



# Recovering the cost of AEMO's participant fees

## Final determination and final rule

The Australian Energy Market Operator (AEMO) is playing a crucial role in the transition, and has updated the way it allocates its costs between participants.

On 24 June 2021, Energy Networks Australia (ENA) submitted a rule change request to allow the Transmission Network Service Providers (TNSPs) to pass the costs of newly allocated AEMO Participant fees directly through to consumers.

On 20 October 2022, the Commission made a final determination and more preferable rule. The Commission has determined that it is both in the long-term interests of consumers and consistent with the National Electricity Law (NEL) revenue and pricing principles for TNSPs to recover their allocated shares of AEMO's participant fees (excluding NTP function fees):

- initially by passing them directly through to consumers (as ENA proposed), as a transitional measure; and
- through existing mechanisms under the incentive-based revenue determination framework, after the transitional period.

## The Commission considered there was not a substantive issue with the current arrangements that warranted ENA's proposed rule change

We decided not to make the core element of the proposed rule for several reasons, some of which are outlined below:

- Existing mechanisms in the NER will, in future, provide TNSPs with a reasonable opportunity to recover the efficient costs of AEMO's core NEM fees, in accordance with the NEL revenue and pricing principles:
  - TNSPs can apply to recover the cost of AEMO participant fees (excluding NTP fees) through their operating expenditure (opex) allowance in a revenue determination, and
  - TNSPs may submit a cost pass through application, subject to the AER's assessment and to the materiality threshold.
- It is preferable that AEMO's participant fees (excluding NTP fees) are subject to incentive regulation, as opposed to being passed on directly to consumers.
  - While TNSPs' control over AEMO's costs is limited, they have some ability to assist AEMO to minimise costs and cost volatility.
  - Under incentive regulation, TNSPs have some ability to manage the inevitable ups and downs in individual operating cost components over time and within their total opex allowance, as a non-regulated business would do in a competitive market.

## Our more preferable rule supports TNSPs in the short-term whilst protecting the long-term interests of consumers

While we consider that TNSPs should be subject to incentive-based regulation in relation to the cost of AEMO's participant fees (excluding NTP fees), we do not think this is necessarily consistent with the revenue and pricing principles during the transitional periods when TNSPs incur this new category of operating costs for the first time. This is because TNSPs either:

- did not have an opportunity to apply to recover the cost of AEMO's participant fees (excluding NTP fees) in their current regulatory control period;
- did have an opportunity to apply to recover the cost of AEMO's participant fees (excluding

NTP fees) in their current regulatory control period but had insufficient history and information to enable a reasonable cost forecast to be included; or

- will not have sufficient time to gain a clearer understanding of the likely amounts of AEMO's participant fees or try to better align how AEMO sets its participant fees with TNSP forecasting processes, prior to submission of their revised proposals for their next regulatory control period.

We have thus made a more preferable rule that includes transitional arrangements to support TNSPs as they transition to incurring AEMO's participant fees (excluding NTP fees) for the first time. The transitional period provides time to develop the level of expertise and engagement processes for TNSPs to discuss fees with AEMO. The final rule also includes minor amendments to clarify that existing rules should work as intended.

### **Key elements of the more preferable final rule**

The key elements of the more preferable final rule are:

- Transitional rules allow TNSPs to directly recover the cost of AEMO's participant fees (excluding NTP fees, but including new participant fees, such as those relating to the NEM 2025 declared NEM project) for the following transitional periods:
  - AusNet Services and Powerlink - four years from 2023-24 to 2026-27
  - ElectraNet and Transgrid - five years from 2023-24 to 2027-28
  - TasNetworks - six years from 2023-24 to 2028-29.
- Amending the definitions of over-recovery amount and under-recovery amount so TNSPs are able to recover the cost of AEMO's NTP function fees.
- Amending the definition of Co-ordinating Network Service Provider (CNSP) to clarify that the role of CNSPs is broader than allocating Adjusted Annual Revenue Requirements (AARR).

### **Our final rule achieves the national electricity objective (NEO)**

The final rule contributes to the NEO by:

- enabling efficiency through maintaining appropriate incentive mechanisms,
- appropriately allocating risk to the party best placed to manage it,
- maintaining regulatory simplicity and transparency,
- appropriately balancing potential gains from administrative efficiency against risks to consumers, and
- ensuring TNSPs have a reasonable opportunity to recover at least their efficient costs.

### **The final rule commences on 27 October 2022**

- To enable the transitional cost recovery arrangements for AusNet Services, which start in 2023-24, AEMO must amend its pricing methodology and revenue methodology before 15 February 2023. This can be done quickly because AEMO is not required to consult during this process.
- By 15 February 2023, AEMO will notify TNSPs of the annual fees to apply for 2023-24.

## **Background**

### **ENA's proposed rule**

On 24 June 2021, ENA submitted a rule change request that sought to establish a new mechanism to allow TNSPs to directly pass on the cost of AEMO participant fees (excluding NTP function fees), which will be charged to TNSPs from 1 July 2023.

Key features of ENA's proposed rule were:

- amendments to revenue and pricing methodologies to allow for direct cost recovery, rather than recovery through an AER revenue determination,
- alignment of AEMO's budgeting process and TNSPs' publication of transmission charges, and
- clarifying transfer payment arrangements between a CNSP and a TNSP.

### **AEMO's participant fees**

Under the 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.
- AEMO's Electricity fee structure for 2021-26 set nine categories of fees, which included the category of AEMO's core NEM fees. AEMO allocated a portion of core NEM fees to relevant TNSPs between 1 July 2023 and 30 June 2026. TNSP's are not subject to pay core NEM fees until 1 July 2023.

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