

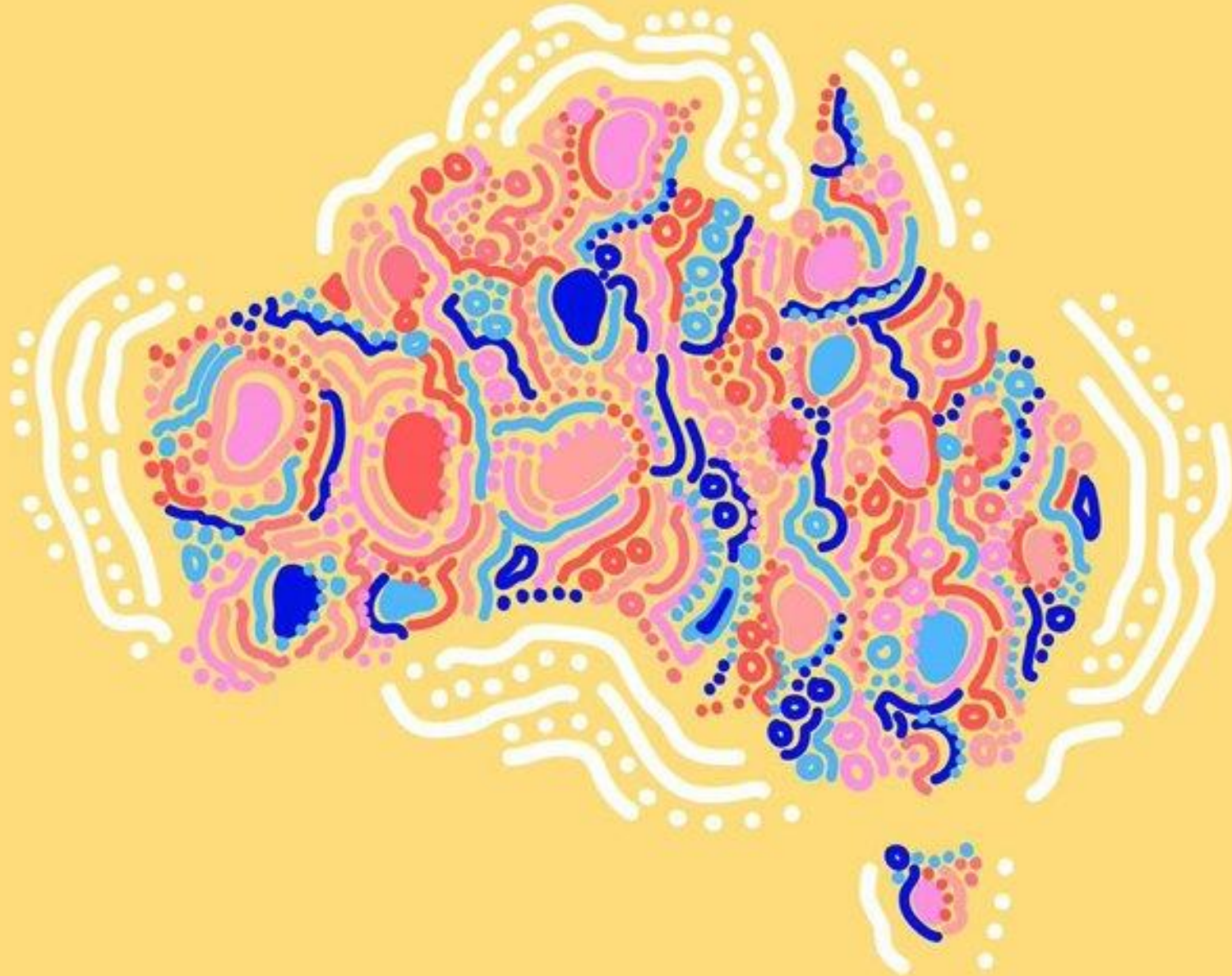
RECOVERING THE COST OF AEMO'S PARTICIPANT FEES

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Acknowledgement of country



Agenda

1.	Acknowledgement of country and introductions
2.	ENA outline of their rule change request
3.	Background
4.	Issues for consultation <ul style="list-style-type: none">- The problem raised by ENA- ENA's proposed solution:<ul style="list-style-type: none">• TNSPs recover AEMO's participant fees through adjusted annual revenue requirements• alignment of AEMO budgeting process and TNSPs' publication of transmission charges• amendments to definitions of under- and over-recovery of revenue• clarifying transfer payment arrangements between CNSPs and TNSPs
5.	Timeframes
6.	Questions

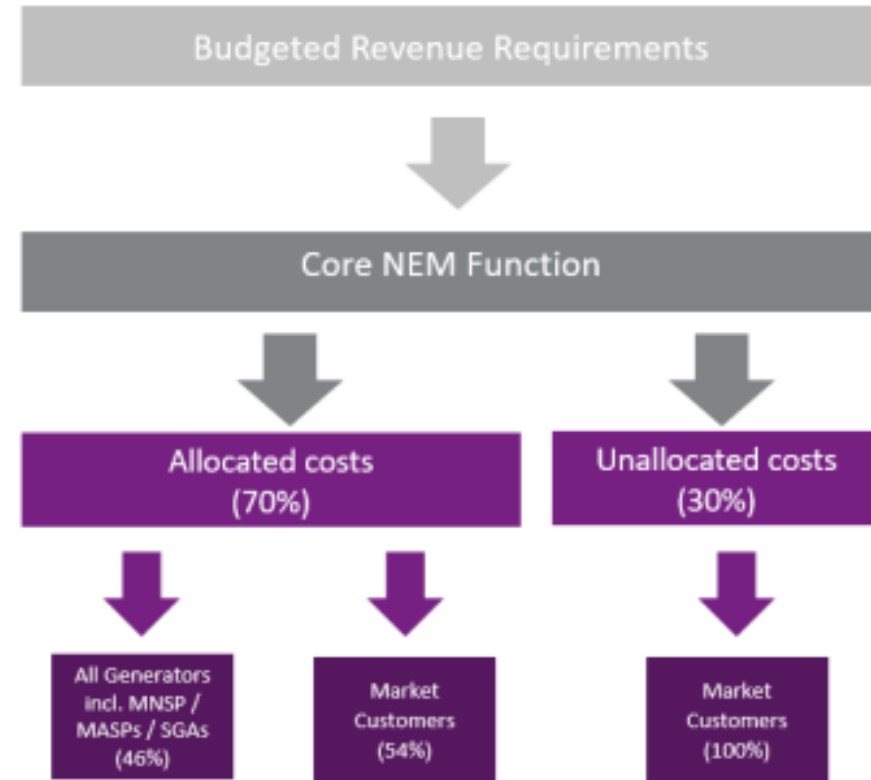
ENA rule change – Recovering the cost of AEMO’s participant fees allocated to TNSPs

Why is the rule change needed?

- AEMO Structure of participant fees was finalized in March 2021 and covers fee allocation for the period 1 July 2021 – 30 June 2026
- AEMO operate as a not for profit organization, all costs are recovered
- AEMO decided that it would allocate a portion of core NEM fees to selected TNSPs for the first time commencing 1 July 2023
- A future Structure of participant fees final report could vary the list of NSPs charged or vary the % allocated up or down
- Fees are allocated to TNSPs with no ability to recover costs or alignment with regulatory control periods
- TNSPs do not control AEMO costs or cost allocations, the prudence and efficiency of AEMO costs is a matter for AEMO to justify
- TNSPs are unable to forecast AEMO costs or cost allocations up to 7 years in advance for inclusion in revenue proposals
- Any TNSPs forecasts could be under/over estimated with potential impact on consumers

- AEMO provided a transitional period (2 years) for TNSPs to request a rule change to enable cost recovery
- ENA submitted a rule change in June 21, closely aligned with other components of the participant fee which TNSPs are able to recover under the NER
- AEMO have supported the rule change and rules drafting

Transition period and final allocation – 1 July 2021 to 30 June 2023



Transitional period 1 July 2021 to 30 June 2023

Final structure 1 July 2023 to 30 June 2026

Retail portion reduced by 27%

Generator portion increased by 10%

TNSPs allocated 17.5%

55.9%

26.6%

ENA rule change – Recovering the cost of AEMO’s participant fees allocated to TNSPs

Key Features of the rule change proposal

- » AEMO must notify the TNSPs portion of allocated participant fees by 15 Feb each year, this allows the AEMO charges to the TNSPs to be reflected in the transmission charges published on 15 March
- » Where the TNSP and CNSP are not the same entity, the CNSP will also need to be notified and will recover these charges on behalf of the TNSP
- » The participant fee charged will be allocated into the same revenue component as the NTP fee, pre-adjusted non locational component
- » Enables the CNSP to bill these costs on behalf of TNSPs and pay the TNSP the revenue recovered
- » Enables an adjustment to the TNSP price control mechanism that allows the AER approved regulated revenue to be recovered

Background: AEMO's annual budgeting process and 2021-26 Electricity Fee structure

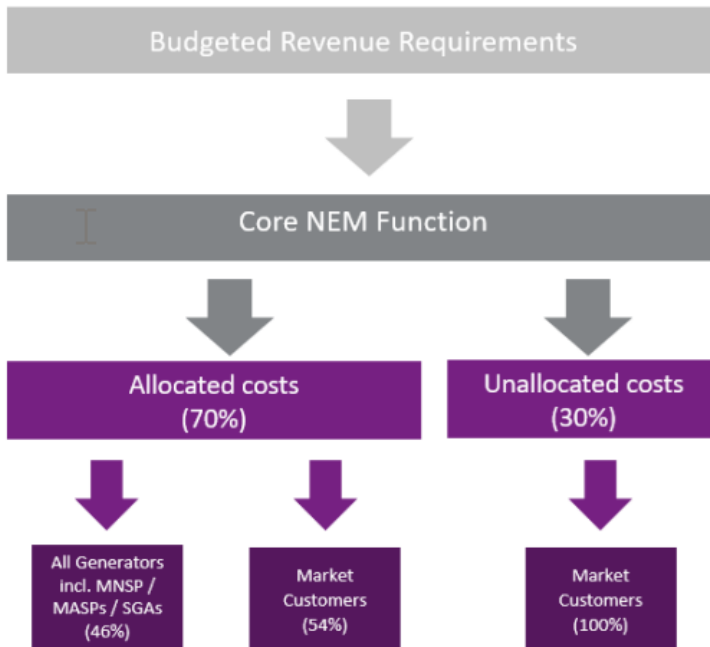
Under the National Electricity Rules (NER) AEMO must publish:

- an annual budget of its revenue requirements by the start of each financial year, and
- a structure setting out how its budgeted revenue is to be recovered through participant fees.

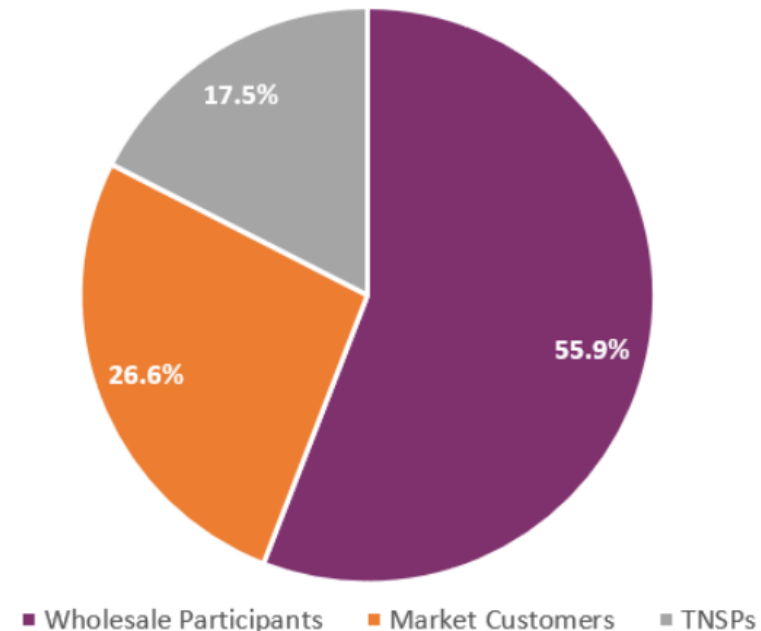
In March 2021, following industry consultation, AEMO published a final determination of its 2021-26 Electricity Fee structure:

- AEMO will start to charge specific TNSPs a proportion of core NEM fees for the first time (17.5% of the directly allocated portion), to reflect AEMO's increasing involvement in network related activities.
- There is a transitional period of two years, so that TNSPs are not charged a proportion of core NEM fees until 1 July 2023.

Transition period: 1 July 2021 to 30 June 2023



1 July 2023 to 30 June 2026



Background: Rules made in 2020 allowed CNSPs to recover AEMO's participant fees for the NTP function

ENA's rule change request is closely aligned with rules made in 2020 relating to TNSP recovery of AEMO participant fees for the National Transmission Planner (NTP) function.

The ISP Rule (July 2020), as amended by the Reallocation of NTP costs rule (October 2020), clarified and provided transitional and administrative mechanisms so that:

- AEMO could recover its NTP function fees for 2020-21 from Coordinating Network Service Providers (CNSPs), and CNSPs could include these fees in their transmission pricing,
- there is alignment between AEMO's budgeting process and CNSPs' transmission pricing processes,
- there is clarity with regard to the recovery of NTP function fees in Victoria, where AEMO is the CNSP.

The problem raised by ENA: Existing mechanisms allow TNSPs to apply to recover AEMO's fees, however they may not be administratively efficient

Current arrangements

- AEMO has allocated a portion of core NEM fees to TNSPs.
- The NEL revenue and pricing principles require that a NSP should have a reasonable opportunity to recover the efficient costs of complying with a regulatory obligation. As it is a regulatory obligation for TNSPs to pay AEMO's fees, ENA says the rules should allow TNSPs to recover these costs.

The problem raised by ENA

- Existing mechanisms for TNSPs to recover the cost of AEMO fees are cumbersome and not administratively efficient:
 - *5 year revenue determination* – a TNSP could apply for an allowance for AEMO's fees to be included in each 5 year revenue determination, which the AER would assess. For example, the AER's final AusNet Services' 2022-27 revenue determination included a category-specific forecast allowance of \$6.5m for AEMO's core NEM fees. Each year, TNSPs' annual revenue requirement could be adjusted by the actual amount of AEMO's core NEM fees.
 - *Cost pass through application* – a TNSP could apply for a positive cost pass through amount if the allocation of AEMO's participant fees satisfies the definition of "regulatory change event" (i.e. substantially affects the manner in which the TNSP provides prescribed transmission services, and exceeds 1% of MAR in a year).
- ENA considers that TNSPs are unable to control or accurately forecast the cost of AEMO's core NEM fees.

Question: Is there a substantive issue with the current arrangements? If so, does it warrant the proposed changes?

ENA's proposed solution: ENA proposes that TNSPs recover AEMO's participant fees from their customers through adjusted annual revenue requirements

ENA's proposed amendments:

- Allow TNSPs to recover AEMO's participant fees (excluding NTP fees) directly from customers through adjusted annual revenue requirements, rather than recovery through a 5 yearly revenue determination or cost-pass through application.
- Amend the principles for the allocation of the annual service revenue requirement, such that AEMO's participant fees allocated to TNSPs are recovered through the pre-adjusted non-locational component.

Comment:

- The proposal allows AEMO's annual participant fees to be included in a TNSP's transmission prices each year.
- The proposed amendments are consistent with the treatment of AEMO's NTP fees which TNSPs also recover through the pre-adjusted non-locational component.

Question: Are the proposed amendments to the principles for the allocation of annual revenue requirements appropriate? Are there any other factors to consider?

ENA's proposed solution: Under ENA's proposal, amendments to definitions of under- and over-recovery of revenue are also proposed

The problem raised by ENA

- If TNSPs are allowed to recover the cost of AEMO's fees through adjusted annual revenue requirements – this would be treated as an over-recovery amount and returned to customers, so that the TNSP does not recover the cost.
- ENA considers that this issue also applies for TNSPs' recovery of AEMO's NTP fees.

ENA's proposed amendments:

- Amend the definitions of under- and over-recovery amounts to exclude AEMO's participant fees from these calculations. ENA considers that if this change is not made, a TNSP could include AEMO's fees in its annual network charges through the proposed rule, but the fees would be treated as an over-recovery amount and returned to customers, so the TNSP does not recover the cost.
- For example, amend **over-recovery amount** definition: *"Any amount by which the revenue earned from the provision of prescribed transmission services in previous regulatory years (excluding any revenue attributable to adjustments made under clause 6A.23.3(e)(6) or 6A.23.3(e)(7)) exceeds the sum of the AARR in those regulatory years"*.
- ENA also proposes this change for the recovery of AEMO's NTP fees.

Questions: Are the amendments to definitions of under-recovery and over-recovery amount appropriate?
Is it appropriate that these amendments also cover NTP fees?

ENA's proposed solution: Alignment of AEMO budgeting process and TNSPs' publication of transmission charges

ENA's proposed amendments:

- By 15 February each year, AEMO sends a notification of the annual cost of participant fees (excluding NTP fees) to be recovered from each TNSP, so these costs can be reflected in annual transmission charges published by 15 March.
- Recovery of NTP fees is already addressed in NER cl. 2.11.3(ba). ENA's proposed rule refers to "participant fees (excluding NTP function fees) to recover the projected revenue requirements allocated to TNSPs".

Comment

- Consistent with current timing for AEMO to provide notification of annual NTP fees to relevant TNSPs by 15 February each year.
- To support simplicity, a consideration is whether to streamline the rules by combining existing references to TNSP recovery of AEMO's NTP fees with the proposed recovery of AEMO's other participant fees.

Question (a): Does the proposal allow AEMO's budget to be linked to transmission charges efficiently and timely?

Question (b): Should parts of the proposed rule be streamlined to combine references to NTP and other AEMO fees?

ENA's proposed solution: Clarifying transfer arrangements between a CNSP and a TNSP

ENA's proposed amendments:

- To address the situation in Victoria - clarify that, where a CNSP recovers AEMO's fees on behalf of a TNSP, the amount of any financial transfer between a CNSP and TNSP should include the recovery of AEMO's fees, to the extent they are recovered by CNSPs.
- To recognise the broader role of CNSPs in recovering AEMO's fees (including NTP fees) on behalf of TNSPs, and transferring these fees to the relevant TNSP.

Comment

- The 2020 rule on the Reallocation of NTP costs did not address the collection or transfer of NTP fees by CNSPs on behalf of TNSPs.
- The proposal clarifies the role of CNSPs in recovering fees on behalf of TNSPs in Victoria and across the NEM.
- However, the proposed rule drafting may put credit risk on the TNSP, and not the CNSP, as the CNSP only pays 'to the extent' that AEMO's costs are recovered. In practice any credit risk may be small.

Question (a): Are changes to transfer payment arrangements between a CNSP and a TNSP necessary?

Question (b): Is the proposal to recognise the broader role of CNSPs in transferring payments to TNSPs appropriate?

Timeframes

Milestone

Date

Consultation paper published

28 April 2022

Objections to use of expedited process due

12 May 2022

Stakeholder submissions due

26 May 2022

Final determination published

23 June 2022

AEMO notifies TNSPs of participant fees that are expected to be incurred by AEMO for 2023-24

By 15 February 2023

QLD, NSW, SA and TAS TNSPs publish transmission prices for 2023-24

15 March 2023

If rule made, TNSPs recover participant fees (excluding NTP function fees)

1 July 2023

Objection received to the use of an expedited rule change process

- On 11 May 2022 the AEMC received an objection to the use of an expedited rule change process.
- The objection is published on the Commission's website.
- The Commission will shortly make a decision on the objection. We will publish a notice if we decide to switch to the standard rule change process as a result of the objection.

QUESTIONS?

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