



20 December 2016

Mr Jack Fitcher  
Chief Financial Officer  
Australian Energy Market Operator  
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By e-mail - [Jack.Fitcher@aemo.com.au](mailto:Jack.Fitcher@aemo.com.au)

Dear Mr Fitcher

**Consultation Paper – Structure of participant fees in AEMO’s electricity full retail competition market**

Origin Energy (Origin) welcomes this opportunity to comment on the Australian Energy Market Operator’s (AEMO) consultation paper on the structure of participant fees in relation to electricity full retail competition (FRC).

Origin understands that there are benefits and costs associated with the options presented by AEMO for comment. While we acknowledge that applying fees for FRC costs to upstream participants (Metering Coordinators and distribution network service providers, MCs and DNSPs respectively) may present challenges, some form of cost for the development and benefit from the use of AEMOs systems and services is appropriate in order for these parties to take ownership of processes and systems. Allocating FRC costs among a larger number of Market Participants will have the benefit of securing greater engagement with design processes and changes to systems and procedures and ownership and use of the resulting outputs.

In Origin’s view, option 1 as described in the consultation paper does not satisfy the following principles:

- That the components of Participant fees charged to each registered participant should reflect the extent to which AEMO’s budgeted revenue requirements involve that registered participant; and
- Participant fees should not unreasonably discriminate against a category or categories of registered participants.

While it is likely that DNSPs (and for that matter MCs) will pass on AEMO’s FRC related costs to retailers, an absence of any signal for the development and use of AEMO’s systems and services associated with FRC activities will shield some classes of participants from bearing the costs of decisions made, leaving this entirely to retailers as Market Customers to bear the risk of costs recovery. It is important to note that some of the data and services provided by AEMO in relation to the Power of Choice reforms may be accessed for commercial reasons outside of routine market transactions such as wholesale and network settlement and transfers. Since it is unknown how data and transactions will be used in the future, we consider it prudent to include as many participants as possible in the cost recovery mechanism

Option 2 and 3 also have their advantages and disadvantages and Origin believes that alternative approaches to cost recovery should be investigated in addition to a \$/MWh or \$/NMI basis. We would

encourage AEMO to discuss alternatives with Market Participants to establish practical alternatives that may be available.

An alternative approach may avoid well-known problems with both a \$/MWh and \$/NMI approach. The \$/NMI approach, while perhaps reflective of market share, has the following issues that diminish its value as a basis for cost recovery:

- Initial and ongoing audits of active NMIs would be required to ensure that participants are not funding inactive or duplicate connection points;
- Costs for Market Customers and MCs will fluctuate based on changes to market share over the year and will be difficult to budget; and
- The time period over which costs are recovered would need to be determined on a consistent basis (linked to network billing, wholesale settlement or retail billing cycles?).

In summary, Origin would encourage AEMO to:

- Consider the benefits of sending price signals to all registered participants in order to encourage efficient development and use of AEMO's FRC related services; relying on Market Customers solely to recover these costs violates the guiding principle of discrimination and is not reflective of the use of FRC systems and services provided by AEMO.
- Investigate other approaches to cost recovery that may not rely on a \$/MWh or \$/NMI basis, as both approaches have deficiencies that contravene AEMO's guiding principles.

Origin responds to specific questions raised in the consultation paper below. We would welcome further discussion with the AEMO on this response. In the first instance, please contact David Calder on (03) 8665 7712.

Yours sincerely



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### **Section 3.1- What Registered Participants should pay FRC Electricity market fees?**

#### **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.**

We respond to questions 1 and 2 in the cover letter above.

### **Section 3.2- On what basis should the Electricity FRC fees be charged?**

#### **Question**

- 1. In AEMO's Final Electricity Fee Structure Report published on 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?**

As discussed above, Origin believes there is an opportunity to examine alternative fee structures to collection on a per NMI or connection point basis. There are possibly other cost recovery models that better reflect AEMO's guiding principles.

### **Section 3.3- Staged implementation**

#### **Question**

- 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 on 1 July 2018 would create implementation challenges for your business.**

Origin believes that any alternative to the current \$/MWh mechanism of electricity FRC cost recovery should not be implemented before July 2019. This would provide sufficient time for AEMO and market participants to assess the level of use of FRC related systems and processes (for example through the new B2B e-Hub) and prepare for any material changes that might be brought about by an alternative mechanism.

Applying \$/NMI charging from 1 July 2018 is not preferred as market participants (and in particular retailers and DNSPs) have committed significant resources to the implementation of the Power of Choice reforms in preparation for the commencement of metering competition under the new version of the National Electricity Rules on 1 December 2017. Adding to this existing pipeline of work (which would occur under an accelerated implementation approach) will impact upon preparation for metering contestability.

### **Section 3.4- Other comment and issues**

#### **Question**

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

Origin would strongly encourage discussion among industry participants (perhaps via an in person meeting in early 2017) to discuss appropriate mechanisms to recover AEMO's electricity FRC costs.