

29 January 2016

Ms Sandra Chui, Group Manager Commercial Services  
Australian Energy Market Operator  
GPO Box 2008  
Melbourne VIC 3001

Lodged by email to [sandra.chui@aemo.com.au](mailto:sandra.chui@aemo.com.au)

Dear Ms Chui,

### Structure of Participant Fees in AEMO's Electricity Markets 2015 – Draft Report

Simply Energy welcomes the opportunity to respond to the Structure of Participant Fees in AEMO's Electricity Markets 2015 – Draft Report (the Paper).

Simply Energy is a leading tier 2 energy retailer servicing Victoria, South Australia, New South Wales and Queensland.

The Paper provides the Australian Energy Market Operator's (AEMO) proposed fee structure to commence on 1 July 2016.

AEMO's proposed fee structure is broken down based on the function performed or type of cost incurred by AEMO. Additionally, the Paper proposes how the fee structure will be implemented and how long it will remain in place.

Simply Energy supports the majority of the components of AEMO's proposed fee structure, including the five-year term and the trigger clause to reopen the Electricity FRC fee determination if required due to the impact of Power of Choice recommendations.

However, Simply Energy strongly opposes the proposal to change the basis for charging Electricity FRC fees to weekly rate per connection point, from the current per megawatt hour (MWh) basis. This is because the benefits of the change are unlikely to outweigh the costs and complexity of the change.

### Simply Energy supports the majority of AEMO's proposed fee structure components

Fee structure component	Proposed fee structure	Simply Energy submission
National Electricity Market	No change to the existing structure	Supports the proposed fee structure
Electricity FRC	Proposed change in fee basis from per MWh to per connection point	Does not support the proposed changes to the fee structure
National Transmission Planner	No change to the existing structure	Supports the proposed fee structure
Energy Consumers Australia	No change to the existing structure	Supports the proposed fee structure
NEM Participant Compensation Fund	No change to the existing structure	Supports the proposed fee structure

Fee structure component	Proposed fee structure	Simply Energy submission
Registration fees	Separate fees for each application type, including a new type of applicant, the 'Metering Coordinator'	Supports the proposed fee structure
Incremental charges	No change to the existing structure	Supports the proposed fee structure
Staged implementation	Electricity FRC fee changes to apply from 1/7/2017	Does not support the proposed changes to the Electricity FRC fee structure. However, if the changes are adopted then a staged implementation is required.
Period of fee structure	5 years from 1 July 2016	Supports the proposed fee structure

### Proposed changes to the Electricity FRC fee structure

Simply Energy does not support the proposed change from the per MWh basis to the per connection point basis for recovery of Electricity FRC costs.

Getting the FRC fee structure right is particularly important given that this category of costs is likely to increase significantly. The end of adjustments for previous over-recoveries will see it increase from \$6.5 million a year to approximately \$9 million a year, assuming no other changes. Additionally, AEMO proposes to include a trigger clause so it can increase Electricity FRC charges to account for significant costs from Power of Choice projects.

The Paper states that AEMO's costs of providing retail contestability systems would materially increase according to the number of customers. This observation is provided as the basis for the proposal to move from per MWh to per connection point fees.

Simply Energy does not consider that this observation, and AEMO's desire to align the electricity fee structure with the approach used in gas markets, is sufficient to justify the change.

The Paper states that AEMO should have regard to the National Electricity Objective (NEO) when setting its fee structure. The NEO promotes efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity.

Nevertheless, the Paper does not consider whether the proposed change meets the NEO or the other relevant economic principles. Specifically, no cost benefit analysis of the proposed change has been conducted.

Further, a change from a per MWh to a per connection point fee structure will transfer costs from large customers to small customers. This seems to be a regressive outcome.

Simply Energy does not consider that this reallocation is consistent with the NEO and also considers that it has not been sufficiently justified by AEMO.

Customers consuming high amounts of energy benefit more from FRC than customers who consume only small amounts. Additionally, large users have greater ability to engage with retailers to develop arrangements that best meet their requirements. This means that the benefits they derive from FRC are likely to be tailored to them and in comparison greater than that obtained by smaller customers, where there is a large degree of homogeneous treatment and benefit.

As such, if low energy consumers are required to contribute equally with large energy consumers, then low energy consumers may have an incentive to oppose beneficial investments. This is because these investments may increase their charges by more than the incremental benefits they receive, even though these investments may have overall net incremental benefits to the entire systems, as those benefits are mainly consumed by high energy consumers. This incentive to oppose beneficial investments indicates that this proposed charging structure does not promote efficient investment.

Simply Energy notes that there are many other examples of similar general costs that are recovered based on size or quantity, rather than equally from each fee-attracting entity. For example, rates charged by councils are based on property value, not apportioned equally between all properties.

Additionally, the Paper refers to the requirement to apply the principle of simplicity. The costs and complexity of changing from the current per MWh basis to the connection point basis goes against this principle. Applying the simplicity principle to FRC charges as it is applied in the Paper to NEM charges will lead to rejection of the change to a per connection point basis in favour of the status quo.

Notably, the cost and complexity of the proposed change is sufficiently significant that the Paper proposes a staged implementation to enable the system and process changes to be managed responsibly, and a trigger mechanism so that the fee structure can be reviewed if costs increase significantly.

The trigger clause is not needed if the per MWh basis is retained, because unlike the per connection point basis, the per MWh basis apportions costs between customers equitably. Therefore the need for a trigger clause is another example of the additional complexity and cost that follow from the proposal to replace the per MWh basis with the per connection point basis.

Similarly, the additional cost and complexity of a staged implementation is not required if the per MWh basis is retained.

### **Staged implementation and trigger clause**

As discussed above, Simply Energy does not support the proposed change from the per MWh basis to the per connection point basis for recovery of Electricity FRC costs.

If the change is made to recover FRC costs on a per connection point basis, then Simply Energy considers that a staged implementation is the minimum required due to the impact on AEMO and participant systems.

Additionally, in the face of significant uncertainty in relation to Power of Choice project costs, a trigger clause allowing AEMO to reopen the basis for the charge is preferable to a mechanism that recovers all costs on a per connection point basis.

If you have any questions concerning this submission, please contact James Barton on 03 8807 1171.

Yours sincerely

David Murphy  
General Manager Commercial