



STRUCTURE OF PARTICIPANT FEES IN AEMO'S ELECTRICITY FULL RETAIL COMPETITION MARKET

FINAL REPORT AND DETERMINATION

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1. EXECUTIVE SUMMARY

1.1 Purpose of the Consultation

In AEMO's Determination on the Structure of Participant Fees in AEMO's Electricity Markets published on 17 March 2016 a clause was incorporated to allow AEMO to conduct a consultation to consider the impacts associated with the Power of Choice (POC) program on the structure of Participant fees for the Electricity Full Retail Competition (FRC) functions.

AEMO has now concluded a consultation on the structure of participant fees for the Electricity FRC functions.

AEMO conducted two stages of consultation in which 13 submissions were received in the first stage and 7 submissions were received in the second stage. These submissions can be viewed on AEMO's website¹.

Taking into account these submissions AEMO is now releasing its final determination.

1.2 A summary of AEMO's Final Position

1.2.1 Who should pay Electricity FRC market fees?

In relation to the issue of which Registered Participants should pay Electricity FRC market fees:

AEMO's final position is that Electricity FRC market fees continue to be levied 100% on Market Customers with a retail licence.

1.2.2 The basis for charging FRC market fees

In relation to the basis on which the Electricity FRC market fees are charged:

AEMO's final position is that the basis published in AEMO's Final Electricity Fee Structure Report published on 17 March 2016 is maintained, with Market Customers with a retail licence charged on a MWh energy consumed basis until 1 July 2019. From 1 July 2019 fees will be charged on a per connection point basis.

1.2.3 Basis of FRC fees: implementation date

In relation to whether a staged implementation for a change to the basis of how Electricity FRC market fees are charged is needed:

AEMO's final position is that the implementation date for the Electricity FRC Fee Structure to move to a connection point basis of charging should remain at 1 July 2019 as published in AEMO's Determination of 17 March 2016.

1.2.4 Third Party B2B Participants

In relation to whether third party B2B Participants should be charged a transaction fee:

AEMO's final position is that AEMO may consult on the Participant fees if the use of, or the number of transactions through the B2B e-hub by Third Party B2B Participants is 25% or more of the total transactions or is used over any 12 month period as determined by AEMO.

¹ <http://www.aemo.com.au/Stakeholder-Consultation/Consultations/Structure-Of-Participant-Fees-In-AEMOs-Electricity-Full-Retail-Competition-Market>



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2. PROPOSED STRUCTURE OF PARTICIPANTS FEES IN AEMO'S ELECTRICITY FRC MARKET

2.1 Guiding principles to electricity fee structure

In determining the participant fee structure, AEMO must have regard to the National Electricity Objective (NEO). In addition, the National Electricity Law (NEL) and the National Electricity Rules (NER) detail principles that need to be considered when determining the participant fee structure including:

- The fee structure should be simple.
- 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.

Please note that these principles may often compete; for example, a strong cost-reflective (user pays) structure is unlikely to be simple. Neither the NEL, nor the NER, expressly indicates that any one or more of these principles should have greater weight than the others and where there are competing principles, AEMO is permitted by the language of the NER, to adopt a structure that is not equally consistent with each of these principles.

2.2 Who should pay Electricity FRC market fees?

2.2.1 Consultation Questions Summary

In the Consultation papers, AEMO provided three options for stakeholder comments, while also providing the opportunity for stakeholders to propose other options.

Each option is outlined in the table below with links to the Rules guiding principles.

Table 1 - Electricity FRC options for charging market fees

	Advantages	Disadvantages
Option 1 – Continue to levy 100% of fees on Market Customers with a retail licence (Retailers)	<ul style="list-style-type: none"> • Clear and simple structure that is not inconsistent with the “reflective of involvement” principle, as retailers are the key beneficiaries of the FRC services and are heavily involved in the process. • Simple for retailers to on-charge end consumers (per connection point) at an average rate of \$1 per connection point per annum. • Simple for AEMO systems to administer charges for retailers. • Consistent with decision of not charging DNSPs for metering coordinator equivalent involvement. 	<ul style="list-style-type: none"> • Not fully reflective of involvement as DNSPs and Metering Coordinators are participants involved in and interacting with AEMO to deliver FRC services.

	Advantages	Disadvantages
Option 2 – Levy a fee on Metering Coordinators*	<ul style="list-style-type: none"> • Reflective of involvement in B2B data and IT platforms and procedure changes. 	<ul style="list-style-type: none"> • Less simple than the current structure. • It is not possible to capture other users of the FRC Electricity Service that are not registered participants i.e. B2B accredited party, or the Embedded Network Manager.
Option 3 – Levy a fee on Distributed Network Service Providers (DNSP)^	<ul style="list-style-type: none"> • Reflective of involvement. 	<ul style="list-style-type: none"> • Inconsistent with the simplicity principle as determining a percentage cost allocation for DNSPs will be difficult. • Greater complexity to administer in AEMO's systems. • The DNSPs may pass this cost onto Retailers, with the same effect as AEMO charging Retailers directly. • It is not possible to capture other users of the FRC Electricity service that are not registered participants i.e. B2B accredited party, or the Embedded Network Manager.

*As a result of the Power of Choice (PoC) reforms, the Metering Coordinator will be involved in the B2B data and IT platform of the FRC Electricity function. The Metering Coordinator will not be involved in other Electricity FRC services such as metering and settlements or customer transfers.

^DNSPs regularly interact with AEMO. In the current determination, neither DNSPs nor Transmission Network Service Providers (TNSPs) are charged fees, despite being involved in AEMO's services. DNSPs and TNSPs also provide services to AEMO that contribute to AEMO's ability to manage power system security and perform AEMO's National Transmission Planner role and other NEM functions, for example, data collection. The result, while more reflective of involvement, would not be simple, and charging DNSPs and TNSPs may result in additional charges being levied on AEM

2.2.2 Key considerations

The NER guiding principles supported AEMO's decision to levy Market Customers with a retail licence in the March 2016 Final Determination. In particular:

- The reflective involvement principle as Market Customers are directly involved in, and are beneficiaries of, AEMO's FRC services.
- The simplicity principle as this is a clear and simple approach.

A number of submissions in the first stage of the consultation outlined concerns around the proposed Options 2 and 3 which included the following:

- Concerns that additional administration charges would eventually be passed through to end user customers in increases to charges by distributors, and that these increases would not satisfy the NEO or provide any net benefit.
- That both options 2 or 3 may create barriers to entry and would not represent a participant's involvement, particularly for those DNSPs who may take on the Market Coordinator role through transition only.
- Are less simple and can create complexities in billing systems for retailers which would be passed on to upstream participants.
- Initial and ongoing audits of National Metering Identifier (NMI) activities would be required to ensure that participants are not funding inactive or duplicate connection points.

In the second stage, Energy Networks Australia reiterated the same concerns with Options 2 and 3 from the first stage.

All of the submissions from participants in the first stage and 6 of the 7 submissions in the second stage supported Option 1. In the second stage, Energy Australia noted that Option 1 is a pragmatic and low

cost solution however it does have inconsistencies in terms of the cost recovery not reflecting the costs associated with using, developing and modifying the relevant systems over time. AEMO considers that cost recovery reflecting use of the relevant system will be considered as part of a review if triggered to determine if a transaction fee is charged to third party B2B participants.

Therefore, as a result of the Power of Choice reforms and the creation of a new type of registered participant, the Metering Coordinator, a change to the fees structure is not warranted at this time as AEMO has not charged DNSPs before who have previously performed a similar function to the Metering Coordinator role.

No other options (to Options 1 to 3) were provided in any submission received from stakeholders in the first stage. In the second stage, Energy Australia submitted that AEMO should have broader regard to reviewing the mechanism for recovery of participant fees and this consideration should seek to adopt mechanisms that would allow for recovering costs in less resource intensive way and that do not discriminate against a particular class of participants. Although no specific structure was proposed by Energy Australia, AEMO considers that these issues are already captured in the principles of simplicity and not unreasonably discriminating against categories of participants that AEMO must have regard to under the NER.

2.2.3 Final Position

Electricity FRC market fees continue to be levied 100% on Market Customers with a retail licence.

2.3 The basis for charging FRC Electricity fees

2.3.1 Consultation Question Summary

AEMO sought comment from stakeholders on the basis of the charging of Electricity FRC fees as follows:

- In AEMO's Final Electricity Fee Structure Report published on 17 March 2016, it was concluded that from 1 July 2019 the basis for charging electricity FRC fees to Market Customers with a retail licence would change from the current MWh energy consumed basis to a charge on a per connection point basis,
- Given this was the determination published in March 2016, since then, is there a compelling reason not to proceed with this change?

2.3.2 Key considerations

AEMO's Electricity FRC services are underpinned by costs associated with people, processes and IT systems.

AEMO's investment in people, processes and systems is related to the number of connection points in the market. Therefore AEMO considers that charging Market Customers on a connection point "market share" basis is more appropriate than the current energy consumption basis.

AEMO also considered the fee structure in the gas markets operated by AEMO and notes that this "market share" basis of recovery is aligned with the basis of recovery in the gas FRC markets.

Through the consultation process there was general support for this approach.

2.3.3 Final Position

AEMO's final position is that the basis published in AEMO's Final Electricity Fee Structure Report published on 17 March 2016 is maintained, with Market Customers with a retail licence charged on a MWh energy consumed basis until 1 July 2019. From 1 July 2019 fees will be charged on a per connection point basis.

2.4 Basis of FRC Electricity: Implementation Date

2.4.1 Consultation Question Summary

AEMO sought comment from stakeholders on whether a staged implementation of any changes to the Electricity FRC fee structure is required, as follows:

- If the change to a connection point basis of charging is adopted should the implementation date remain at 1 July 2019 or earlier.
- Whether an acceleration of the change to connection point charging on 1 July 2018 would create implementation challenges for your business.

2.4.2 Key considerations

In considering the implementation date for the change to charging on a connection point basis, AEMO took into account the submissions received.

AGL, Active Stream and ERM supported bringing forward the commencement date in the first stage. In the second stage, Active Stream and ERM reiterated their support for bringing forward the commencement date and AGL was broadly supportive of commencing this cost recovery mechanism from 1 July 2019 using the connection point basis. Other submissions supported retaining the date at 1 July 2019.

If the implementation date was brought forward to either December 2017 or 1 July 2018, (as raised in some stakeholder responses) this may cause issues for some participants in meeting the implementation date due to the resource impact of implementing the changes required to participant IT systems and the associated flow on impacts at the same time as the implementation of the Power of Choice reforms.

2.4.3 Final Position

AEMO's final position is that the implementation date for the Electricity FRC Fee Structure to move to a connection point basis of charging should remain at 1 July 2019 as published in AEMO's Determination of 17 March 2016.

2.5 Third Party B2B Participants

For the purposes of rule 2.11 relating to Participant fees, Third Party B2B Participants (other than Third Party B2B Participants who are also Embedded Network Managers) who are not otherwise Registered Participants, are deemed to be Registered Participants.

This allows AEMO to consider charging Participant fees to Third Party B2B Participants that are not otherwise Registered Participants (except Embedded Network Managers).

Third Party B2B Participants are defined in the NER as parties that are accredited by AEMO to use the B2B e-Hub and who are not also a Distribution Network Service Provider, Retailer, Local Retailer, Metering Coordinator, Metering Provider or Metering Data Provider.



These Third Party B2B Participants may use the systems in a way that is unrelated to the standard market transactions.

However, at present it is unknown how many users may be in this category, the amount and type of transactions that may be processed by this category and what portion of the systems may be used by these participants.

2.5.1 Consultation Question Summary

AEMO sought comment from stakeholders as to whether setting a trigger level for reviewing if a transaction fee is warranted. The trigger level proposed was 25% of total transactions being attributable to third party B2B participants.

2.5.2 Key considerations

Acknowledging the reflective involvement “user pays” principle but also considering the current uncertainty as to if, and how, third party B2B participants may use the systems, AEMO considers it is appropriate to incorporate a trigger level based on transaction volume attributed to Third Party B2B Participants.

In the second stage, AGL and United Energy considered that 25% of all B2B transactions attributed to third party users is a reasonable level to trigger a review of fees. Other submissions did not comment on the level. While not directing referring to the trigger level, Energy Australia submitted that it is important that appropriate signals are sent to all users of systems reflecting the costs of those systems to incentive efficient behaviour and it should be considered how best to ensure to link costs to participants.

Considering the feedback in the second stage of consultation, AEMO considers a 25% annual transaction volume attributable to Third Party B2B Participants to be an appropriate trigger level.

2.5.3 Final position

AEMO's final position is that AEMO may consult on the Participant fees if the use of, or the number of transactions through the B2B e-hub by Third Party B2B Participants is 25% or more of the total transactions or is used over any 12 month period as determined by AEMO.