

22 June 2020

Mr Brett Hausler  
Chief Governance Officer and General Counsel  
Australian Energy Market Operator

Via Email: budgetandfees@aemo.com.au

Dear Mr Hausler

**RE: Submission – Response to AEMO’s Draft 2020-21 Budget and Fees**

The Queensland Electricity Users Network (QEUN) appreciates the opportunity to provide a submission to the Australian Energy Market Operator on its Draft 2020-21 Budget and Fees.

The QEUN is a consumer advocate representing small business and residential consumers with a particular emphasis on regional consumers. We advocate for affordable and reliable electricity from a resilient national electricity system where the pace of the transition to a renewable energy future is not at the expense of the economy, jobs or reasonable living standards.

**The need for best practice consultation particularly during the COVID-19 pandemic**

Best practice consultation would provide an opportunity for a wide range of stakeholders, including energy consumers, to provide input in a timely manner to AEMO’s Draft 2020-21 Budget and Fees.

We are concerned that in the midst of the COVID-19 pandemic best practice consultation has not occurred as:

- AEMO published its Draft 2020-21 Budget and Fees on 12 June 2020 and submissions closed 10 days later on 22 June 2020
- As far as we are aware a presentation was not provided or offered to stakeholders prior to the closing date for submissions. In the past AEMO has briefed stakeholders on their budget and fees.

**Falling NEM consumption and rising NEM management fees**

AEMO’s 2019-20 Budget estimated NEM consumption at 179,387 GWh. In May 2020 AEMO revised the 2019-20 NEM consumption down by 0.6% to 178,270 GWh. The falling NEM consumption is greater than the 0.4% forecast by AEMO in its 2019 Electricity Statement of Opportunities (ESOO) released in August 2020.

Prior to the COVID-19 pandemic, large swathes of business and residential consumers could not afford their power bills. The situation is more critical now and every part of the supply chain is expected to do its bit to keep energy costs down and power bills down. Rising NEM fees will increase power bills and increase the risk of more consumers choosing to reduce partially, or wholly, their demand for NEM supplied electricity. This may mean the 2.7% reduction in NEM consumption for 2020-21 could be under-stated.

The NEM management fees included in the energy component of regulated retail prices to over 710,000 business and residential consumers in regional Queensland has increased by 31% from \$0.48/MWh in 2016-17 to \$0.63/MWh in 2019-20, with a forecast of a further 11% increase in 2020-21 (see Table 1).

**Table 1: AEMO fees included in the energy component of regulated retail electricity prices for regional Queensland**

AEMO Fees included in Queensland regulated retail prices for regional Queensland (\$/MWh)						Draft
	2016-17	2017-18	2018-19	2019-20	2020-21	
NEM Fees	\$0.38	\$0.410	\$0.410	\$0.500	\$0.560	
Full Retail Contestability	\$0.06	\$0.075	\$0.072	\$0.080	\$0.074	
National Transmission Planner	\$0.02	\$0.021	\$0.024	\$0.025	\$0.040	
Energy Consumers Australia	\$0.03	\$0.027	\$0.027	\$0.029	\$0.031	
<b>Total NEM Management Fees</b>	<b>\$0.48</b>	<b>\$0.53</b>	<b>\$0.53</b>	<b>\$0.63</b>	<b>\$0.70</b>	

Source: ACIL Allen Cost of Energy Reports to the Queensland Competition Authority for regulated retail prices for regional Queensland

### AEMO expenditure on external consultants

We are concerned about AEMO’s expenditure on external consultants and its unwillingness to employ consumer advocates to carry out consumer research.

AEMO’s expenditure on external consultants increased significantly in 2018-19 to \$28.9 million from around \$22 million in the previous two years (see Table 2).

Over the same period the fees collected by AEMO on behalf of Energy Consumers Australia (ECA) was almost static (Table 1) and ECA’s expenditure on research and advocacy grants was only around \$2 million.

**Table 2: Resources available to energy market bodies**

RESOURCES AVAILABLE TO ENERGY MARKET BODIES	AEMC			AER			AEMO			TOTAL ENERGY MARKET BODIES		
	2018-19	2017-18	2016-17	2018-19	2017-18	2016-17	2018-19	2017-18	2016-17	2018-19	2017-18	2016-17
<b>HUMAN RESOURCES</b>												
Staff and Board	95	94	88	253	205	149				348	299	237
In house contractors and secondment				33	31	44				33	31	44
Staff salaries over \$150,000 AEMC and over \$100,000 AER	42%	39%	31%	52%	59%	59%						
<b>FINANCIAL RESOURCES</b>												
Total Expenses	\$26.9	\$25.5	\$23.1	\$62.7	\$48.2	\$41.0	\$821.0	\$743.2	\$735.8	\$910.6	\$816.9	\$799.9
Employees and In house contractors	\$18.0	\$15.9	\$13.8	\$35.1	\$22.0	\$18.3	\$126.8	\$115.3	\$100.6	\$179.9	\$153.2	\$132.7
External consultants and lawyers	\$2.5	\$3.7	\$5.7	\$7.5	\$5.3	\$6.6	\$28.9	\$22.2	\$22.4	\$38.9	\$31.2	\$34.7
Travel	\$0.8	\$0.7	\$0.6	\$1.1	\$0.9	\$0.5	\$3.7	\$3.2	\$2.5	\$5.6	\$4.8	\$3.6

Note: AER staff are supplemented by legal, economic and corporate staff shared with the ACCC

Source: Compiled by QEUN from AEMC, AER and AEMO annual reports

It has been said that AEMO cannot engage consumer advocates as external consultants as it is not allowed under AEMO’s Constitution. However, in addition to electricity and gas levies collected by AEMO on behalf of Energy Consumers Australia and passed through to ECA in 2017-18, AEMO also provided Energy Consumers Australia with \$300,000 for special AEMO projects (see Figure 1).

In the unprecedented times caused by COVID-19 we believe consumer research would significantly improve AEMO’s forecast of NEM consumption. However, whilst AEMO and other market bodies have received increased funding to cope with an increased work load, consumer advocates with the same increased workload have not received additional funding from any market body or COAG Energy Council.

**Figure 1: Revenue provided by AEMO to Energy Consumers Australia in 2017-18**

**6. REVENUE FROM CONTINUING OPERATIONS**

	2019 \$	2018 \$
Electricity levies from AEMO*	3,959,438	6,393,032
Gas levies from AEMO*	1,319,812	2,131,010
Special Projects from AEMO	-	300,000
Commonwealth grant income 7(a)	808,637	564,659
	<b>6,087,887</b>	<b>9,388,701</b>
Other income	136,286	113,204
Interest revenue	79,963	66,767
<b>Total Revenue</b>	<b>6,304,136</b>	<b>9,568,672</b>

\* Quarter 1 of 2018-19 AEMO revenue was received in advance in 2017-18.

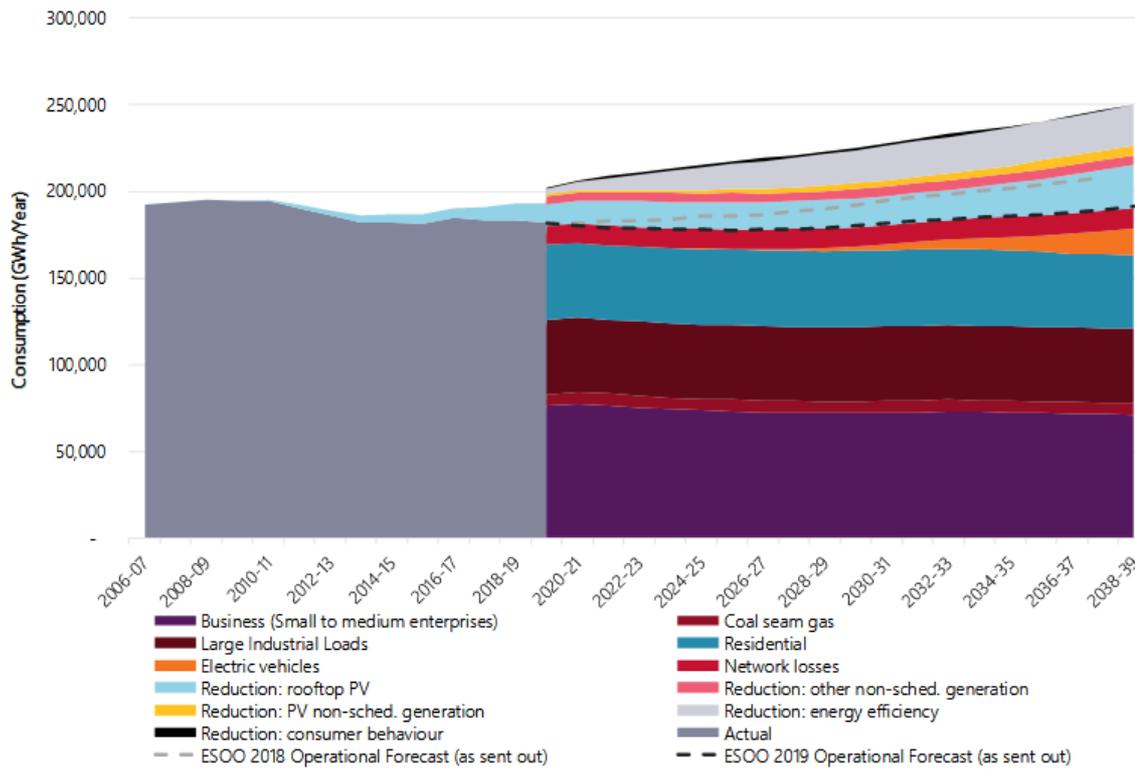
**6. REVENUE FROM CONTINUING OPERATIONS**

	2018 \$	2017 \$
Electricity levies from AEMO	6,393,032	4,741,479
Gas levies from AEMO	2,131,010	1,580,493
Special Projects from AEMO	300,000	-
Commonwealth grant income 7(a)	564,659	411,469
	<b>9,388,701</b>	<b>6,733,441</b>
Other income	113,204	-
Interest revenue	66,767	61,241
	<b>9,568,672</b>	<b>6,794,682</b>

**Questions on AEMO assumptions used to estimate the impact of AEMO fees on household electricity bills**

In AEMO’s 2019 Electricity Statement of Opportunities the largest consumer of NEM supplied electricity is small and medium size businesses (see Figure 2). Yet in AEMO’s Draft 2020-21 Budget and Fees it states a key assumption in estimating the impact of AEMO fees on household electricity bills is that “57% of consumption relates to large business, 28% to households and 15% to small business” (Figure 3).

**Figure 2: NEM electricity consumption, actual and forecast, 2006-07 to 2038-39, Central scenario**



Source: AEMO 2019 Electricity Statement of Opportunities

**Figure 3: Basis on which AEMO estimates its impact on household electricity bills**

**AEMO’s costs represent approximately 0.2% - 0.3% of an average household electricity bill.**

**This equates to a cost of approximately \$4 per customer per year.\***

\* Key assumptions:

- 10m NEMs in the NEM of which 8.8m are households, 1.1m small businesses and 0.1m large businesses.
- 57% of consumption relates to large business, 28% to households and 15% to small business.
- Consumption of less than 10Mwh per annum is considered a household.

Source: AEMO Draft 2020-21 Budget and Fees, Page 7

Another key assumption used by AEMO to estimate the impact of AEMO fees on household electricity bills is “consumption of less than 10Mwh per annum is considered a household”.

Ergon Retail has a near monopoly in the retail market of regional Queensland. In the latest retail performance statistics published by the Australian Energy Regulator Ergon Retail had 87,531 small business customers consuming less than 100 MWh per annum.

The Queensland Competition Authority uses Ergon data to estimate the customer impact of its regulated retail prices. The main small business tariff in regional Queensland is Tariff 20. The median consumption on Tariff 20 is 6,831 kWh or 6.8 MWh ie according to AEMO’s Draft 2020-21 Budget the typical small business customer in regional Queensland would be considered a household.

**Table 3: Usage data to determine customer impacts of regulated retail prices in regional Queensland**

<i>Retail tariff</i>	<i>Usage (kWh per year)</i>	<i>Peak usage</i>	<i>Off-peak usage</i>	<i>Demand (kW per month)</i>	<i>Demand threshold (kW per month)</i>
T11 (only)—median	4,061				
T31—median	1,357				
T33—median	1,025				
T20—median	6,831				
T22A—median	7,457	16.7%	83.3%		
T44—median	184,492			56	30
T45—median	718,376			196	120
T46—median	1,853,889			506	400

We sincerely hope AEMO will consult openly with stakeholders prior to releasing its Final 2020-21 Budget and Fees.

We look forward to discussing our concerns.

Yours faithfully



Jennifer Brownie

Coordinator

Queensland Electricity Users Network