

## RECOVERING THE COST OF AEMO PARTICIPANT FEES

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing, building materials and food processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

The EUAA's earlier submission on this matter did not support the rule change. As we noted in our presentation to the recent Forum, we appreciated the AEMC publishing a Directions Paper and not proceeding with an expedited process. It is certainly not a non-controversial matter as submissions and subsequent discussion have shown.

We also appreciated the opportunity to present our views and those of other consumer advocates at the Forum and hear other perspectives. Our conclusion is that nothing in the Directions Paper, nor in the Forum discussion, has led us to change our original view to oppose the rule change. In summary we consider the proposed pass through:

- is inconsistent with the AER's network regulatory framework where these sorts of costs are subject to public scrutiny
- provides no incentive on TNSPs to challenge AEMO costs which consumers are also unable to challenge
- provides an incentive for TNSPs to seek to increase the level and scope of functions that they seek to transfer to AEMO

which we do not think meet the revised assessment criteria in the Direction Paper. The EUAA is pleased that the Commission revised the assessment criteria to include cost efficiency and risk allocation which we proposed in our earlier submission.

We also support the AEC's additional criterion of the consistency with the 'Reflective of Involvement' principle of participant fees in the NER that was not included in the revised criteria. We support the reasoning for why it should be a criterion and how it should apply to these fees that is provided in the AEC's submission.

Our concerns about a pass through stemmed from our lack of confidence that the costs AEMO incurs, as the monopoly provider of these services, are 'prudent and efficient' as required for all other cost categories in a TNSP revenue reset. In March 2022 AEMO first informed consumers of a budget overrun of over \$100m over the last 4 years. Consumers are now having to pay for that over the next three years.

Our concerns were heightened during the Forum discussions when the AEMO representative described the process by which AEMO decides on the allocation of its costs to these particular functions. Apparently, a group of senior AEMO executives gather on an annual basis to decide cost allocation. No detail is available on how this process works.

So not only do we have no confidence on the absolute level of costs (i.e. are they efficient), we have no transparency around the share of those costs allocated to these pass through functions. Networks need to go

through a complex process to develop their AER approved cost allocation methodology. A meeting of senior executives of a TNSP does not meet the AER Guideline.

The lack of transparency in the AEMO process only strengthens our view that we should not accept a pass through as proposed in the rule change. We would be surprised if ENA members would accept such a situation where they are the payer of these costs, indeed this rule change indicates that they are not.

If TNSPs are truly committed to their oft quoted determination to 'put and keep consumers at the centre' then they have a natural incentive to advocate for consumers to ensure AEMO's costs that are charged to TNSPs are indeed 'prudent and efficient'. If these costs do meet the AER criteria then TNSPs should have no concerns about having these costs included in the costs that are then assessed by the AER in the revenue reset process. This is the basis of the whole incentive regulatory framework that TNSPs operate under which is designed to provide ongoing incentives to improve efficiency.

Given AEMO's role to achieve the National Electricity Objective we would have thought that involves ensuring consumers pay only an efficient level of costs. So their support of this rule change is also surprising.

We do not accept the argument that a pass through is required because AEMO is unable to provide a five year forecast of its costs.

- why should consumers take the risk of AEMO not being able to do that when consumers have little or no influence over AEMO's costs?
- this forecasting risk exists with all parts of a TNSP revenue proposal and is a standard risk accepted by TNSPs for all other costs.

The rule makers at the time of the development of the current regulatory framework, sensibly in our view, chose incentive based rather than cost of service regulation because of the superior efficiency, and hence benefits to consumers, of the former. Incentive based regulation recognises there will be ups and downs in individual components of opex and has the safety valve of 1% MAR as a threshold for when a pass through would be considered by the AER. A TNSP's risk profile recognises this hurdle.

Variations in AEMO costs in this matter would be minute compared to 1% of MAR and so should be borne by the TNSP, not consumers. Exposing AEMO costs to the incentive framework would provide a great incentive to TNSPs to do the due diligence required to 'put and keep consumers at the centre' given AEMO's recent cost forecasting record.

We repeat our argument in our earlier submission that use by the rule change proponents of the pass through of National Transmission Planner fees as a precedent in the current matter is misplaced. The NTP fees were to cover the preparation of the ISP – a new function that only partly replicated what TNSPs had done in the past. The decision to have a pass through was done quickly without any opportunity for consumers to question the costs exclusion from AER scrutiny. We would repeat our proposal from our earlier submission that a more preferable approach would be to bring the NTP fees under than same scrutiny we are proposing for the participant fees.

Finally, this rule change also has potential broader impacts as the energy market undergoes a transition to net zero. It is becoming increasingly clear that AEMO are set to have an expanded role in proposed reforms such as ensuring

sufficient capacity and energy market reliability. If these reforms then lead to significant new costs for consumers (which is highly likely), then transparency and rigorous cost benefit analysis is essential. We have argued for greater transparency and rigor be applied to existing interventions such as RERT and market directions, but to this point only small improvements have been made. It is pointless to require that other market participants adhere to “efficient costs” if AEMO, who is progressively incurring costs on behalf of consumers, does not.

As always we would be happy to discuss any part of this submission.

Kind regards,

A handwritten signature in black ink, appearing to read 'A Richards', written in a cursive style.

Andrew Richards  
Chief Executive Officer