

12 February 2021

Warwick Anderson
General Manager, Networks Finance and Reporting
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Locked Bag 14051
Melbourne City Mail Centre
Victoria 8001 Australia
T: 1300 360 795
www.ausnetservices.com.au

Via email to: AusNetServices2022@aer.gov.au

Dear Warwick

Submission to AER Determination for AusNet Services Transmission

Thank you for the opportunity to provide this submission.

This short submission is intended to highlight to the AER and our stakeholders the potential impacts on our Revenue Proposal of AEMO's proposed structure of participant fees, as set out in AEMO's Draft Determination released on 30 November 2020. AEMO's proposed structure would apply from 1 July 2021, with a two-year transition period.

In its Draft Determination, AEMO proposes to allocate a portion of participant fees to network service providers (NSPs), in contrast to the current fee structure which assigns the entirety of these costs directly to Market Participants and Generators. If implemented, we estimate the proposed fee structure could result in the allocation of approximately \$5 million of fees per annum to AusNet Services' transmission customers, commencing 1 July 2023. The actual impacts would depend on AEMO's actual, annual costs. Due to the timing of AEMO's Draft Determination, our Revenue Proposal does not provide for these costs.

AusNet Services has several concerns regarding AEMO's proposed fee structure, including that:

- The existing fee structure assigns fees to Market Participants and Generators, which are the primary beneficiaries of a competitive wholesale market facilitated by the market operator and the networks, consistent with the 'beneficiary pays' principle. Market Participants and Generators also have a direct relationship with end-use customers, unlike NSPs. It is not clear how customers will benefit from the more complex fee structure proposed by AEMO.
- Participant fees are outside of an NSP's control, making them unsuitable to be recovered as part of networks' regulated operating expenditure allowance, which are reset every five years. If market participant fees are to be allocated to NSPs, it is essential an annual direct cost pass through with no materiality threshold is introduced to ensure that NSPs recover their efficient costs in an annual basis.
- AEMO in its capacity as the Victorian transmission network planner is the primary beneficiary of many of the operational activities that the fees relate to. Accordingly, the basis upon which these fees should be allocated to AusNet Services, rather than AEMO, is unclear.

These concerns are expanded on in our submission to AEMO's Draft Determination, which is provided as an attachment to this submission.

AEMO's Final Determination is required by 31 March 2021. If its draft position is upheld, this would necessitate cost recovery provisions being put in place for networks. We understand AEMO is considering proposing a new cost pass through mechanism in the NER to capture these costs. This is appropriate given these costs are outside the control of networks and should not be subject to incentive regulation. It would also align with the Energy Security Board's preferred treatment of National Transmission Planning costs.

Upon publication of the Final Decision, we will keep the AER and our stakeholders informed of the implications for our Revenue Proposal. We will also transparently present the price impact of any additional costs in our Revised Proposal.

If you have any queries in relation to this submission, please do not hesitate to contact

[REDACTED]

Sincerely,

[REDACTED]

Charlotte Eddy
Manager Economic Regulation
AusNet Services

4 February 2021

Kevin Ly
Group Manager Regulation
Australian Energy Market Operator
PO Box A2449
Sydney South NSW 1235

Locked Bag 14051
Melbourne City Mail Centre
Victoria 8001 Australia
T: 1300 360 795
www.ausnetservices.com.au

Via email

Dear Kevin

Draft Determination – Structure of Participant Fees in AEMO’s Electricity Markets

Thank you for this opportunity to provide feedback to Australian Energy Market Operator’s (AEMO) draft report and determination on the development of the structure of participant fees to apply from 1 July 2021 with a two-year transition period.

AusNet Services supports the ENA’s submission, including its recommendations made in relation to the proposed Budget and Finance Committee. AusNet Services wishes to make the following additional points.

Case for Retaining the Existing Fee Structure

AusNet Services is concerned that the Draft Determination seeks to allocate fees to network service providers (NSPs), despite a lack of stakeholder support for this approach during the consultation process and the administrative burden of establishing cost recovery arrangements.

The current fee structure for electricity participant fees assigns costs directly to Market Customers and Generators. Consistent with the ‘causer pays’ principle, the allocation is reflective of their trading volumes, largely on the basis of \$/MWh traded. Both Generators and Market Customers are the primary beneficiaries of a competitive wholesale market facilitated by the market operator and the networks. The functions performed by AEMO and funded by the participant fees primarily provide benefits to the wholesale market, through improving efficiency or reducing costs in this market. It is appropriate that the beneficiaries of these functions meet the cost of providing them. Further, Market Customers have direct relationships with end-use customers, which means the process of recovering fees from end-use customers in a cost reflective manner is simpler for Market Customers than for participants that do not have a direct customer relationship, such as NSPs. As such, we support retaining the allocation of fee-paying responsibility on those parties that benefit most from these services, namely Market Customers and Generators. This is consistent with the principles set out in clause 2.11.1(b) of the National Energy Rules (NER) and is simpler than the fee structure AEMO is proposing.

The proposed fee structure requires regulated NSPs to pay market fees. These fees are outside of an NSP’s control, making them unsuitable to be recovered as part of a network’s operating expenditure allowance, which is subject to an efficiency incentive regime. In addition, opex allowances are only set once every five years. We understand that in recognition of the difficulty this creates in aligning the fee setting process and NSPs’ various regulatory control periods, AEMO intends to lodge a rule change proposal to allow NSPs to pass through these costs to customers, similar to the recent National Transmission Planning fee rule change. If market participant fees are to be allocated to NSPs, it is essential that the rule change allows for an annual direct cost pass through with no materiality threshold to ensure that NSPs do, in fact, recover their efficient costs in an annual basis. Any other outcome would be inconsistent with the Revenue and Pricing Principles.

Nevertheless, it is not clear how customers will benefit from this reform as it does not change the amount that will be recovered from end users but just makes the recovery needlessly more complex. Indeed, recovering participant fees from NSPs will only increase the administrative burden, leading to additional administrative costs. Ultimately these costs will be recovered from end-use customers, but via a more circuitous and complex route than if the fees were being recovered by retailers. This consequence was highlighted by retailers and contestable service providers in submissions responding to AEMO's consultation paper.¹ Therefore, allocating AEMO's participant fees to NSPs does not satisfy the National Energy Objective in comparison to the current fee structure.

For all the reasons set out above, AusNet Services recommends maintaining the current fee structure to maintain an efficient, beneficiary pays approach, and avoid adverse impacts on competition.

Allocating participant fees to AusNet Services' Transmission

There are specific complexities associated with allocating fees to our transmission and distribution networks.

While the Draft Report and Determination acknowledges that AusNet Services is responsible for operating and maintaining the transmission network in Victoria, the majority of the operational activities listed in section 4.4.2 relate to AEMO's declared network functions in Victoria. The basis upon which these fees should be allocated to AusNet Services, rather than AEMO, is unclear. In several cases these activities directly benefit AEMO in its capacity as Victorian planner and so should be properly attributed to AEMO. These include:

- Development, coordination and provision of mainland PSCAD models to allow TNSPs to perform their generator connection and system security studies. AEMO (Vic planning) is responsible for generator connections to the Victorian transmission network and benefits from the development of these models.
- Modelling synchronous generator combinations for maintaining system strength and inertia under system normal, outage and islanding conditions. AEMO provides the results of this analysis to TNSPs who then use this as part of their transmission limits advice. In Victoria, AEMO (Vic planning) is provided with these results and provide transmission limits advice.
- Determining how system security and quality of supply can be maintained under some complex outage scenarios. We consider that AEMO Victorian Planning is responsible for this function.

Therefore, to allocate the entire Victorian share of these costs to AusNet Services is not consistent with clause 2.11.1(b)(3)) of the NER.

AusNet Services would welcome an early discussion with AEMO on the above.

Allocating Participant Fees for new reforms

Participant fees are also required to fund other key AEMO initiatives outlined in the consultation paper, including:

- DER integration – essential for accurately forecasting dispatched electricity and reducing wholesale electricity costs;
- 5 Minute Settlements reforms – leading to more efficient wholesale market operations with better use of fast response generation;
- Energy Customer Data Right – supporting better customer services; and

¹ AGL's and Plus-ES' submissions to AEMO's Structure of Participant Fees consultation. https://aemo.com.au/-/media/files/stakeholder_consultation/consultations/nem-consultations/2020/electricity-market-participant-fee-structure-review/agl.pdf and https://www.aemo.com.au/-/media/files/stakeholder_consultation/consultations/nem-consultations/2020/electricity-market-participant-fee-structure-review/plus-es.pdf?la=en

- Digital and Regulatory Compliance programs – required to maintain market security and continuity.

AEMO proposes to require TNSPs and DNSPs to contribute to these initiatives. They are primarily to the benefit of customers and the wholesale market, in that they improve efficiency or reduce costs in that market. Therefore, we support retaining the allocation of fee-paying responsibility through the core NEM cost allocation, as currently applied.

We note that the AER must make a decision on our electricity distribution revenues for the 1 July 2022 - 30 June 2026 regulatory period by 30 April 2021. We have asked for the AER to provide for an annual pass through of these fees in the event they are allocated to DNSPs.

If you have any queries in relation to this matter, please do not hesitate to contact [REDACTED]
[REDACTED]

Yours sincerely

[REDACTED]

Tom Hallam
General Manager Regulation