

AEMO is consulting on the Draft Report for the structure of Participant fees to recover costs for the National Electricity Market (NEM) 2025 Reform Program.

This fact sheet provides a brief overview of the release of the Draft Report, which is open for submissions until 28 July 2023. Also included is some background information about consultation to date, and the need for this change to Participant fees.

AEMO's draft determinations – June 2023

After consideration of stakeholder submissions and holding stakeholder meetings through [the Participant Fee Consultative Committee \(PFCC\)](#), AEMO's Draft Report proposes to recover costs of the NEM2025 Reform Program as a separate fee allocated to Wholesale Participants (27.5%) and Market Customers (72.5%) charging the following fee metrics:

- **For Wholesale Participants:** 50% is charged as a daily rate based on aggregate of the higher of the greatest registered capacity and greatest notified maximum capacity (of energy or Frequency Control Ancillary Service (FCAS) markets) in the previous calendar year of units from Wholesale Participants; and 50% is charged as a daily rate based on MWh energy, or in the case of Market Ancillary Service Providers (MASPs) / Demand Response Service Providers (DRSPs) the equivalent FCAS enablement, scheduled or metered (in previous calendar year).
- **For Market Customers:** 37% is charged as a rate per MWh for a financial year based on AEMO's

estimate of total MWh to be settled in the spot market transactions by Market Customers during that financial year. The rate is applied to the actual spot market transactions in the billing period; and 63% is charged on a per connection point basis per week.

AEMO proposes to commence cost recovery, for a period of seven years, from each of the NEM2025 Reform Program's initiatives' go-live dates, subject to their funding approvals process and AEMO's annual budget process, with the exception of those initiatives with go-live dates before 1 July 2024. Cost recovery for these initiatives will commence from 1 July 2024.

AEMO's view is that this is a reasonable Participant fee structure that reflects stakeholder feedback, and one that is consistent with the fee structure principles and having regard to National Electricity Objective (NEO).

A detailed assessment and the rationale that led to the above draft proposal can be found in the Draft Report.

Find out more



[Structure of Participant Fees for AEMO's NEM2025 Reform Program – Draft Report \(June 2023\)](#)

[Structure of Participant Fees for AEMO's NEM2025 Reform Program – Consultation Paper \(February 2023\)](#)

Background

What is the NEM2025 Reform Program?

The Energy Security Board (ESB), in collaboration with the market bodies (Australian Energy Market Operator (AEMO), Australian Energy Market Commission (AEMC) and Australian Energy Regulator (AER), has set out a pathway to transition the NEM into a modern energy system fit to meet consumers' evolving wants and needs.

In July 2021, the ESB made recommendations in four key areas that will fundamentally change many aspects of today's electricity systems and markets:

- Resource Adequacy Mechanisms
- Essential System services and ahead scheduling
- Integration of DER and flexible demand
- Transmission and access

Since the release of these recommendations, AEMO has been engaging with industry and stakeholder representatives to define an integrated delivery plan that aims to bundle and sequence initiatives with the aim of cost-effective delivery across AEMO and industry.

A summary of the initiatives that comprise the NEM2025 Reform Program is [available on our website](#).

How do AEMO's fees currently work?

AEMO is a not-for-profit public company funded by fees and other charges (collectively known as our revenue requirement), applied to energy market participants and ultimately paid by end-use consumers.

These funds enable us to perform our fundamental role, to ensure safe, reliable and affordable energy today and enable the energy transition for the benefit of all Australians.

In determining the structure of Participant fees, AEMO must have regard to the National Electricity Objective (NEO). In addition, the structure of Participant fees must, to the extent practicable, be consistent with the fee structure principles, which are stipulated in the National Electricity Rules (NER).

These funds enable us to perform our fundamental role, to ensure safe, reliable and affordable energy today and enable the energy transition for the benefit of all Australians.

What is proposed to change?

Recognising the importance of transparency on the impact of NEM fees over the short, medium and longer term, AEMO is currently consulting on the structure of Participant fees to recover costs for the NEM2025 Reform Program, including the Participants that would be charged and the period/s over which recovery will occur. The actual amount charged will be determined through AEMO's annual budgeting process.

AEMO considered two options to recover the NEM2025 Reform Program costs in a [Consultation Paper](#) published in February 2023.

The two options considered were:

1. Applying existing Participant Fees structures such as the core NEM fee, the DER program fee and/or Electricity Retail Markets fee; or
2. Establishing a separate NEM2025 Reform Program fee.

For its Draft Report, AEMO has considered the two options originally presented in more detail, and in response to feedback have since developed Option 2 further producing two versions for consideration (the first allocates costs to Wholesale Participants and Market Customers, and the second proposes to recover costs only from Market Customers).

Participant Fee Structure for the NEM2025 Reform Program

Draft Report summary (June 2023)

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How much will the Program cost?

The cost estimates for implementation of the NEM2025 Reform Program are shown in Table 1 below.

Updates to the costs of the NEM2025 Reform Program as each initiative progresses to an implementation stage will be transparently provided to Participants in accordance with the [governance frameworks](#) established for the NEM Reform Program, and in advance through the Financial Consultation Committee (FCC) and AEMO's annual budget process.

Table 1 - Estimated¹ total Program costs^{2,3}

Cost component	\$m
Total capital costs	\$250 - \$350
Ongoing costs ⁴	\$170 - \$240
Total Program costs	\$430 - \$600
Net Present Cost	\$350

Our engagement so far and what we have heard

AEMO's is committed to collaborating with stakeholders on the NEM2025 Reform Program participant fee structure, looking to stakeholders for advice and feedback to be incorporated.

We received 13 submissions responding to the Consultation Paper which are available on [our website](#). AEMO has also held several informal discussions with interested stakeholders. Of the submissions received, there were mixed views on

whether the existing Participant fee structures are appropriate to apply to the NEM2025 Reform Program versus a separate fee being established. There was stakeholder support to establish a separate fee to improve cost transparency and to reflect the involvement of Participants being charged for the program. Some stakeholders also noted that introducing recovery from Distribution Network Service Providers (DNSPs) would be difficult due to existing regulatory barriers that do not factor cost recovery of AEMO's fees from this participant category.

There was strong feedback that the existing fee metrics remain appropriate for the program and that cost recovery should commence from when an initiative goes live.

Further detail on the key points made in each submission, and AEMO's responses, can be found in Appendix A1 of the Draft Report published in June 2023.

AEMO also established the [Participant Fee Consultative Committee](#) (PFCC) as one key mechanism to collaborate and engage with industry and consumers. The first PFCC meeting was held on 27 April 2023 and provided opportunity to seek further feedback on the proposed options and key issues.

Feedback received from submissions received and through the PFCC meeting has been highlighted in the Draft Report, published in June 2023.

¹ Targets a +/- 40% level of accuracy to account for the early stage of estimation, the policy and design uncertainty that remains for some of the reform initiatives (and the corresponding increasing complexity and scope risks) and other risks such as delivery delays.

² Numbers rounded for reporting purposes. The range represents the mid to high range of the estimates (including the 40% contingency amount) for those

initiatives covered under this business case as this represents a more realistic outcomes for delivery costs. NPC mid-point shown for comparison purposes.

³ Scope of estimates does not include Capacity Mechanism, Congestion Management Mechanism and Data Strategy due to ongoing policy uncertainty at the time.

⁴ Ongoing costs are assumed to commence from the end of the implementation period for each Work Package until the end of the Program.

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Next steps

AEMO continues to consult with stakeholders regarding the Participant Fee Structure for the NEM2025 Reform Program.



Stakeholders are invited to submit written responses on the issues and questions identified in the Draft Report to reformdevelopmentinsights@aemo.com.au by 5.00 pm (Australian Eastern Standard Time [AEST]) on 28 July 2023.