

# CONSULTATION PAPER – STRUCTURE OF PARTICIPANT FEES IN AEMO’S ELECTRICITY FULL RETAIL COMPETITION MARKET

INITIAL CONSULTATION

Published: **November 2016**





# EXECUTIVE SUMMARY

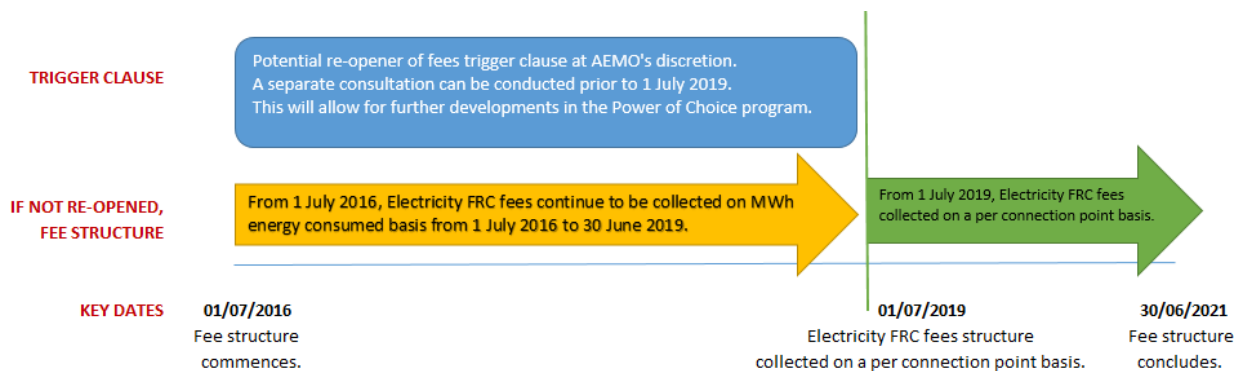
AEMO is conducting a consultation on the structure of Participant fees for the Electricity Full Retail Competition (FRC) function.

## Background

A full consultation on the Structure of Participant Fees in AEMO’s Electricity Markets was conducted by AEMO in late 2015, with a Final Determination published 17 March 2016.

The Final Electricity FRC fee structure published in the Final Report<sup>1</sup> 17 March 2016 determined:

- Electricity FRC fees to continue to be charged on a MWh energy consumed basis from all Market Customers (Retailers) from 1 July 2016 until 30 June 2019.
- A trigger clause to be incorporated to allow for a separate consultation to be conducted at AEMO’s discretion for the Electricity FRC fee structure to consider the impact associated with Power of Choice Projects (i.e. this consultation).
- If not re-opened, **from 1 July 2019, Electricity FRC fees will be collected from all Market Customers on a per connection point basis.**



The AEMC has made changes to the NER in response to recommendations made in the AEMC Power of Choice Review Final Report<sup>2</sup>. Changes to the NER and related procedures as a result of these rule changes will become effective during the period of the Participant Fee Structure Final Determination.

Key dates are:

- From March 2017 – Process for registration of Metering Coordinators as registered participants and accreditation and registration of metering providers, metering date providers and embedded network managers will be published.
- From June 2017 – Process for accreditation of B2B e-Hub participants will be published.
- From 1 December 2017 – Go-live, Rule changes become effective.

AEMO now considers it appropriate to review the structure of the Electricity FRC fees, and provide an opportunity for stakeholders to provide input.

<sup>1</sup> <https://www.aemo.com.au/Datasource/Archives/Archive595>

<sup>2</sup> AEMC rule changes relevant to this consultation include National Electricity Amendment (Updating the electricity B2B framework) Rule 2016 No. 6, National Electricity Amendment (Embedded Networks) Rule 2015 No. 15, National Electricity Amendment (Expanding competition in metering and related services) Rule 2015 No. 12



### Closing date for submissions

**The closing date for submissions responding to this paper is 16 December 2016.**

This consultation only applies to the structure of the electricity FRC fees. The actual amount charged for the electricity FRC fee will be determined on an annual basis, via the AEMO budgeting process.

### Guiding principles in structure of Participant fees

In determining the structure of Participant fees, 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 structure of Participant fees. These are:

- The structure of Participant fees should be **simple**.
- The **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.

To help stakeholders respond to this paper, AEMO has highlighted a number of areas that stakeholders may wish to comment on. Submissions are not restricted to these areas and comments are welcome on any relevant issue, regardless of whether it is detailed in this document.

### Summary of areas for your comment

- Whether FRC Electricity fees should continue to be charged to only Market Customers or whether other registered market participants should also be charged.
- Whether the intended change to charge FRC fees from 1 July 2019 on a connection point basis is appropriate or whether an alternative option is preferred.
- Whether a staged implementation is required for any proposed changes.
- Any other issues you wish to raise.



# CONTENTS

<b>EXECUTIVE SUMMARY</b>	<b>1</b>
<b>1. CONSULTATION OVERVIEW</b>	<b>4</b>
1.1 Key information	4
1.2 Guiding principles	5
<b>2. POWER OF CHOICE REFORM</b>	<b>6</b>
2.1 Power of choice reforms and scope of this fee structure consultation	7
2.2 Registration and accreditation fees	9
<b>3. AREAS FOR YOUR COMMENT</b>	<b>10</b>
3.1 What Registered Participants should pay FRC Electricity market fees	10
3.2 On what basis should the Electricity FRC fees be charged	12
3.3 Staged implementation	13
3.4 Other comment and issues	13



# 1. CONSULTATION OVERVIEW

The Australian Energy Market Operator Limited (AEMO) invites you to provide a submission on this Consultation Paper – Structure of Participant fees in AEMO’s Electricity FRC market.

## 1.1 Key information

<b>Purpose</b>	To provide stakeholders with the opportunity to have input into the development of the structure of Participant fees for the Electricity FRC market.												
<b>Date applicable to new structure</b>	To be determined in this consultation.												
<b>Functions covered in this consultation</b>	<ul style="list-style-type: none"> <li>Electricity Full Retail Competition</li> </ul>												
<b>Timetable</b>	<p>The following table contains an outline of the consultation process, including key dates. Please note the key dates are proposed and may change.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"><i><b>Milestone</b></i></th> <th style="text-align: left;"><i><b>Date</b></i></th> </tr> </thead> <tbody> <tr> <td>Submission closing date for this initial consultation paper</td> <td>16 December 2016</td> </tr> <tr> <td>Publication of Draft Report for stakeholder comment</td> <td>By 6 February 2017</td> </tr> <tr> <td>Submission closing date for Draft report</td> <td>By 21 February 2017</td> </tr> <tr> <td>Publication of Final Report</td> <td>By 31 March 2017</td> </tr> <tr> <td>New fee structure commencement</td> <td>To be determined from this consultation.</td> </tr> </tbody> </table>	<i><b>Milestone</b></i>	<i><b>Date</b></i>	Submission closing date for this initial consultation paper	16 December 2016	Publication of Draft Report for stakeholder comment	By 6 February 2017	Submission closing date for Draft report	By 21 February 2017	Publication of Final Report	By 31 March 2017	New fee structure commencement	To be determined from this consultation.
<i><b>Milestone</b></i>	<i><b>Date</b></i>												
Submission closing date for this initial consultation paper	16 December 2016												
Publication of Draft Report for stakeholder comment	By 6 February 2017												
Submission closing date for Draft report	By 21 February 2017												
Publication of Final Report	By 31 March 2017												
New fee structure commencement	To be determined from this consultation.												
<b>Meetings</b>	Stakeholders may request a meeting in their submission. Please specify why you would like a meeting. Matters discussed at a meeting may be made available to other stakeholders.												
<b>Submissions closing date and information</b>	<p>Electronic and hardcopy submissions are invited.</p> <p>Please provide submissions by <u>5.00pm AEDT 16 December 2016</u> to <a href="mailto:jack.fitcher@aemo.com.au"><b>jack.fitcher@aemo.com.au</b></a> or hardcopies to</p> <p>Jack Fitcher          Australian Energy Market Operator Limited          GPO Box 2008          MELBOURNE VIC 3001</p> <p>AEMO plans to publish all submissions on its website. Please identify any part of your submission that is confidential and you do not wish to be published. Respondents should also note that if material identified as confidential cannot be shared and validated with other stakeholders then it may be accorded less weight in AEMO’s decision making process than published material.</p>												



## Inquiries

Mr. Jack Fitcher  
Chief Financial Officer, Australia Energy Market Operator Limited  
Level 22, 530 Collins Street MELBOURNE VICTORIA 3000  
Phone: (03) 9609 8506  
Email: jack.fitcher@aemo.com.au

## 1.2 Guiding principles

In determining Participant fees, AEMO must have regard to the National Electricity Objective (NEO). In addition, the NEL and NER detail a number of principles that need to be considered when determining the structure of Participant fees, including:

- The structure of Participant fees 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 may often be competing, for example a strong cost-reflective (user pays) structure is unlikely to be simple. Neither the NEL, nor the NER, expressly indicate 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.

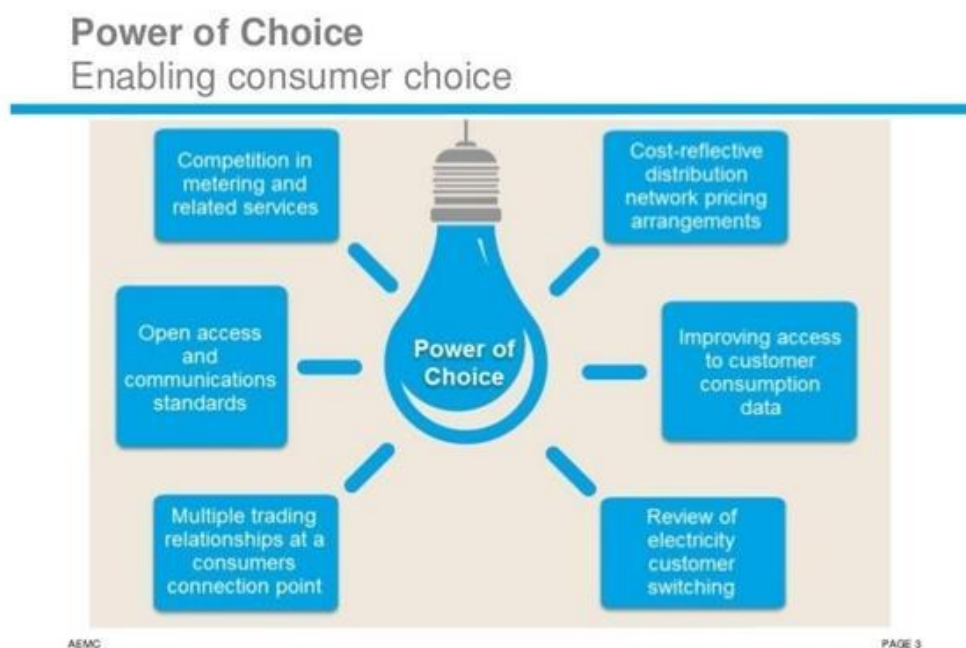
When presenting preferred structures, respondents are encouraged to identify any competing principles applicable to the preferred structure and, where possible, describe how these principles should be approached having regard to the NEO.



## 2. POWER OF CHOICE REFORM

The Power of Choice (PoC) reforms intend to support the National Electricity Market to meet consumer needs over the next 15-20 years by:

1. Providing Australian energy consumers with information, education, incentives and technology they need to efficiently manage their electricity use; and,
2. Provide network operators, retailers and other parts of the electricity support chain with incentives to better support consumer choice, and use flexible demand to reduce overall industry capital and operating costs.



The PoC program is jointly led by:

- The Council of Australian Governments (COAG) Energy Council; and
- The Australian Energy Market Commission (AEMC); and
- AEMO

### **AEMO’s role in the PoC reform**

AEMO’s role in the PoC reform program is to develop and execute an efficient and effective implementation program that best meets the needs of both consumers and industry.

AEMO is amending existing procedures and creating new procedures to reflect the changes to the NER as a result of the PoC review.

The timeframe of changes to procedures by AEMO is tabled below:



Work Package	Final Report published	Comments
<b>PoC Procedures Package 1</b> <i>(Completed)</i>	Published on 31 August 2016 on AEMO’s website <sup>3</sup>	Related to rules changes for Competition in Metering, Embedded Networks and Metering Replacement Processes.
<b>PoC Procedures Package 2</b> <i>(Not completed)</i>	Published by 1 March 2017.	Relates to, amongst other things, the accreditation and registration requirements for metering providers, metering data providers and embedded network managers.  Formal stakeholder consultation commenced in October 2016.
<b>Updating the B2B Framework</b>	New B2B procedures and information on the process for accreditation as a B2B e-hub participant published by 1 June 2017.	The AEMC published the final rule and determination for Updating the B2B Framework on 30 June 2016. This establishes new information Exchange Committee (IEC) arrangements and requirements for B2B Procedures.  The IEC is responsible for the governance of B2B Procedures. The Rule requires: <ul style="list-style-type: none"> <li>• By 1 May 2017 – IEC recommend a change to the B2B procedures to take into account the rule changes</li> <li>• By 1 June 2017 – AEMO publish the new B2B procedures and information on the process for accreditation as a B2B e-hub participant.</li> <li>• By 1 December 2017 – new B2B procedures would commence – aligning with the go live dates for Metering Competition and Embedded Network rule changes.</li> </ul>

## 2.1 Power of choice reforms and scope of this fee structure consultation

AEMO considers that there are three rule changes that are required to be made as a result of the Power of Choice program - metering competition<sup>4</sup>, embedded networks<sup>5</sup> and updating the electricity B2B framework<sup>6</sup>.

The participant fee structure only applies to registered participants under the NER<sup>7</sup> and Metering Coordinators are the only new registered participant category introduced as a result of the relevant rule changes. The rule changes also create other roles such as embedded network managers and B2B e-Hub Participants, however, as these roles are not registered participants under the NER, they are not considered under this consultation. The effective date for the rule changes is 1 December 2017.

<sup>3</sup> PoC Procedure Package 1 website link: <https://www.aemo.com.au/Stakeholder-Consultation/Consultations/Power-of-Choice---AEMO-Procedure-Changes-Package-1>

<sup>4</sup> National Electricity Amendment (Expanding competition in metering and related services) Rule 2015 No. 12

<sup>5</sup> National Electricity Amendment (Embedded Networks) Rule 2015 No. 15

<sup>6</sup> National Electricity Amendment (Updating the electricity B2B framework) Rule 2016 No. 6

<sup>7</sup> A registered participant is a person who is registered by AEMO in any one or more of the categories listed in rules 2.2 to 2.7 in the NER.



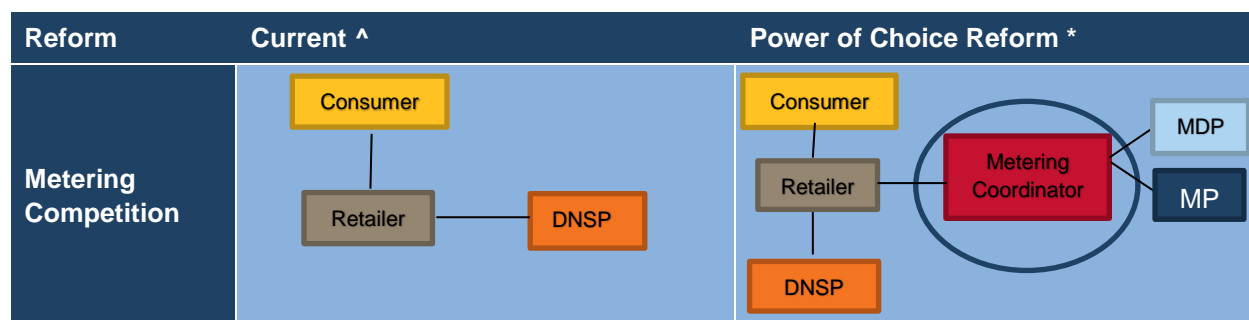
Project	Purpose	New registered participants*	Other participants that are not registered participants	Participants considered in this fee structure consultation scope (Y/N?)
<b>Metering Competition (MC)</b>	Enhance competition in metering services.	Metering Coordinator	N/A	Yes - Metering Coordination in scope for this fee structure consultation.
<b>Embedded Networks (EN)</b>	Enhance competition and consumer choice in embedded networks.	None	Embedded Network Managers (ENM)	No – outside scope as ENM are not registered participants.
<b>Updating B2B framework</b>	Provide efficient and a secure communications tool for counter parties to share information	None	Business to Business (B2B) e-Hub Participant	No – outside scope as B2B e-hub participants are not registered participants.

\*For the purposes of the participant fee structure, a registered participant is a person who is registered by AEMO in any one or more of the categories listed in rules 2.2 to 2.7 in the NER. Registered participants are charged AEMO market fees in accordance with the participant fee structure final determination.

### 2.1.1 Metering Coordinator as the new participant arising from the Power of Choice reforms

The Metering Coordinator will be the sole new registered participant as a result of the Power of Choice reforms considered in this fee structure consultation.

For background, the below illustration demonstrates the metering coordinator’s relationship with other participants as a result of the PoC reforms.



^ In the Current arrangement, the entity responsible for arranging for the installation, maintenance and reading of the meter can only be a retailer or distribution network service provider (DNSP) (responsible person).

\*The Power of Choice Reform enables a Metering Coordinator to be any person who has registered in the role. The Metering Coordinator must appoint a Metering Provider to install and maintain the metering installation, and a Metering Data Provider to read the meter.



## 2.2 Registration and accreditation fees

Registration fees are a charge reflecting the costs to AEMO of registering a new registered participant.

The Electricity FRC fee structure published in the Final Report<sup>8</sup> 17 March 2016 determined:

- The fee structure for registration fees for each application type to continue to be charged.
- The new type of applicant ‘Metering Coordinator’ to also be charged a new registration fee.
- The amount of new registration fees (in Australian dollars) will be set as part of the annual budget.

### Accreditations fees

Accreditation fee structure are outside the scope of this consultation because accredited participants are not registered participants.

Accreditation fees will be charged to Embedded Network Managers and B2B e-hub participants on a cost recovery basis. The accreditation fees charged to accredited parties would recover any incremental costs incurred by AEMO.

Participant	Registration fee	Accreditation fee <sup>^</sup>
Retailers (existing registered participants)		N/A – no accreditation required.
Metering Coordinator (new registered participant – PoC reform)		N/A – no accreditation required.
Embedded Network Manager	N/A - not a registered participant.	
B2B e-Hub Participant	N/A - not a registered participant.	

<sup>^</sup>Accreditation fee - The accreditation requirements in relation to the procedures is currently being consulted on in the PoC Procedures Package 2. The formal stakeholder consultation for this package commenced in October 2016 with final report expected to be published in March 2017.

<sup>8</sup> <https://www.aemo.com.au/Datasource/Archives/Archive595>



### 3. AREAS FOR YOUR COMMENT

To help assist your response, AEMO has highlighted a number of areas for comment. Your submissions are not restricted to these areas, you may comment on any other relevant issue.

#### 3.1 What Registered Participants should pay FRC Electricity market fees

Market fees are currently levied on Market Customers with a retail licence for AEMO’s FRC services. The NER guiding principles that supported this decision in the March 2016 Final Determination was the reflective of involvement principle as retailers are directly involved in AEMO’s execution of the services, and retailers are also the beneficiaries of AEMO’s services and the simplicity principle.

However as a result of the Power of Choice reforms a new type of registered participant, the Metering Coordinator, will be established and AEMO considers it appropriate to consider whether a change to the structure of fees is warranted.

AEMO has not charged DNSPs previously for performing functions similar to the Metering Coordinator role.

AEMO presents three options for consultation with stakeholders. Each option is discussed in-line with linkage to the guiding principles under the Rules.

##### Option 1 – Continue to levy 100% of fees on Market Customers (Retailers)

Benefits	Disadvantages
<ul style="list-style-type: none"> <li>• 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.</li> <li>• Simple for retailers to on-charge end consumers (per connection point) at an average rate of \$1 per connection point per annum.</li> <li>• Simple for AEMO systems to administer charges for retailers.</li> <li>• Consistent with decision of not charging DNSPs for metering co-ordinator equivalent involvement.</li> </ul>	<ul style="list-style-type: none"> <li>• Not fully reflective of involvement as DNSPs and Metering Coordinators are participants involved and interact with AEMO to deliver the FRC services.</li> </ul>

##### Option 2 – Levy a fee on Metering Coordinators

As a result of the 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.



Benefits	Disadvantages
<ul style="list-style-type: none"> <li>• Reflective of involvement in the B2B data and IT platforms and procedure changes.</li> </ul>	<ul style="list-style-type: none"> <li>• Less simple than the current structure.</li> <li>• 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.</li> </ul>

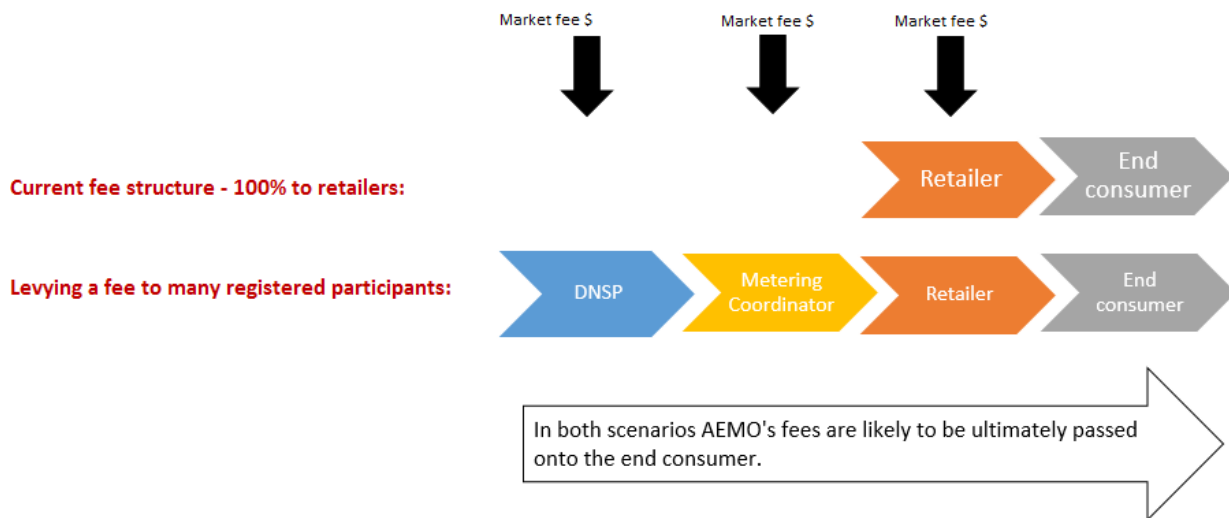
### Option 3 – Levy a fee on Distributed Network Service Providers (DNSP)

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, whilst more reflective of involvement, would not be simple and charging TNSPs and DNSPs may result in additional charges being levied on AEMO.

Benefits	Disadvantages
<ul style="list-style-type: none"> <li>• Reflective of involvement.</li> </ul>	<ul style="list-style-type: none"> <li>• Inconsistent with the simplicity principle as determining a percentage cost allocation for DNSPs will be difficult.</li> <li>• Greater complexity to administer in AEMO’s systems.</li> <li>• The DNSPs may pass this cost onto Retailers, with the same effect as AEMO charging Retailers directly.</li> <li>• 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.</li> </ul>

### Potential implications to end consumers and implications of AEMO fees being levied across multiple participants

AEMO illustrates the implications of Options 2 and 3 in terms of one of the disadvantages of charging upstream participants. By charging upstream participants this may only create complexities in billing systems with these upstream participant costs being passed downstream to the retailer, and ultimately the consumer.



### Option 4 – Alternate options

AEMO welcomes any alternative options.

**Questions**

1. AEMO welcomes your comments on Options 1 to 3.
2. AEMO welcomes an alternative option including alignment to the guiding principles in the NER and the NEO.

## 3.2 On what basis should the Electricity FRC fees be charged

AEMO has several functions relating to the facilitation of retail market competition (customer choice). These broad services include:

**Table 1 AEMOs services for the Electricity FRC function**

Electricity FRC services	Inclusions	AEMO costs
<b>(1) Managing data for settlement purposes</b>	Supporting metering functions; managing large volumes of metering data to ensure energy usage is properly measured, reconciled and allocated to the appropriate parties; and managing transfers of financial responsibilities between retailers, predominately to support market settlement.	People, processes and IT systems
<b>(2) Support from retail market functions and customer transfers</b>	Providing the ability for customers to choose or change their retailer, facilitate large volumes of customer transfers between retailers and the provision of service point identifiers to support a range of functions including discovery facility.	
<b>(3) Business to business processes</b>	AEMO provides the platform to facilitate business to business communication between market participants (predominately retailers), distributors, and other service providers in delivering contestable services to customers.	



Electricity FRC services	Inclusions	AEMO costs
<b>(4) Market Procedures changes and project implementation</b>	AEMO is responsible for development and consultation of procedures changes, and implementation of market changes arising from reviews and rules. AEMO runs a number of forums to support these functions.	

### Connection point basis of recovery

For AEMO to deliver the four broad Electricity FRC services as described above, people, processes and the IT System underpin the allocation of costs incurred in order to provide these services. By adopting the ‘reflective of involvement’ principle and the NEO, one of the key purposes for establishing the Electricity FRC market was to build capability in the IT market systems to facilitate customer transfers and accurately aggregate meter information for businesses. AEMO’s investment in people and processes to provide this capability are related to the number of connection points that the business is responsible for, or in a sense, the retailer’s ‘market share’ of this capability at any point in time.

AEMO considers this basis of recovery better reflects of the drivers of this function’s purpose to the industry and consumers, as opposed to the current MWh consumption basis of recovery. This is because AEMO’s FRC capability is built to handle a total number of individual meters and the actual energies flowing through them is incidental. AEMO also considered the fee structure in the gas markets operated by AEMO and notes that this basis of recovery is aligned with the basis of recovery in the gas FRC markets. This basis of recovery is also aligned with the basis of the recovery of Energy Consumers Australia’s electricity functions costs that benefit small electricity customers.

#### Question

- 1. In AEMO’s Final Electricity Fee Structure Report published on the 17 March 2016, it was concluded the electricity FRC fee structure basis for charging Market Customers (Retailers) from 1 July 2019 is a fee collected 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?**

### 3.3 Staged implementation

#### Questions

- 1. AEMO welcomes your comments on staged implementation if an alternative option is proposed or if not, whether the implementation date for connection point basis of charging should remain at 1 July 2019 or earlier?**
- 2. Whether an acceleration of the change to connection point charging to 1 July 2018, would create implementation challenges for your business.**

### 3.4 Other comment and issues

#### Questions

- 1. We welcome your comments on any other issues relating to the structure of Participant fees in AEMO’s Electricity FRC market?**