

2 March 2023

Mr Daniel Westerman  
CEO, Australian Energy Market Operator  
Lodged by email to: reformdevelopmentandinsights@aemo.com.au

Dear Mr Westerman,

***Structure of participant fees for AEMO's NEM 2025 reform program***

The Clean Energy Investor Group (CEIG) welcomes the opportunity to provide feedback on the Australian Energy Market Operator (AEMO)'s *Structure of participant fees for AEMO's NEM 2025 reform program – Consultation paper* (the Consultation paper) published in February 2023.

CEIG represents domestic and global renewable energy developers and investors, with more than 16GW of installed renewable energy capacity across more than 76 power stations and a combined portfolio value of around \$38 billion. CEIG members' project pipeline is estimated to be more than 46GW across Australia. CEIG strongly advocates for an efficient transition to a clean energy system from the perspective of the stakeholders who will provide the low-cost capital needed to achieve it.

**KEY POINTS**

**CEIG calls for greater transparency over the costs proposed to be passed through to market participants for the NEM 2025 Reform Program.**

- AEMO's proposal for how to determine the fee structure does not provide sufficient visibility to the market.

**CEIG strongly suggests strengthening how the fee structure is determined:**

- Programs that have not completed the AEMC's Rule change process should not be included in the fee structure;
- Projects that are not being implemented (e.g. CMM, LMPs and capacity market) should not be included in the fee structure.

**CEIG calls for tighter governance of the fee estimation process:**

- CEIG is concerned about the lack of transparency over AEMO's fee estimates;
- The fee estimates should be more accurate than +/-40%;
- AEMO should provide more clarity around how it derives its fee estimates; and
- The governance framework around the fee estimation process should be more robust.

**AEMO should be clear about which category(ies) of market participant(s) will be charged a fee and the rationale behind their share of the fee (including who are the reform beneficiaries).**

**AEMO should demonstrate how the savings from the market-funded Five-Minute Settlement program are lowering costs for the NEM 2025 Reform Program.**

- AEMO should publish its lesson learnt report and demonstrate what savings will be able to be leveraged for the NEM 2025 reform projects.
- AEMO should also identify as part of its Corporate Plan how those investments are being leveraged to keep the costs of the NEM 2025 Reform Program contained.

CEIG is concerned that AEMO's proposal for how to determine the fee structure for the NEM 2025 Reform Program does not provide sufficient visibility to the market and CEIG calls for greater transparency over the costs proposed to be passed through to market participants.

**Programs that have not completed the AEMC's Rule change process should not be included in the fee structure**

CEIG is concerned about AEMO's current proposal to include programs that have not completed the AEMC's Rule change process, particularly where they are at an early stage (e.g. Flexible Trading) or where consultation has been delayed (e.g. Operational Security Mechanism and Operating reserve market).

CEIG notes that AEMO is proposing to implement a stage gate process whereby funding will be subject to a progressive commitment process.

However, the outcomes for those proposals are not guaranteed to be implemented, and if they were in what form and therefore at what cost. As a result, CEIG strongly suggests that those programs should be removed from the fee structure (and stage gate process) until they have completed the AEMC's Rule change process.

**Projects that are not being implemented should not be included in the fee structure**

CEIG believes that projects that have been rejected by Ministers and that are not implemented should not be charged to market participants.

Many of those proposals have been vigorously opposed by participants, for many years (e.g. reforms incorporating locational marginal pricing; congestion management model; capacity mechanism) and AEMO should not charge market participants for the costs of projects which were very unlikely to proceed to implementation and have now formally

been rejected by Ministers.

CEIG notes AEMO's comment that:

*"The capacity mechanism and congestion management mechanism has not been captured as part of this consultation and will be picked up separately in the event a policy decision is made to proceed with these reforms."*

Considering both those reforms were rejected by Ministers, CEIG expects that their costs should not be allocated to market participants (or, in the case of Capacity Investment Scheme, should be minimal since Energy Ministers have agreed on a mechanism which will require very little work by AEMO except to determine dispatchable capacity shortfalls in each State which AEMO already reports on).

### **CEIG is concerned about the lack of transparency over AEMO's fee estimates and calls for tighter governance of the fee estimation process**

The fee estimates should be more accurate than +/-40%

AEMO's proposal to apply +/-40% over its fee estimates is too variable. Considering the large cost associated with the programs (in the order of \$350m net present cost as per AEMO's paper), AEMO should provide more accurate fee estimates and reduce the level of uncertainty to a lower amount than +/-40%.

There should also be a clear process to govern the 'overs and unders' where the actual cost differs from the fee estimate.

AEMO should provide more clarity around how it derives its fee estimates

It is not clear what components are included in the estimates and what methodologies are applied to derive those fee estimates.

The governance framework around the fee estimation process should be more robust.

For a number of rule changes, AEMO is both the proponent and the entity estimating the fee and it is unclear what cross-checks are applied to the fee estimation process.

### **Cost allocation and recovery**

For each program, AEMO should be clear about which category(ies) of market participant(s) will be charged a fee and the rationale behind their share of the fee (including who are the reform beneficiaries).

For example, it is not clear why utility-scale generation plants connected to the transmission network should be exposed to the costs of the Distributed Energy Resource program, unless the point can be made around that work directly impacting, and benefiting, generators in the transmission network.

To improve accountability over the costs and benefits of those reforms to consumers, market bodies may wish to consider disclosing the costs of the NEM 2025 reforms as they are passed through to consumers, similar to how other regulated charges are

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disclosed to consumers (e.g. Reliability and Reserve Emergency Trader costs; Unaccounted for Energy, etc.).

**AEMO should demonstrate how the savings from the Five-Minute Settlement program are lowering costs for the NEM 2025 Reform Program**

Market participants have recently funded the Five-Minute Settlement project - a large project that included an uplift to AEMO's IT systems that was due to deliver savings for future IT uplift projects.

To provide better transparency to market participants over the effectiveness of past funded projects, AEMO should publish its lesson learnt report and demonstrate what savings will be able to be leveraged for the NEM 2025 reform projects. AEMO should also identify as part of its Corporate Plan how those investments are being leveraged to keep the costs of the NEM 2025 Reform Program contained.

CEIG looks forward to engaging with AEMO on the issues raised in the Consultation paper. Our Policy Director Ms. Marilyn Crestias can be contacted at [marilyne.crestias@ceig.org.au](mailto:marilyne.crestias@ceig.org.au) if you would like to further discuss any elements of this submission.

Yours sincerely,



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