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25 February 2021

Dear Michael

### **National Electricity Market – Non-Energy Cost recovery**

The Australian Energy Council (the AEC) wishes to draw to your attention issues with the recovery of non-energy charges in the National Electricity Market (NEM), and the opportunity for an Australian Energy Market Commission (AEMC) review.

The Energy Council is the industry body representing 21 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses.

During November 2020 the Australian Energy Market Operator (AEMO) identified a critical and urgent issue; where regional demand falls to zero or negative, settlement systems cannot solve for the recovery of non-energy charges. Following a brief consultation with participants, AEMO proposed an urgent rule change to settlement formulae<sup>1</sup>. Given their late identification of the issue, the AEC supports AEMO's actions.

In developing its solution, AEMO is appropriately focussed on the primacy of market continuity and has proposed a minimalist design that has no effect during positive demand times. One of our members, Infigen Energy, has submitted an alternative rule change that seeks to also address some anomalies at times of low positive regional demand.

These developments caused our membership to reflect on whether the allocations of non-energy charges at all times remain appropriate in today's market. They remain largely unchanged since the introduction of the Frequency Control Ancillary Services (FCAS) markets in 2001. Since that time energy production and consumption have changed dramatically, but these allocations have not been holistically revisited. The charges are (without limitation):

- FCAS recovery;
- Non-market ancillary services recovery;
- Funding of Compensation for directions;
- Affected Participant Compensation (AEMO interventions);

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<sup>1</sup> <https://www.aemc.gov.au/sites/default/files/2021-02/ERC0326%20Rule%20change%20request%20pending.pdf>

- Compensation due to Market Suspension or Administered Price Cap and Floor;
- Reserve Settlements (Reliability and Emergency Reserve Trader); and
- Participant compensation fund (Scheduling Errors).

The existing charging allocations were developed at a time when electricity was produced from large conventional generators and consumed by stable customer categories. That is out of date, as a wide range of generation technologies and sizes exist across the market, whilst consumption has become bi-directional and partially controllable. Storage technologies and new market participant categories have arisen.

In 2001 the total energy consumed by a customer reasonably reflected its proportional engagement with the market, and so presented a convenient basis for the recovery of socialised costs necessary to support the market. However this is evidently no longer the case; electricity consumers with behind the meter generation, despite remaining reliant on the grid, now consume small or negative energy over time.

The list above intentionally excludes Participant Fees. AEMO is required to periodically consult upon the Participant Fee structure, subject to certain principles, and has thus repeatedly reviewed those allocations in light of the changing industry. The AEC suggests it is timely for the AEMC to similarly review the structure of all the other non-energy charges.

The AEC recognises the many competing priorities for the AEMC at this time. The AEC envisages a relatively tight review of a similar scale to that of an AEMO participant fee structure review. Despite the large number of charges listed above, it is likely that once the AEMC develops the appropriate principles for efficiently recovering socialised costs in today's NEM, it will be straightforward to propose methods for each.

Should you have any questions please contact the undersigned at 03 9205 3116 or at [Ben.Skinner@energycouncil.com.au](mailto:Ben.Skinner@energycouncil.com.au).

Yours sincerely,



**Ben Skinner**  
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5 March 2021  
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Dear Ben

**RE: National Electricity Market – Non-Energy Cost recovery**

I refer to your letter of 25 February 2021 regarding issues with the recovery of non-energy charges in the national electricity market (NEM) and the opportunity for an AEMC review.

As you are aware, the AEMC is in the process of assessing the *Integrating Energy Storage Systems into the NEM* rule change request (Integrating Storage) from AEMO. In its rule change request, AEMO noted several issues with the recovery of energy costs, not only for storage but for all registered participants. In AEMO's view, these issues are potentially inequitable and creating perverse outcomes for the market. The Commission is therefore considering the recovery of non-energy costs across all Market Participant categories in the rule change process.

In August 2020, the AEMC released a consultation paper on Integrating Storage which sought stakeholders' views on the recovery of non-energy costs from Market Participants. Because of divided stakeholder views on the issue, we released an options paper that asked for further stakeholder feedback on how we might make changes to the recovery of non-energy costs. These options were:

1. The status quo.
1. AEMO's proposed solution to recover non-energy costs from from grid-scale batteries, hybrid facilities and MSGAs on a causer-pays basis. Market Customers and Market Generators would continue to pay as per the status quo.
2. Apply a causer-pays approach, where relevant, to all Market Participants based on consumed and sent out energy (rather than a net of these).

Most stakeholders who responded to the questions on non-energy recovery costs supported option 3 in principle. I note that the Australian Energy Council (AEC) outlined that while it fundamentally agreed with option 3, the Commission should consider several issues.

As the Integrating Storage rule change will address non-energy costs recovery, the AEMC does not believe there is further scope for a review of these issues at this stage. However, we would like to meet with you to investigate this further and to ensure we capture the issues you have raised in our draft determination. In particular, we would like to discuss:

- any exceptions to the causer-pays model that might be required
- the potential impacts to the AEC's members from a move to a causer-pays based approach.

Given the Commission is due to publish the draft determination for Integrating Storage on 29 April 2021, ideally we could meet with you and/or your membership in March, so that we can take your perspectives into account in the draft determination.

Please let me know if you would like to meet to discuss this.

Yours sincerely

Michael Bradley  
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