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Group Manager Regulation
Australian Energy Market Operator Limited
PO Box A2449
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23rd September 2020

Dear Kevin,

Electricity Fee Structures

The Australian Energy Council (the "**Energy Council**") welcomes the opportunity to make a submission in response to the Australian Energy Market Operator's ("**AEMO**'s") *Electricity Fee Structures Consultation Paper*.

The Energy Council is the industry body representing 22 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, sell gas and electricity to over ten million homes and businesses, and are major investors in renewable energy generation.

Introduction

AEMO must determine fees with respect to the Fee Structure Principles that have competing tensions within themselves. In particular there will clearly be trade-offs between the principles of simplicity and reflectivity.

AEMO's historical recovery has been heavily biased upon consumed energy by retailers, followed by exported energy and registered capacity of scheduled generators. The simplicity of this approach does not accurately represent cost reflectivity. This trade-off may have been appropriate for the era in which it was initially determined, but, with the traditional one-way flow of energy from scheduled generators to customers less and less applicable, is no longer tenable.

Activities that clearly have an existing and growing AEMO involvement, but the existing structure fails to adequately capture are:

- Customers with variable behind-the-meter generation reducing energy consumption;
- Customers exporting embedded generation into the grid;
- Non-scheduled generators;
- Non-market generators;
- Large-scale battery storage;
- Market Ancillary Service Providers;
- Wholesale Demand Response Providers;
- Small Generation Aggregators;
- Network Service Providers;
- Metering Co-ordinators and
- Traders and Reallocators.

AEMO's costs associated with supporting these activities have grown to such an extent that they can no longer be reasonably recovered from energy levies in the interest of simplicity.

As demonstrated in the paper's figures 4 and 5, the market which AEMO administers is undergoing fundamental change, due to an increase in variable renewable energy generation, and the widespread installation of distributed energy generation. It is therefore appropriate to review AEMO's

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fee structures and consider whether the parties which impose the most costs on AEMO's operations are being charged commensurately. This is particularly necessary given AEMO's foreshadowed $500m of expenditure over the coming years.

Discussion

Term of Fees

It is acknowledged that the power system is in transition, and the generation mix will differ markedly in the future. While this may suggest that a shorter period for AEMO's fee structure should be introduced so that the structure can change in concert with the change in generation mix, the Energy Council believes that the reduced certainty incurred by a shorter period does not warrant such a change, and supports the revised fee structure remaining on foot for five years, recognising that the structure determined will need to take into account expected generation mix changes over that period.

In addition, the Energy Council supports the proposed recovery of the 5MS and GS reforms being over ten years beginning 1 October 2021.

Allocation of Costs

The Energy Council is a supporter of the "reflective of involvement" principle, which attributes costs, within the bounds of the simplicity principle, ultimately to those who create a need for AEMO's services.

The Energy Council supports AEMO allocating its costs to registered participants as widely as possible, based on their participation in the market and responsibility for AEMO's costs. To this end, it is appropriate to include registered participants such as small generation aggregators, market ancillary service providers, wholesale demand response providers, metering coordinators, traders and reallocators in AEMO's cost allocations.

Generators and Storage

Previously there has been a distinction between different generator categories to reflect non-market and non-scheduled generators' reduced involvement in AEMO's functions. However the Energy Council considers this distinction is no longer meaningful, since the operation of the power system requires AEMO to have increased consideration for non-market and non-scheduled generators. Arguably the management of non-scheduled generators requires more, not less, of AEMO's attention. On that basis, the Energy Council believes that the proportion of AEMO's costs allocated to non-market and non-scheduled generators should be increased, potentially equalising the fees across the classes.

Presently semi-scheduled generators are charged the same fees as scheduled generators. The requirement for AEMO to forecast the output of semi-scheduled generators, which is not needed for scheduled generators, means that it could be appropriate for this category to pay slightly more.

The consultation paper raises the issue of whether direct costs should be allocated to generators on a MW or MWh basis.

The Energy Council comments that while variable renewable generation is an increasing proportion of the generation basis on a MW basis, it is also an increasing proportion on a MWh basis, therefore the decision on the basis upon which AEMO should charge its costs may well become academic over the term of the regulatory period. Thus continuation of the existing 50% energy, 50% capacity approach may be appropriate.

Management of large-scale battery storage is also a major focus of attention for AEMO. The paper has correctly identified that large-scale battery storage primarily participates in the frequency control ancillary services market ("**FCAS**") rather than the energy market. The present reliance on charging fees according to energy flows therefore materially undercharges this category. This could be resolved through an FCAS enablement volume charge.

Providers of System Services
In a similar vein to the changes recommended for non-market and semi- and non-scheduled generation, the Energy Council considers that providers of system services, like market ancillary service providers and wholesale demand response providers, should now bear an equitable allocation of AEMO's fees. Ancillary services and demand response are increasingly being unbundled from energy supply, and in the future separate revenue streams may be developed, sufficient to support new participants. It is therefore appropriate that AEMO considers including provisions in its fee structures so that participants taking advantage of these new arrangements contribute to their costs of participation.

Networks
The Energy Council considers it entirely appropriate that National Transmission Planner ("**NTP**") costs be recovered from Transmission Network Service Providers' ("**TNSPs**") as proposed by the Energy Security Board, and that this arrangement should endure.

Since July 2020 the Integrated System Plan has taken a major role in initiating new transmission, and its findings now form the basis for TNSP Project Assessment Draft Reports, as well as providing the underlying assumptions for successive reports in the application for a Regulatory Investment Test for Transmission. In doing this, a considerable amount of transmission planning activity has moved from TNSPs into AEMO.

The Energy Council agrees with the paper that there are a number of other activities that AEMO is undertaking that it would be appropriate to allocate to network service providers. These include:

- improvements to AEMO's digital, cyber and security systems;
- distributed energy resources managed by AEMO into which Distribution Network Service Providers ("**DNSPs**") may participate.

Major Reform Initiatives
The Energy Council understands that many of the major reform initiatives that AEMO is required to implement are outside AEMO's control. In that instance, allocating costs as broadly as possible upon customers is appropriate, since such initiatives have both a direct and indirect benefit across a number of different participant categories. Allocating broadly also meets the principles of:

- non-discrimination; and
- the National Electricity Objective, in that broadly based taxation is more efficient[1].

However the ability to charge cost recovery should not be exercised without prudent assessment of whether such costs are necessary, and it is appropriate for AEMO's Board to consider planned major expenditures in detail, consulting with members if necessary. The recently published joint Energy Council-Energy Networks Association study by Cambridge Economic Policy Associates into the Governance and Regulation of Market/System Operators may be instructive in that regard.[2]

Behind-the-meter Generation
A serious gap in the current structure relates to variable behind-the-meter generation, principally solar generation. The rapid growth in this technology is clearly causing considerable focus and costs for AEMO – through balancing the power system, researching and managing complex new technical matters, and even participating in the development of appliance Australian Standards. Yet in the

[1] See ACIL Allen advice update to AEMO 2016 https://aemo.com.au/-/media/files/stakeholder_consultation/consultations/electricity_consultations/structure-of-fees/acil-allen-advice-update-2016.pdf
[2] https://www.energycouncil.com.au/media/19091/finalcepa_aecena_marketsystemoperatorgovernance_report.pdf

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current structure, when a customer installs a solar system, its contribution to AEMO's fees goes down not up. This is clearly perverse.

The Energy Council accepts that resolving this anomaly requires solutions that introduce some complexity that will need discussion with participants during this consultation. Possibilities include:

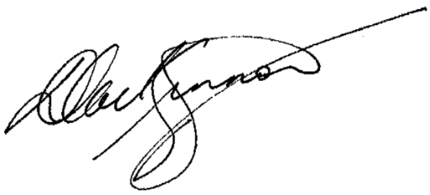
- shifting some of the Market Customer Fee from energy consumed to a per NMI basis;
- charging Market Customers fees for their customers' exports;
- charging Market Customers fees according to the number of solar systems recorded as installed in their customer base; and/or
- charging on "gross" customer energy consumption through a deeming technique.

Consumer Data Right
The Energy Council is aware that the Federal Government has already provided some funding to AEMO for the build of a Consumer Data Right ("**CDR**") gateway. The Energy Council acknowledges that this funding does not cover all of the build, and that there will be ongoing maintenance, amendment and management costs. The Energy Council recognises that the capital expenditure is significant, and retailers seek further advice from AEMO on the recovery method. The Energy Council believes that this cost should not just be recovered from market participants, but from other beneficiaries of the CDR, such as Accredited Data Recipients ("**ADRs**"), as well.

ADRs should be expected to pay the costs of the gateway, given their services will require and be requesting the data from data holders, which is transferred over the AEMO gateway. This should be done on a per data transaction basis. Recovering costs from ADRs, the parties that will primarily benefit from the CDR and the operation of the AEMO gateway, would be an efficient allocation of costs. This approach also means that ADRs will be more likely to participate in decisions around the gateway, which could mean better informed decisions around the gateway build.

Conclusion
Any questions about this submission should be addressed by e-mail to Duncan.MacKinnon@energycouncil.com.au.

Yours sincerely,



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