4 February 2021

Kevin Ly
Group Manager Regulation
Australian Energy Market Operator (AEMO)
Level 2, 20 Bond Street
SYDNEY NSW 2000

Submitted via email: kevin.ly@aemo.com.au

Dear Mr. Ly,

AEMO PARTICIPANT FEE STRUCTURES DRAFT REPORT AND DETERMINATION

Endeavour Energy appreciates the opportunity to provide this response to AEMO's draft report on electricity fee structures to apply to participant fees from 1 July 2021. AEMO has proposed changes from the existing fee structure primarily to reflect the changing scope and focus of their interactions with registered participants stemming from the regulatory and technological transformation in the National Electricity Market (NEM).

From a network perspective, the most significant change is the allocation of a portion of AEMO's core NEM function costs to regulated networks reflecting the extent of their involvement with AEMO's core activities. The cost allocation to networks (approximately 18% for transmission networks and 3% for distribution networks) were informed by surveyed AEMO senior managers and will commence from 1 July 2023. This delay is to allow networks to submit a rule change to enable recovery or provide other administrative arrangements for cost recovery.

We consider the proposed transitional period does not adequately resolve the cost recovery concerns previously raised by stakeholders, particularly as it relies on future regulatory changes and outcomes that are not within the AEMO's remit. Without a clear pathway for networks to recoup costs from customers on behalf of AEMO, the draft arrangements remain incomplete.

Furthermore, we consider AEMO has only provided limited transparency of the survey process underpinning the draft cost allocations and has not adequately demonstrated a balanced assessment of its draft fee structure against other options. Notably, the relative simplicity of maintaining the status quo arrangements has been overlooked in favour of extending core NEM costs to networks. The draft structure will increase the administrative burden across the industry which will ultimately be borne by customers in conflict with the National Electricity Objective (NEO).

We share the concerns raised by Energy Networks Australia (ENA) in their submission to the draft report and similarly do not support the allocation of NEM charges to Network Service Providers (NSPs). In addition to these concerns our views on the key issues discussed in are outlined below.

Recovering new participant fees

Networks face unique challenges in recovering new regulatory and compliance costs from customers simply and quickly. Regarding AEMO's core NEM costs, cost recovery would not be possible within the current regulatory control period with allowable revenues having already been determined by the Australian Energy Regulator (AER)[1]. This is further complicated by the staggered regulatory control periods across the NEM and the requirement for networks (and the AER) to accurately forecast future participant fee amounts for inclusion in future period revenue allowances.

[1] This assumes the National Electricity Rule requirements for an eligible regulatory change pass through event is not met.

We recognise AEMO has responded to these stakeholder concerns by deferring the recovery of fees for networks. However, a 1 July 2023 commencement will still require most networks to fund the cost of these fees from existing revenue allowances. For the networks starting a new regulatory period on or after the commencement date, there will be challenges around the variability of AEMO's annual costs and forecasting expected fees for inclusion in regulatory allowances.

We do not consider imposing participant fees on networks without providing a regulatory solution to enable these costs to be recovered from customers delivers an equitable outcome or is in the long term interest of customers. Instead, it would be inconsistent with the revenue and pricing principles in the National Electricity Law (NEL) which we believe AEMO should have greater regard to when making the final decision.

Also, AEMO has placed the onus on networks to initiate the requisite regulatory framework changes to enable the new fees to be recovered from customers. In our view, it would be better regulatory practice for AEMO to itself submit a rule change request in conjunction with this consultation so the two interrelated consultations could progress in parallel in a manner similar to AEMO's *Initial Distributed Energy Resources (DER) Minimum Technical Standards* consultation which was conducted alongside the *Technical Standards for DER* rule change proposed by AEMO.

Progressing the rule change with the fee structure consultation would provide stakeholders with confidence that the rule change outcomes support the fee cost recovery arrangements as envisaged by AEMO and avoid uncertainties associated from the enabling rule change process lagging the finalised fee structure. We consider these uncertainties should be strong considerations in deciding whether to charge participant fees to networks.

Transparency of cost allocations and options assessment

It is noteworthy that in response to stakeholder criticisms regarding their consultation processes that AEMO is in the process of updating its engagement model. AEMO have stated, in broad terms, that updates will aim to deliver a more transparent and collaborative experience for stakeholders.

In contrast to these objectives, AEMO's draft report provides only a rudimentary description of the key activities and outputs attributable to participants and the survey techniques and process undertaken to derive the cost allocation shares. Also, it does not adequately demonstrate (at least to a level of detail that is commonplace in decisions and reports published by the AER and AEMC) how stakeholder feedback has been incorporated into the draft determination. The latter is most conspicuous in AEMO's decision to allocate fees to networks despite eight out of ten respondents, including non-network stakeholders, supporting a continuation of existing fee allocations.

It is imperative that fee allocation decisions are made on the basis of a transparent and replicable cost allocation methodology. However, the reliance on the responses of senior AEMO staff suggests there is some arbitrariness in the way allocations have been derived. Furthermore, the lack of detail and consultation on the design and delivery of the cost allocation survey inhibits external scrutiny of the reported allocations and is at odds with the AER's detailed and consultative approach on the appropriate use of surveys to inform updates to Values of Customer Reliability (VCR) estimates.

We also query AEMO's assessment of the options against the fee structure principles. For instance, the simplicity principle would be most clearly met by the retaining the status quo arrangements as allocating NEM costs to networks would introduce new and inefficient administrative costs. This, and any other benefits of maintaining current fee structures should be considered more clearly to stakeholder to demonstrate a more balanced assessment of options.

Other potential benefits could include allowing the outcomes from the Energy Security Board's (ESB) Post 2025 NEM design review - specifically the two-sided market reforms and the potential recategorisation of participants into a single "trader" category – to be finalised prior to allocating costs in accordance with the new market structure. Similarly, it may be more prudent to maintain the status quo until the review of AEMO's governance and operating model is complete.

We would welcome the opportunity to discuss our submission further, for further information please contact Joe Romiti, Regulatory Analyst at Endeavour Energy on (02) 9853 6232 or via email at joseph.romiti@endeavourenergy.com.au.

Yours sincerely

Colin Crisafulli
Manager Network Regulation