



12 October 2015

AEMO
Level 22
530 Collins St
Melbourne
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By email to jack.fitcher@aemo.com.au

Dear Mr Fitcher,

Electricity Markets Structure of Participant Fees

AGL is one of the leading electricity generators, gas suppliers and energy retailers in Australia, with over 3.7 million electricity and gas retailer customers. Participant fees are a significant expense to AGL, and we welcome the opportunity to comment on the AEMO's Electricity Markets Structure of Participant Fees initial consultation.

AGL's approach

In an environment of changing technologies and supply arrangements, AEMO will retain a dynamic role in the provision of market system operations. Given this dynamic environment, AGL supports a nationally consistent and principles-based approach to setting participant fees. The outcome of which is maintaining a level playing field amongst all energy providers.

In establishing the principles that should apply to the setting of participant fees, AGL remains attentive to the previous Allen Consulting report to AEMO in this regard. The Allens report referenced three types of general economic efficiency theory: allocative efficiency, productive (or technical) efficiency and dynamic efficiency.

Allocative efficiency provides the least distortion to end user price. Consequently, AEMO's Generators fees have historically been based on their MW capacity, as fixed charge that is not directly related to the amount of electricity they produce, in equal consideration to their electricity production.

Productive efficiency is evident in a fee structure that is one that places discipline on costs. In a fee structure that genuinely addresses productive efficiency, the "free rider" is constrained by not simply being able to pass on their costs to other participants. AGL's proposal to introduce new and discrete participant fees for the Metering Coordinator function is such an example.

Dynamic efficiency is promoted when a fee structure is simple, reflects the involvement of the participants and maintains the level playing field in that it does not unreasonably discriminate between them.

Finally, participant fees should reflect the extent to which the budgeted revenue requirements for AEMO involve that class of participant.

AGL's responses to AEMO's specific questions from the initial consultation on the structure of electricity markets participant fees to apply from July 2016 are presented below.

Period of application.

What is the preferred length of time over which the structure of Participant fees for electricity markets should apply?

Five years, escalated in line with CPI. This approach is consistent with historical practice, and provides sufficient certainty for market participants.



The current NEM fee structure

What are your comments on the current method of charging Generators and MNSPs fees? Is there a more appropriate method to charge Generators and MNSPs?

Fixed costs predominate AEMO's budget. As discussed in our opening remarks, allocative efficiency would support the existing approach whereby 50% is collected on the basis of MWh of energy scheduled or metered in the previous calendar year, and 50% is collected on the basis of the higher of the greatest registered capacity and highest notified maximum capacity in the previous calendar year.

What are your comments on the current method of charging Market Customers fees based on actual energy consumed? Is there a more appropriate method to charge? For example, should there be a fixed component of fees as well as a variable consumption based fee?

Market Customer Fees are currently collected on the basis of MWh settled in spot market transactions in each billing period, using a rate set on the basis of forecast total MWh for the current calendar year. Allocative efficiency suggests that like Generators, a fixed fee should apply per market customer. This could begin at, say, 20% of AEMO estimates with a variable charge for usage to make up the balance. Over the period of the new fee structure, the fixed to variable component could be adjusted to reflect 50/50. This way cost recovery starts to move away from fully variable and to better reflect the actual nature and costs of Market Customers involvement as a participant.

National Transmission Planner (NTP) costs

What are your comments on the current approach on the fee structure for the NTP function?

NTP is a core NEM function. Allocation across all customers is appropriate.

Is there a more appropriate method to charge fees for the NTP function?

Not in our view.

Given there may be linkages between the NTP and NEM functions, should the NTP function potentially be consolidated into the NEM function with one fee charged?

No. The single fee is not consistent with the principle of productive efficiency. Discrete costs created by the NTP function still need to be visible to participants to provide clarity as to AEMO functions and their impact on participant expense.

Full Retail Competition (FRC) costs

What are your comments on the current fee approach for the electricity FRC function?

Consumption based recovery is appealing as it is simplistic, but it does not reflect the benefits accrued to customers by FRC. Connection Point Recovery is more consistent with the principle of is an example of dynamic efficiency.

Is recovering electricity FRC costs on a connection point basis more appropriate?

Connection point recovery is most appropriate as it reflects better the flow of benefits of competition.



Energy Consumer Advocacy (ECA)

What are your comments on the current approach of recovering ECA costs on the basis of a fee per connection point for small customers?

Connection point recovery is most appropriate as it reflects better where the benefits of ECA accrue. Connection Point Recovery is more consistent with the principle of dynamic efficiency.

Is there a more appropriate method to charge fees for ECA costs?

No

Staged Implementation

AEMO welcomes comments on the concept of having a staged implementation if material changes are proposed to the fee structure and also the types of changes that may warrant a staged implementation.

Given a 2016 start date, a staged implementation of the Participant Fees should not be necessary; budget costs should be recovered for the year in which they are incurred. The exception to this may be if changes to fee collection for Market Customers were approved in a fixed/variable form, then a sliding scale from 20% in year 2 to 50% in year 5 may be appropriate.

However, as previously raised, early advice to participants of fee levels will be important to ensure they can be appropriately factored into other charges.

Registration Fee Structure

What are your comments on the current registration fee structure and the proposal to determine and set the actual amount of the registration fees for each application type via the annual AEMO budget and fee setting process?

Registration for scheduled generator in 2015 is currently \$20K, and for a market customer is \$10K. This fee is up from \$4K 5 years ago and was expected to reach cost reflective levels by now. These current registration fees should remain as the 2016 starting fees, and benchmarked against actual processing costs again in 2017.



Participant Compensation Fund (PCF)

What are your comments on how to charge NEM PCF fees to Scheduled Generators, Semi-Scheduled Generators and Scheduled Network Service Providers?

The NEM PCF component is only be applied when there is a funding requirement; ie when there has been a payment of compensation following a scheduling error. The estimated balance of the NEM PCF at 30 June 2015 was \$5.2M, so the funding requirement for 2015-16 is nil. Current arrangements for recovery appear satisfactory.

Incremental Services

What are your comments on charging for incremental services fees where a specific service is performed?

Where it is practical for AEMO to identify that it is doing something specific for a participant or another party, and that action causes additional identifiable and material costs for AEMO, AEMO will continue to seek to levy fees to recover the incremental costs incurred.¹ We see no requirement for AEMO to deviate from this approach.

Other issues relating to the structure of Participant fees in AEMO's electricity markets.

Metering Co-ordinator

AGL notes that AEMO's initial consultation doesn't recognise the new class of market participant; the meter coordinator (MC). The MC role will be created in 2017, which is within the 5 year period.

Under the recently released AEMC draft Rule on the Shared Market Protocol², AEMO is required to establish a new Information Exchange Committee (IEC) during the 2016 – 2017 year, which includes metering representatives. AGL believes that those parties who are to be represented and participate on this new IEC should be registered fee paying participants.

Under this arrangement, responsibility for coordinating metering services is separated from the roles of the FRMP or the LNSP, and customers may engage an MC directly. This makes the MC a stand-alone market participant, interacting directly with MSATs and therefore AEMO.

LNSP's will also assume this role, and therefore will require concomitant treatment.

AGL anticipates that MC's and LNSP's may contend that coordinating metering services is a pass through charge and therefore any additional cost is incurred by the end user and recovered by the market customer. This contention is appealing in its simplicity, but is not consistent with the principle of productive efficiency.

AGL contends that participant fees should be allocated against the correct participant, and a new type of participant fee for the Metering Coordinator role is required. Given the operation of AEMO systems is largely a fixed cost, a fixed fee consistent with the cost of servicing the MC role is appropriate. Therefore these fees should be applied from the 2016 period.

¹ AEMO. DETERMINATION AND REPORT – STRUCTURE OF PARTICIPANT FEES IN THE NEM 2011

² AEMC - Final Advice - Implementation advice on the shared market protocol, Oct 2015

Shared Market Protocol (SMP)

AGL anticipates that funding for managing the shared market protocol (SMP) for the new metering environment will be made for the Information Exchange Committee (IEC), which is expected to take on responsibility for this function.



Should you have any questions in relation to this submission, please contact David Markham, Senior Network Strategy and Regulation Adviser, at david.markham@agl.com.au or (03) 8633 6150.

Yours sincerely,

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