

23 September 2020



Mr Kevin Ly
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Dear Mr Ly

Electricity Fee Structures to apply to participant fees from 1 July 2021

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Australian Energy Market Operator (AEMO) on the *Electricity Fee Structures Consultation Paper* (consultation paper). AEMO has requested feedback on the issues raised in the consultation paper and the electricity fee structures to apply to electricity market participants from 1 July 2021.

Energy Queensland notes that AEMO's role and responsibilities have expanded since the current participant fee structure that expires on 30 June 2021 was determined five years ago. In recent years the Australian electricity industry has undergone significant and disruptive change to deal with the rapid growth of renewable and distributed energy resources and it is clear that this change will continue as the energy market transforms. The outcomes of the regulatory changes implemented to date have impacted all levels of the supply chain, leading to additional responsibilities and significant labour and technology-related investment for AEMO as well as the entry of new participants into the market who are not covered under the current fee recovery structure.

Energy Queensland supports AEMO's current review of the electricity market participant fee structure that should apply from 1 July 2021. However, while Energy Queensland supports in principle the proposal for AEMO to recover its revenue requirements from a broader participant base, with participants who benefit from the services provided by AEMO paying for those services, we are mindful that further consideration is required as to how the proposal will operate fairly and efficiently in practice and minimise the potential cost impacts on participants.

Energy Queensland therefore provides the following comments:

- Further information is required by participants who do not currently pay participant fees to enable them to assess the materiality of AEMO's proposal, i.e. the anticipated extent of the additional costs they will incur, and how those costs can be budgeted for and recovered, along with details of the services the fees will contribute towards. If AEMO determines to proceed with the proposal to recover its revenue requirements from a broader participant base, further consideration of the implementation timing may be required to allow participants sufficient time to appropriately budget for and manage the cost impacts.

- Regardless of the class of participant paying the fee, that fee will pass through the energy supply chain to customers. Consequently, the fees that are charged by AEMO to participants must be transparent, defensible and efficient. Energy Queensland therefore considers that AEMO's revenue requirements (including its debt funding approvals) and participant fee structure should be subject to enhanced scrutiny and governance to ensure they are prudent and efficient. In particular, we consider it important that:
 - The five year fee review period is retained to ensure fees are fit-for-purpose and charges remain current, particularly in light of the rapidly evolving nature of the energy market;
 - Regulatory compliance costs are minimised, or absorbed, as far as is possible;
 - Careful consideration is given to determining the fees that are attributable to a relevant participant (or customer) to ensure that not all participants (or customers) are required to meet all costs. For example, a customer with a direct connection to the grid should not be liable for AEMO's costs associated with embedded networks;
 - All investments are based on a robust cost-benefit analysis and cost impacts on participants that result from large-scale change are minimised and apportioned appropriately. The extent to which some programs implemented broadly across the National Electricity Market (NEM) deliver benefits in different jurisdictions is far from clear and Energy Queensland recommends that participants should only be charged to the extent, and at such time, that those programs deliver benefits in a particular jurisdiction, with apportionment of costs based on clear governance and transparent outcomes; and
 - Increased digitalisation should improve efficiency. Therefore, we expect that AEMO's investment in market systems development will result in reduced revenue requirements for AEMO and that savings will ultimately flow through to participant fees.
- Energy Queensland agrees that costs attributable to a retail business (i.e. Market Customer) should be met by that business and that charging on a per megawatt hour basis is the appropriate method for determining charges rather than on a per National Metering Identifier basis. This approach has operated efficiently since commencement of the NEM and reflects the manner in which the wholesale market settles. We consider there is no reason to change that approach.
- Energy Queensland agrees in principle that where a participant or another third party expressly requires a bespoke service or product from AEMO, then that party should pay. However, charging participants for hub services has the potential to create uncertainty and confusion and result in complexity and administration costs which may outweigh the revenue recovered. There are too many inputs that may require exclusions, such as a participant logging system defects or vendors logging issues on behalf of participants, which have the potential to overly complicate the charging process.
- If it is determined that the participant fee structure should be expanded to include new participant categories, Energy Queensland considers the new role of demand response service provider should be included upon commencement of the wholesale demand response mechanism to ensure a level playing field

and minimise the potential for generators and retailers to be subsidising the costs of providing services to other participants.

- Finally, while Energy Queensland acknowledges the regulatory changes in the energy market that have already occurred and the increasing number of regulatory consultations that are in the pipeline, we remind AEMO that participants must also meet their own operational and capital costs. Those costs ultimately flow through to customers. We therefore consider there is a need for AEMO to cap its future operating and capital expenditure at a reasonable level to minimise costs for customers.

Should AEMO require additional information or wish to discuss any aspect of this submission, please contact me on 0467 782 350 or Charmain Martin on 0438 021 254.

Yours sincerely



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