

18 August 2022

Ms Anna Collyer
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Ms Collyer

RE Recovering the cost of AEMO's participant fees

TasNetworks welcomes the opportunity to respond to the Australian Energy Market Commission's (**AEMC**) Directions Paper on the rule change request from Energy Networks Australia (**ENA**) relating to the recovery of the Australian Energy Market Operator's (**AEMO's**) participant fees by Transmission Network Service Providers (**TNSPs**).

As Tasmania's primary TNSP and Jurisdictional Planner, TasNetworks works collaboratively with AEMO to securely plan and manage Tasmania's electricity network. This relationship has continued to grow as AEMO and TNSPs take on additional roles and functions with respect to the energy transition and the impact it is having on the electricity system. Unsurprisingly, as the market operator, AEMO's costs have risen significantly to manage the burden of this increasingly complex system. However, TasNetworks does not consider regulation of TNSPs' market participant fees an effective means of reducing these costs.

As outlined in the attached submission, TNSPs do not have the ability to accurately forecast AEMO participant fees up to seven years in advance and the inclusion of these costs in a revenue proposal introduces risks that could have unintended consequences for both TNSPs and customers.

TasNetworks strongly supports the rule change and ENA's submission to the Directions Paper. We would like to reinforce the following points in our attached submission.

- TasNetworks is unable to materially influence the magnitude of AEMO's costs;
- TasNetworks is unable to forecast AEMO's participant fees; and
- The rule change is the preferable approach for our customers.

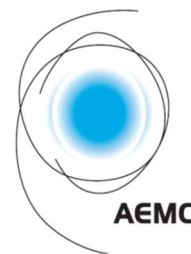
Should you have any questions with respect to this submission, please contact Chantal Hopwood, Leader Regulation, via email (chantal.hopwood@tasnetworks.com.au) or by phone on 0400 827 037.

Yours sincerely

Michael Ash

Michael Ash

Executive Stakeholder



SUBMISSION TO THE DIRECTIONS PAPER – RECOVERING THE COST OF AEMO’S PARTICIPANT FEES STAKEHOLDER FEEDBACK TEMPLATE

The template below has been developed to enable stakeholders to provide their feedback on the issues that the Directions paper seeks feedback on and any other issues that they would like to provide feedback on. The AEMC encourages stakeholders to use this template to provide feedback on issues raised. This template is not exhaustive and therefore stakeholders are encouraged to comment on any additional issues or suggest additional solutions. Stakeholders should not feel obliged to answer each question, but rather address those issues of particular interest or concern. Further context for the questions can be found in the directions paper.

SUBMITTER DETAILS

ORGANISATION: TasNetworks

CONTACT NAME: Chantal Hopwood

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PHONE: 0400 827 037

DATE 18 August 2022

PROJECT DETAILS

NAME OF RULE CHANGE: Recovering the cost of AEMO’s participant fees

PROJECT CODE: ERC0335

PROPONENT: Energy Networks Australia

SUBMISSION DUE DATE: 18 August 2022

QUESTION 1- ARE THE CURRENT RECOVERY ARRANGEMENTS MORE APPROPRIATE THAN DIRECT COST RECOVERY??

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1. To what extent can TNSPs influence AEMO's costs, and the overall efficiency, of delivering functions for which AEMO charges them participant fees?	<p>TNSPs have very little scope to influence the magnitude or efficiency of AEMO's costs. TNSPs work closely together with AEMO on a range of critical functions for the NEM, however there is limited duplication or cross over. For example, TNSPs undertake various technical functions such as limit advice on network capability, on which AEMO then undertakes independent due diligence. The functions have evolved over time to ensure the network is running smoothly and safely. Furthermore, the functions and responsibilities of AEMO and TNSPs are clearly prescribed and differentiated in the National Electricity Rules (NER). This means TNSPs have very little scope to influence their level of involvement with AEMO.</p> <p>AEMO charges and allocates fees to market participants as per Rule 2.11 of the NER. Clause 2.11.1(3) states that the components of Participant fees charged to each Registered Participant should be reflective of the extent to which the budgeted revenue requirements for AEMO "involve" that Registered Participant. AEMO determines the level of involvement of a given participant class by taking a survey of senior AEMO managers, which broadly considers the degree to which a participant class interacts with or benefits from AEMO's functions. As described above, given the roles and responsibilities of TNSPs and AEMO are fairly well defined in the NER, there is little scope to influence this allocation. Beginning in 2023, TNSPs have been allocated 17.5% of AEMO's total participant fees over a 3 year period.</p> <p>AEMO do not have the systems available to charge individual TNSPs based on their level of involvement. As a result, the 17.5% is divided between TNSPs based on energy use in that jurisdiction. This means individual TNSPs have almost no influence over the efficiency or magnitude of their final fee allocation. Even if an individual TNSP could limit their involvement with AEMO it would not influence their allocation of participant fees.</p> <p>TNSPs already engage with AEMO on its costs within the available forums. These include the Financial Consultative Committee and the Reform Delivery Committee. Although these forums are an effective means of stakeholder engagement between AEMO, TNSPs and other key stakeholders, they are ultimately advisory committees that do not have decision-making authority on AEMO's costs. Furthermore, given the clear separation in roles between AEMO and TNSPs, any cost savings identified through these committees, either</p>

Stakeholder feedback

Establishing revenue determinations for intending TNSPs

	by TNSPs or other stakeholders, would be at the margins and have no material influence over AEMO's total costs.
2. Reflecting on submissions and the analysis above, do you think that there is a substantial issue with the current arrangements that warrants making ENA's proposed rule?	<p>As explained above, TNSPs have very little influence over the magnitude and allocation of participant fees. However, this is exacerbated by the recent volatility and consequential increase in AEMO's requirements and functions which are ultimately reflected in costs. This volatility is due to the unprecedented transformation of the electricity sector in response to the transition to net zero emissions. The transition has resulted in significant increases in operational complexity as new technologies such as inverter based resources and distributed energy resources become more prevalent and account for larger portion of the electricity mix. Unsurprisingly, as the market operator, this complexity has caused AEMO's costs to increase as it attempts to accommodate an urgent reform agenda while maintaining system security and reliability. Given the increase and volatility in AEMO's costs are being driven by external factors, the magnitude of participant fees payable by TNSPs is not able to be forecast with any degree of confidence. Noticeably, even if TNSPs could materially influence AEMO's costs, it would not necessarily make the forecasts any more accurate.</p> <p>The inability of TNSPs to forecast or influence AEMO's costs will likely result in significant over or under recovery within a regulatory period, which may lead our customers to lack confidence in the rigour of forecasting methodologies and the wider economic incentive process. Consumers should have confidence in the robustness of cost recovery mechanisms and the ability of the regulatory process to incentivise TNSPs to capitalise on efficiencies where possible. Given TNSPs are unable to improve the efficiency of AEMO's costs, TasNetworks considers the rule change proposal is the most efficient approach to recovering participant fees.</p> <p>TasNetworks notes that if a TNSP's revenue determination does not line up with AEMO's fee allocation process, they will be unaware of the proportion of participant fees allocated to TNSP's for a portion of their regulatory period. If the allocation of fees changes, than it is likely a TNSP's forecast will be even more inaccurate. For example, although TasNetworks is aware that TNSPs will be required to pay 17.5% of AEMO's allocated costs from 2023 to 2026, our regulatory period will run from 2024-29. This means TasNetworks will be unaware of TNSPs allocation of fees for the period between 2026 and 2029 when it submits its Revenue Proposal to the Australian Energy Regulator (AER). This uncertainty within regulatory periods mean some TNSPs will likely have to absorb significant costs, or risk incentive scheme penalties, as the fees will unlikely meet the materiality threshold for a cost pass through.</p>

Stakeholder feedback

Establishing revenue determinations for intending TNSPs

	Several stakeholders have expressed the view that by including participant fees in economic regulation, TNSPs will have an incentive to actively find ways to reduce AEMO's costs. Due to points outlined above, TasNetworks does not agree with this assertion. Realistically, it is paradoxical to expect a business to reduce a cost they are unable to influence.
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QUESTION 2 - IS THERE BENEFIT IN MAKING NICE'S PROPOSED RULE?

1. Do you agree with the position put in NICE's submission that charging participant fees to TNSPs is administratively inefficient?	TasNetworks supports ENA's position on this issue.
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QUESTION 3 – AMENDING DEFINITIONS AND CLARIFYING ARRANGEMENTS BETWEEN CNSPS AND TNSPS

1. Do you think it would be useful to amend the definitions of over-recovery amount and under-recovery amount, and clarify transfer payment arrangements between CNSPs and TNSPs, as proposed by ENA?	TasNetworks supports ENA's position on this issue.
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OTHER COMMENTS

1. Please provide any further comments on this report.	Click or tap here to enter text.
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