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Kevin Ly
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Submitted by email: kevin.ly@aemo.com.au

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Dear Kevin

RE: Market participation fee structure review – Draft determination

Thank you for the opportunity to provide feedback on the draft determination on the structure of market participant fees to apply from 1 July 2021.

Enel X operates Australia's largest virtual power plant.¹ We work with commercial and industrial energy users to develop demand-side flexibility and offer it into the NEM's energy and ancillary services markets, the RERT mechanism, and to network businesses. Enel X is registered as a Market Small Generator Aggregator (MSG), a Market Ancillary Services Provider (MASP), and we plan to register as a Demand Response Service Provider (DRSP).

Enel X has comments on three aspects of the draft determination.

1. WDR establishment costs

We do not support the recovery of WDR establishment costs from DRSPs alone. It is unclear why the “reflective of involvement” principle here seems to only consider who uses the output, and not also who benefits from the output, as the principle intends. As stated by the AEMC in its final determination, the WDRM will “capture the benefits of greater demand side participation and share these benefits with all consumers” in the form of lower wholesale prices, and will “contribute to improving reliability and security in the NEM”.²

Further, there is too much uncertainty in AEMO’s proposal for respondents to understand its materiality. AEMO indicates that DRSPs would be charged “a reasonable percentage” (unspecified) of the capital costs (unspecified), using a fixed rate (unspecified) set each year based on either \$/MW or \$/capability registered to participate, and potentially phased in over time. It is very difficult for potential DRSPs to provide an informed response when so many variables are unspecified. The suggestion that the fee be phased in over time may also unfairly benefit or penalise DRSPs depending on when they enter the market. All of this presents significant uncertainty for prospective DRSPs about the costs of participation in the WDRM, creating a barrier to entry before the mechanism has even started.

AEMO’s paper also assumes that all DRSPs will be participating in the WDRM. The DRSP category will replace the MASP category, but it is likely that some existing MASPs or prospective DRSPs will only participate in the FCAS markets. As the MASP framework otherwise remains untouched, it does not make sense to require these parties to pay the costs of establishing the WDRM.

To better align with the “reflective of involvement” principle, and maximise incentives to participate in the WDRM, WDR costs should be recovered through the core NEM fee.

¹ Bloomberg NEF, December 2019.

² AEMC, Wholesale demand response mechanism, Final determination, 11 June 2020, pi.

If AEMO maintains its position, we recommend that it conduct further consultation on the above variables before making a final determination.

2. DER integration costs

As noted in our submission to the consultation paper, many of the DER programs mentioned in the paper relate to or benefit small customers. DRSPs can only be engaged by large customers and thus should not be exposed to these costs, consistent with the “reflective of involvement” principle. If AEMO believes these costs should be recovered from DRSPs because these programs have a broader benefit for all market participants, it is unclear why the same logic has not been applied to the allocation of WDRM costs, as above.

3. Registration fees

The draft determination proposes no changes to the structure of registration fees. If not conducted through this process, we support a subsequent review of how registration fees are set and applied.

Under the current arrangements, registration (and registration exemption) fees do not scale down effectively to enable smaller DER resources to register, and do not allow for potential efficiencies by grouping multiple, similar applications from the same applicant.

A new approach to registration fees should recognise that we are transitioning to a market characterised by multiple decentralised resources offered to the market by a range of new business models, and should reflect any scale economies that may be captured in these instances.

If you have any questions or would like to discuss this submission further, please do not hesitate to contact me.

Regards

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