed fee methodology

	Existing structure	Proposed fee structure (to commence 1 July 16)
NEM Participant Compensation Fund	Charged to Scheduled Generators, Semi Scheduled Generators and Scheduled Network Service Providers in accordance to the NER, levied on 50% maximum capacity and 50% energy generated in the previous calendar year.	No change to existing structure.

Under the NER, AEMO is required to maintain a Participant Compensation Fund for the NEM for the purpose to pay compensation to Scheduled Generators, Semi Scheduled Generators and Scheduled network Service Providers for scheduling errors as determined by the Dispute Resolution Panel.

4.5.2 Consultation submissions and key comments

Of those respondents that commented, Origin and AGL supported the current NEM PCF structure and recovery basis to continue, while CS Energy suggested these fees should be levied on Market Customers, rather than on Generators.

The NER prescribes that funding requirements can only be recovered from Scheduled Generators, Semi Scheduled Generators and Scheduled Network Service Providers under NER clause 2.11.3(b)(8).

4.6 New Registration fees

4.6.1 Draft position

All new electricity registered participants are required to pay a registration fee. The proposed structure will also propose a new registration application type, the ‘Metering Coordinator’.

The new registration fees charged (in Australian dollars) will be set as part of the annual budget.

Table 7 New Registration proposed fee methodology

	Existing structure	Proposed fee structure (to commence 1 July 16)
Registration fees	<p>The fee structure for registration fees along with the amounts to be charged for each different application type was set in the determination.</p> <p>Application types to be charged:</p> <ul style="list-style-type: none"> • Registration as Scheduled Generator • Registration as Semi-Scheduled Generators • Registration as Non-Scheduled Market Generator • Registration as Market Customer • Transfer of Registration • Registration as Non-Scheduled Non-Market Generator • Registration as Intending Participants • Registration as Network Service Provider • Registration as Trader • Registration as Reallocator • Classification of generating units for frequency control ancillary services purposes • Exemption 	<p>The fee structure for registration to remain the same but also include an additional application type for the ‘metering coordinator’.</p> <p>Due to the AEMC rule change “Expanding competition in metering and related services” published on 26 November 2015 introducing a “Metering Coordinator” as a new category of registered participant, the “Metering Coordinator” will be an additional registered participant to be charged a registration application fee.</p> <p>The actual registration fee amounts are to be set as part of the annual budget, as AEMO is currently reviewing the end to end registration process.</p>

In the last determination in 2011, AEMO set the fee structure for registration fees with the amounts to be charged for each different application type.

AEMO is currently reviewing the end-to-end registration process for each application and considers it may be appropriate to retain the current fees for each application type until the review is complete. It is then proposed that the fees for each application type be reviewed to ensure they are cost reflective and that changes to the fees be set as part of AEMO’s annual budgeting and fee setting process.

4.6.2 Consultation submissions and key comments

Respondents supported AEMO’s view to set registration fees as part of the annual budget.

4.7 Incremental charges

4.7.1 Draft position

Where specific actions for a participant or another party cause identifiable and material costs for AEMO, AEMO proposes to continue to seek to levy fees to recover incremental costs incurred.

An example of this is Marketnet charges for additional bandwidth use.

Table 8 Incremental charges proposed fee methodology

	Existing structure	Proposed fee structure (to commence 1 July 16)
Incremental charges	Where it is practical for AEMO to identify that doing something specific for a participant or another party, and that action causes identifiable and material costs for AEMO, AEMO can seek to levy fees to recover the incremental costs incurred.	No change to the existing structure.

4.7.2 Consultation submissions and key comments

Respondents supported AEMO to continue with incremental charges.

4.8 Staged implementation

4.8.1 Draft position

AEMO is able to set a fee structure that varies through the period. A staged implementation may be considered where:

- The preferred structure involves implementation challenge, for example changes to IT systems
- Participants may need to consider the customer impact and adjust to a material change to the current fee structure.

AEMO proposes that a staged implementation occur if the Electricity FRC fee is levied on a connection point basis to be effective from 1 July 2017. This allows for more than a 12-month implementation plan for AEMO and retailers to prepare for the changes.

Table 9 Staged implementation proposed fee methodology

	Existing structure	Proposed fee structure (to commence 1 July 16)
Staged implementation	No staged implementation in the current determination.	All fee structures to commence 1 July 2016, except for the FRC Electricity fee (to levied on connection points), to commence 12 months later, 1 July 2017 due to implementation challenges such as changes to processes, IT systems or retailer billing systems. No other staged implementation proposed.

4.8.2 Consultation submissions and key comments

Most respondents did not consider a general staged implementation necessary to ensure timely reflection of the appropriate cost recovery, where there are no implementation challenges.

Specific to proposed fee structure changes in the Electricity FRC fees, Origin Energy support the concept of the staged implementation to complement retail tariff change processes. AEMO supports Origin’s view and propose a staged implementation for this fee structure if the fee structure changes in Electricity FRC fee to be effective 1 July 2017 (allowing over 12 months implementation period for both retailers and AEMO systems and processes).

4.9 Period of fee structure

4.9.1 Draft position

A 5 year term is proposed.

However a trigger clause to be incorporated into the final determination to allow for the period of the structure of the Electricity FRC fees to be less than 5 years if, within the period of the final determination, AEMO considers it appropriate to conduct a consultation on the structure of the FRC fees to consider the impact of any changes to any electricity market, rules or procedures associated with recommendations made in the AEMC Power of Choice Review final report which are to become effective within the period of the final determination.

Table 10 Period of fee structure proposal

	Existing structure	Proposed fee structure (to commence 1 July 16)
Period of fee structure	5 years term.	5 year term. However a trigger clause to be incorporated into the final determination to allow for the period of the structure of the Electricity FRC fees to be less than 5 years if, within the period of the final determination, AEMO considers it appropriate to conduct a consultation on the structure of the FRC fees to consider the impact of any changes to any electricity market, rules or procedures associated with recommendations made in the AEMC Power of Choice Review final report which are to become effective within the period of the final determination.

The 2006 and 2011 Final Determinations fixed the term of the structure at five years, where previously they were set for three year periods.

Having a structure that applies over a longer period provides certainty and predictability of the structure of fees, but this needs to be balanced against having the ability to keep a participant fee structure consistent with the principles as circumstances change.

4.9.2 Consultation submissions and key comments

A key issue raised in the submissions and in discussions with stakeholders is how AEMO plan to recover the costs of the large Power of Choice projects, particularly considering the potential for the introduction of a new type of participant, the Metering Coordinator.

AEMO agrees with this view that the impact on the Power of Choice at this stage of the consultation is conceptual, therefore a trigger clause be proposed to be incorporated into the final determination to



allow for the period of the structure of the Electricity FRC fees to be less than five years if, within the period of the final determination, AEMO considers it appropriate to conduct a consultation on the structure of the FRC fees to consider the impact of any changes to any electricity market, rules or procedures associated with recommendations made in the AEMC Power of Choice Review final report which are to become effective within the period of the final determination.

Aside from this issue, Red Energy/Lumo Energy preferred a three year fee structure determination. Origin Energy and AGL preferred a five year determination.

CS energy suggested an enduring determination, with review at AEMO's discretion when conditions materially change. This has some advantages of flexibility and avoidance of unnecessary reviews, however it also presents the following difficulties:

- It would be difficult to identify a review trigger as industry changes are likely to be progressive.
- It has less predictability for participants than a five year determination.

AEMO proposes a five year determination.

APPENDIX

A.1 Core NEM function

Table 11 Core NEM function

	Power System Security, Market Operations and Systems	Power System Reliability and Planning	Prudential Supervision	Wholesale metering and settlements	TOTAL	% Allocation on basis of involvement
Costs attributed to outputs (in \$'000)	\$ 28,784	\$ 6,327	\$ 4,919	\$ 6,225	\$ 46,255	
<i>% allocation of outputs to registered participant:</i>						
Market Customers	50%	75%	50%	51%		
Generators and MNSPs	50%	25%	50%	49%		
<i>Costs on basis of involvement (in \$'000):</i>						
Market Customers	\$ 14,392	\$ 4,745	\$ 2,459	\$ 3,175	\$ 24,771	54%
Generators and MNSPs	\$ 14,392	\$ 1,582	\$ 2,459	\$ 3,050	\$ 21,483	46%