

5 February 2021



Stakeholder Relations Team
Australian Energy Market Operator

Submitted via email to StakeholderRelations@aemo.com.au

Dear Stakeholder Relations,

Participant Fee Structure draft determination

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon people who are marginalised and facing disadvantage. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in energy and water markets.

PIAC welcomes the opportunity to respond to the Australian Energy Market Operator's (AEMO) draft determination on its Participant Fee Structure. We provide feedback on AEMO's proposed fee allocation for Network Service Providers (NSP), Distributed Energy Resources integration, and generators.

Cost recovery principles

PIAC considers cost should be recovered on a 'beneficiary-pays' basis, so costs are allocated to those who benefit from a given investment or action. Under this principle:

- Where there are multiple beneficiaries, the costs should be recovered proportionally to their share of the benefits.
- Where it is not practical and transparent to identify the beneficiaries and measure the benefits, a causer-pays approach should be used.
- Cross-subsidies should only be permitted where they are accepted by informed consumer preferences from the providers of that subsidy, or are immaterially small.

Network Service Providers

PIAC supports AEMO's proposal to allocate fees to NSPs on the basis of their increased involvement with AEMO and associated increased costs. However, we question whether the proposed two-year transition period for their introduction is necessary. AEMO reasons the transition period is needed to allow alignment with NSPs' revenue determinations, however we suggest NSPs should be able to apply for a cost pass-through and be granted it sooner than the transition period. Reducing the delay in allocating NSPs fees ensures the 'reflective of involvement' principle is met more quickly.

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Distributed Energy Resources integration

PIAC generally supports AEMO's proposed approach to DER integration costs. We agree DER integration will have system-wide and consumer benefits, and that the costs of the program should be recovered from more than just participants directly generating income from integrated DER products and services.

We note the extent of AEMO's role in integrating DER is a concern among different energy stakeholders, including some consumer representatives. Some stakeholders perceive AEMO as desiring to design and plan the energy system to allow it centralised control over DER, which some consider would not be in the long-term consumer interest. As AEMO's role in integrating DER can be contentious, it should be careful to ensure the costs of the DER integration program are transparent and are allocated according to who benefits from it.

While PIAC generally supports AEMO's DER integration cost allocation, we are concerned by AEMO's proposal to charge Demand Response Service Providers (DRSP) to recover the capital costs of establishing Wholesale Demand Response (WDR).

Wholesale demand response benefits energy consumers at a system and individual level, as well as the broader community by reducing emissions and helping with the transition of the energy system. While relatively minor at the outset, the value to consumers and the market of demand response will grow as the market for it is established and matures. AEMO should consider these benefits and its role in realising them through its operational decisions, such as participant fees.

Charging DRSPs for the capital costs of WDR may discourage the provision of WDR by imposing costs on early entrants, stifling the development of the mechanism and the wider consumer benefits it brings. It also may impose an unfair cost on DRSPs if other market participants have not been required to cover capital costs of establishing the systems they use. As incumbent generators do not appear to pay fees for the capital costs they benefit from, it is not appropriate to recover these costs from DRSPs.

PIAC recommends smearing the capital cost of WDR as its main beneficiaries are consumers and the market. This cost should be recovered per participant per year over a long period. PIAC also recommends erring on side of under-recovery rather than over-recovery for capital costs of WDR, to incentivise its development and encourage participation.

Generators

PIAC supports AEMO not having a separate cost allocation for VRE. We consider this may allocate costs to VRE generators above what they benefit from and put them at a disadvantage compared to other generators. We recommend reconsidering how fees are allocated to VRE when the market design has been updated.

We welcome the opportunity to discuss these matters further with AEMO.

Yours sincerely

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