



CONSULTATION PAPER – STRUCTURE OF PARTICIPANT FEES IN AEMO’S ELECTRICITY MARKETS

INITIAL CONSULTATION

Published: **14 September 2015**





EXECUTIVE SUMMARY

AEMO is conducting a consultation on the structure of Participant fees to apply from 1 July 2016 for:

- The National Electricity Market (NEM).
- The Electricity Full Retail Competition (FRC).
- The National Transmission Planner (NTP) function.
- The Energy Consumers Australia (ECA) fees collected by AEMO from NEM participants.

The current structure of Participant fees expires on 30 June 2016. The objective of the consultation is to provide stakeholders with the opportunity to have input into the development of the structure of Participant fees to apply from 1 July 2016.

The closing date for submissions responding to this paper is 20 October 2015.

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

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:

- 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:

- The **length of time** over which the new structure of Participant fees from 1 July 2016 should apply.
- The current method of recovering costs for the **NEM**, including:
 - The approach to determining the attribution of costs between categories of participant.
 - The current method of charging generators and Market Network Service Providers (MNSPs) based on a combination of capacity and energy generated.
 - The current method of charging market customers based on a rate per megawatt hour (MWh) settled in spot market transactions.
- The current method of recovering costs for the **NTP function**.
- The current method of recovering costs for the **electricity FRC function**.
- The current method of recovering costs on behalf of the **ECA**.
- The concept of having a **staged implementation** if the structure of Participant fees changes.
- The current method of charging **registration fees** based on applicant type.



- The current method of recovering costs for the **NEM Participant Compensation Fund (PCF)**.
- **Other issues** you wish to raise.



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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 markets.

1.1 Key information

Purpose	To provide stakeholders with the opportunity to have input into the development of the structure of Participant fees to apply from 1 July 2016.												
Date applicable to new structure	1 July 2016												
Functions covered in this consultation	<ul style="list-style-type: none"> National Electricity Market Electricity Full Retail Competition National Transmission Planner function Energy Consumer Australia fees 												
Timetable	<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>Milestone</i></th> <th style="text-align: left;"><i>Date</i></th> </tr> </thead> <tbody> <tr> <td>Submission closing date for this initial consultation paper</td> <td>20 October 2015</td> </tr> <tr> <td>Publication of Draft Report for stakeholder comment</td> <td>By 14 December 2015</td> </tr> <tr> <td>Submission closing date for Draft report</td> <td>By 29 January 2016</td> </tr> <tr> <td>Publication of Final Report</td> <td>By 31 March 2016</td> </tr> <tr> <td>New fee structure applicable</td> <td>1 July 2016</td> </tr> </tbody> </table>	<i>Milestone</i>	<i>Date</i>	Submission closing date for this initial consultation paper	20 October 2015	Publication of Draft Report for stakeholder comment	By 14 December 2015	Submission closing date for Draft report	By 29 January 2016	Publication of Final Report	By 31 March 2016	New fee structure applicable	1 July 2016
<i>Milestone</i>	<i>Date</i>												
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Publication of Final Report	By 31 March 2016												
New fee structure applicable	1 July 2016												
Meetings	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.												

Submissions closing date and information

AEMO prefers that submissions be forwarded in electronic format (both pdf and Word) as they will be published on the AEMO website

Please provide electronic submissions by 5.00pm AEDT 20 October 2015 to jack.fitcher@aemo.com.au or to

Jack Fitcher
Australian Energy Market Operator Limited
GPO Box 2008
MELBOURNE VIC 3001

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.

Inquiries

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1.2 Background

The current structure of Participant fees in AEMO's electricity markets commenced on 1 July 2011 for a duration of five years, ending 30 June 2016.

See Structure of Participant Fees in the National Electricity Market – Determination and Report – published 21 March 2011 on AEMO's website.

<http://www.aemo.com.au/About-AEMO/Corporate-Publications/Energy-Market-Budget-and-Fees/Structure-of-Participant-Fees-in-the-National-Electricity-Market-July-to-June>

1.3 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.

This structure implies trade-offs between competing principles. For example, a strongly cost-reflective structure is unlikely to be simple.

When presenting preferred structures, respondents are encouraged to identify any trade-offs between competing principles and, where possible, describe how the trade-off should be approached having regard to the NEO.



2. 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.

2.1 Period of fee structure

The NER permits AEMO to set a structure of Participant fees for such period of time as AEMO considers appropriate.

The 2006 and 2011 Final Determinations fixed the term of the structure at five years, where previously they were set for three-year periods.

Having a structure that applies over a longer period provides certainty and predictability of the structure of fees. This needs to be balanced against having the ability to change a Participant fee structure as circumstances change.

Question

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

2.2 National electricity market fee structure

The NEM function provides the following broad services:

- Power system security, market operations and systems.
- Power system reliability and planning.
- Wholesale metering and settlements.
- Prudential supervision.

The current NEM fee structure is presented below, in sections 2.2.1 to 2.2.3.

2.2.1 Attribution of costs between categories of Participant

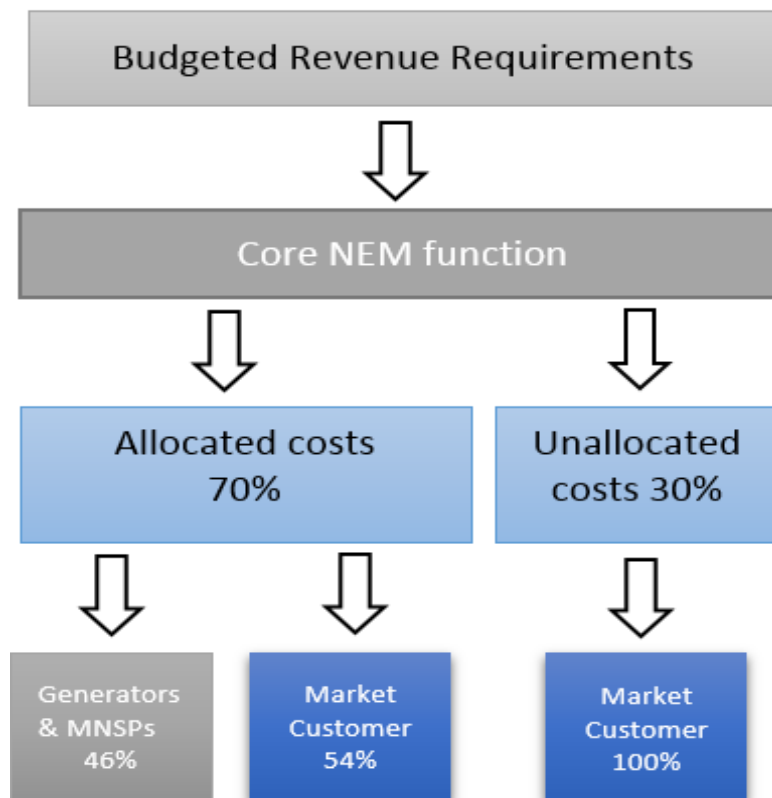
In the current determination, AEMO first identified those costs deemed to be direct, attributable costs to key NEM outputs, and those costs that are deemed to be indirect costs that are allocated to the NEM function. This resulted in 70% of costs being deemed to be direct and 30% being indirect.

AEMO then identified the key broad outputs (e.g. power system security, metering and settlements) and then allocated NEM direct costs to each of the outputs.

AEMO then allocated the outputs to categories of Registered Participants based on the reflective of involvement criterion and also the simplicity and no unreasonable discrimination criterion.

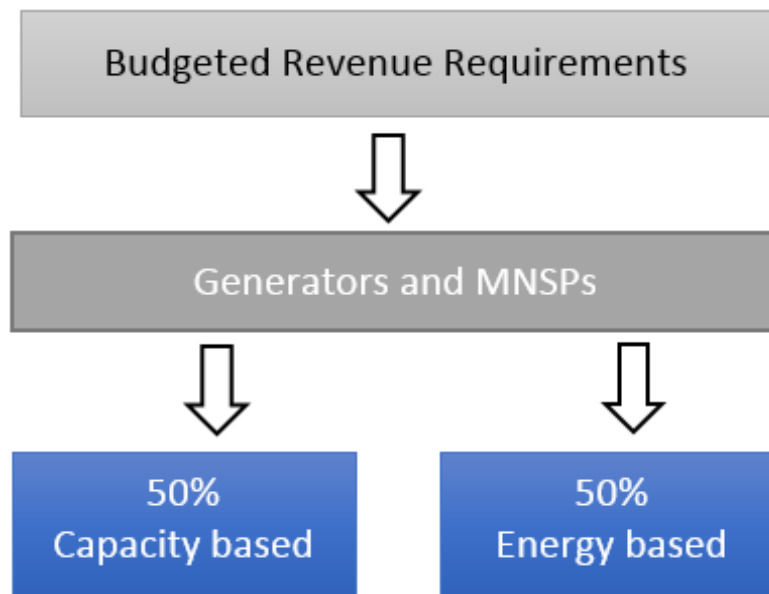
This analysis resulted in 46% of direct allocated costs being apportioned to Generators and Market Network Service Providers (MNSPs) and 54% to Market Customers.

The indirect or unallocated costs were apportioned to Market Customers. Due to the nature of these costs, it is not possible to apply the reflective of involvement criterion. It was determined that a reasonable and efficient method of recovering unallocated costs is from end users via Registered Participants that are closest in the electricity supply chain to those end users.



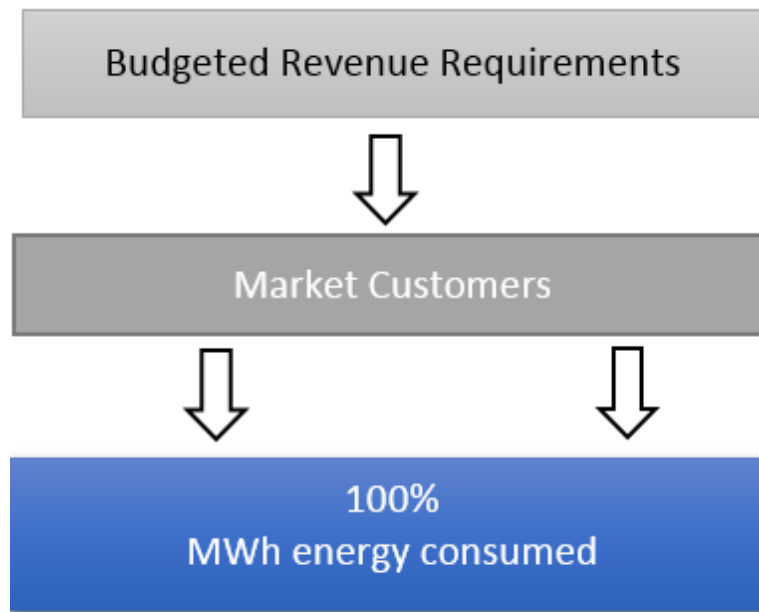
2.2.2 Generators

Generators and Market Network Service Providers are currently charged on the basis of a combination of capacity and energy.



2.2.3 Market Customers

Market Customers are currently charged based on a rate multiplied by the actual megawatt (MWh) settled in spot market transactions for that Market Customer in respect of each billing period.



Questions

1. What are your comments on the current NEM fee structure?
2. 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?
3. 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?

2.3 National Transmission Planner

AEMO's activities in performing the NTP function are predominately preparation and maintenance of the National Transmission Network Development Plan (NTNDP), independent planning reports for New South Wales, Tasmania and Queensland, connection point forecasts, and network capability incentive performance processes.

Participant fees for AEMO's role as the NTP are presently charged separately from other Participant fees. AEMO currently recovers its NTP costs from Market Customers on the basis of energy consumed.

Questions

1. What are your comments on the current approach on the fee structure for the NTP function?
2. Is there a more appropriate method to charge fees for the NTP function?
3. 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?

2.4 Electricity Full Retail Competition

Participant fees for electricity Full Retail Competition (FRC) are presently charged separately from other Participant fees. Currently, electricity FRC fees are charged to Market Customers that are licenced under the laws of a participating jurisdiction as a Retailer and are levied on a rate per MWh settled in spot market transactions.

In comparing with AEMO's other fee structures, the fees for the Victorian, Queensland, NSW and South Australian gas FRC markets are based on a fee per connection point rather than a fee based on consumption.

AEMO welcomes comments on the current structure for recovering electricity FRC costs and also on recovering electricity FRC costs via a fee based on connection points rather than energy consumed and whether this is more aligned to the reflective involvement criterion.

Questions

1. **What are your comments on the current fee approach for the electricity FRC function?**
2. **Is recovering electricity FRC costs on a connection point basis more appropriate?**

2.5 Energy Consumers Australia (ECA) fees

The Council of Australian Governments (COAG) Energy Council approved the establishment of Energy Consumers Australia (ECA) by 1 January 2015, providing a focus on national energy market matters of strategic importance for energy consumers, in particular residential and small business consumers.

The ECA replaced the Consumer Advocacy Panel (CAP), the fees for which AEMO previously recovered through Participant fees in the National Electricity Market (NEM) and gas markets.

In October 2014, AEMO conducted a consultation process, prior to the commencement of the ECA, and it was determined that the electricity component of ECA fees would be recovered from NEM customers on the basis of a charge per connection point for small customers.¹

Questions

1. **What are your comments on the current approach of recovering ECA costs on the basis of a fee per connection point for small customers?**
2. **Is there a more appropriate method to charge fees for ECA costs?**

2.6 Staged implementation

AEMO is able to set a fee structure that varies through the period. A staged implementation may be considered, for example, where:

- The preferred structure involves implementation challenge, such that it cannot be implemented in time for 1 July 2016, for example, changes to IT systems.
- Participants may need time to consider the customer impact and to adjust to a material change to the current fee structure.

AEMO is of the opinion that the structure should vary only at the start of the financial year.

¹ Small customers are defined in the National Energy Retail Law.
<http://www.aemo.com.au/Consultations/National-Electricity-Market/Energy-Consumers-Australian-Fee-Collection-Methodology>

Questions

1. **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.**

2.7 Registrations

Registrations fees are a charge reflecting the costs of AEMO relating to registration of Generators and Market Customers in the NEM.

In the last determination in 2011, AEMO set the fee structure for registration fees along with the actual registration amount based on application types.

The complexity of the registration process can vary significantly depending on the application type and this was reflected in the different fees charged for the different application types.

AEMO is currently reviewing the end to end registration process for each application type.

AEMO considers it may be appropriate to retain the current fees for each application type until the end to end process review is complete. It is then proposed that the amount of the fees for each applicant type be reviewed to ensure they are cost reflective, and any changes to the amount of the fees be set via the AEMO's annual budgeting and fee setting process.

Questions

1. **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?**

2.8 NEM Participant Compensation Fund

Under the NER, AEMO is required to maintain the Participant Compensation Fund (PCF) for the NEM. The purpose of this fund is to pay compensation to Scheduled Generators, Semi-Scheduled Generators and Scheduled Network Service Providers for scheduling errors as determined by the Dispute Resolution Panel.

The NER prescribes:

- The funding requirements for each financial year.
- That the funding requirements can only be recovered from Scheduled Generators, Semi-Scheduled Generators and Scheduled Network Service Providers.

AEMO currently charges NEM PCF fees to Scheduled Generators, Semi-scheduled Generators and Scheduled Network Service Providers on a 50% capacity and 50% energy basis.

Question

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

2.9 Incremental service fees

Where it is practical for AEMO to identify that doing something specific for a participant or another party, and that action causes identifiable and material costs for AEMO, AEMO will continue to seek to levy fees to recover the incremental costs incurred.



Question

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

2.10 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 markets.**