

ENERGY CONSUMERS AUSTRALIA – FEE STRUCTURE

FINAL REPORT

Published: **30 December 2014**





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CHAPTER 1 – FINAL DETERMINATION OVERVIEW

In May 2014 the Council of Australian Governments (COAG) Energy Council approved the establishment of the Energy Consumers Australia (ECA) to promote the long term interests of energy consumers, in particular for residential customers and small business customers. Australian Energy Market Operator Limited (AEMO) is required to recover the funding for the ECA from market participants.

1.1 Key information

Purpose	To outline the fee structure to recover funds for the ECA.													
Date applicable	30 January 2015													
Scope of final determination	ECA fee structure relates to: <ul style="list-style-type: none"> • Electricity markets • Gas retail markets 													
Consultation process timetable overview	The following table outlines the consultation process for this review. <table border="1" data-bbox="480 972 1391 1310"> <thead> <tr> <th><i>Milestone</i></th> <th><i>Date</i></th> <th><i>Comments</i></th> </tr> </thead> <tbody> <tr> <td>Publication of Notice of Consultation</td> <td>10 October 2014</td> <td>Completed.</td> </tr> <tr> <td>Closing date for submissions received to the Notice of Consultation</td> <td>24 October 2014</td> <td>Three submissions received and published on AEMO's website.</td> </tr> <tr> <td>Final fee structure published.</td> <td>30 December 2014</td> <td>Completed.</td> </tr> </tbody> </table>		<i>Milestone</i>	<i>Date</i>	<i>Comments</i>	Publication of Notice of Consultation	10 October 2014	Completed.	Closing date for submissions received to the Notice of Consultation	24 October 2014	Three submissions received and published on AEMO's website.	Final fee structure published.	30 December 2014	Completed.
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Closing date for submissions received to the Notice of Consultation	24 October 2014	Three submissions received and published on AEMO's website.												
Final fee structure published.	30 December 2014	Completed.												
Final methodology – Electricity markets	ECA electricity costs to be recovered on the basis of a charge per connection point for small customers. ¹													
Final methodology – Gas markets	ECA gas costs to be recovered on the basis of a charge 'per customer supply point' for gas retail markets.													
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¹ Small customers are defined in the National Energy Retail Law which can be accessed through: <http://www.aemc.gov.au/Australias-Energy-Market/Market-Legislation/Relevant-Legislation-Retail-Energy>.



1.2 Guiding principles

In determining the fee structure, AEMO must have regard to a number of principles that are prescribed in the NGR.

Principle[^]

- Fees and charges are to be determined on a non-profit basis that provides for full cost recovery.
- The structure of the participant fees should be simple.
- Participant fees should not unreasonably discriminate against a category or categories of registered participants.
- The components of participant fees charged to each registered participant should be reflective of the extent to which AEMO’s budgeted revenue requirements involve that registered participant.
- The structure of the participant fees should provide for the recovery of AEMO’s budgeted revenue requirements on a specified basis.

[^] These principles are prescribed under the national gas objective (NGO) (section 23 of the National Gas Law (NGL)) and under the national electricity objective (NEO) (section 2.11.1 of the National Electricity Rules (NGR)).

These principles may often be competing, for example a strong cost-reflective (user pays) structure is unlikely to be simple. AEMO’s objective is to find a balance between any competing principles.

1.3 Background

Consumer advocacy in gas and electricity markets is currently supported by the Consumer Advocacy Panel (CAP), which was established under the Australian Energy Market Commission Establishment Act 2004. The purpose of the CAP is to facilitate a program of grants, which provides targeted funding to help ensure that decision-makers are informed of the interests of all classes of end-use consumers.

Funding for the CAP is approved annually by the COAG Energy Council (and previously the SCER), with the majority of this amount (excluding a portion for WA and NT) being collected by AEMO through participant fees. The fees are charged to electricity retailers and wholesale customers on a per-MWh rate, and to gas customers on a per-supply point rate.

At the May 2014 meeting of the COAG Energy Council, it was agreed that the ECA be established. Also at this meeting the ECA company constitution was agreed to.

Under the ECA Constitution the objective of the ECA is to:

“(a) To promote the long term interest of Consumers of Energy with respect to the price, quality, safety, reliability and security of supply of Energy services by providing an enabling strong, coordinated, collegiate evidence based on consumer advocacy on National Energy Market matters of strategic importance or material consequence for Energy Consumers, in particular for Residential Customers and Small Business Customers.”

1.4 Recovery of ECAs costs – final fee methodology

Market	Basis for ECA fee recovery
Electricity	Recovered from National Electricity Market customers on the basis of a charge per connection point for small customers. ²
Gas	Recovered from FRC gas markets based on a ‘customer supply point’.

² Small customers are defined in the National Energy Retail Law which can be accessed through: <http://www.aemc.gov.au/Australias-Energy-Market/Market-Legislation/Relevant-Legislation-Retail-Energy>.



1.5 Fee structure period

The future review of the ECA fees will be incorporated into the ongoing review of AEMO's electricity and gas fees. The structure of AEMO's electricity fees will be reviewed in mid-2016 while the next review of the structure of AEMO's gas fees is planned to occur in 2017.



CHAPTER 2 – SUBMISSIONS TO THE CONSULTATION PAPER

2.1 List of respondents and issues commented on in submissions

Three submissions were received to the consultation paper:

Respondent	Issue	Discussed in section
Energy Retailers Association of Australia (ERAA)	<ul style="list-style-type: none"> ERAA supports the proposed methodology in the consultation paper. Acknowledged the ECA is established to represent the interests of residential and small business consumers and the electricity cost recovery methodology under the CAP (by MWh) would disproportionately allocate costs to large customers. ERAA noted AEMO’s proposal to leverage the Market Settlement and Transfer Solutions (MSATS) application to determine a FRMP’s small connection points. ERAA seeks clarification from AEMO as to how it will ensure that a retailer’s small customer connection points total is accurate for the calculation of the retailers ECA charges. 	2.2
Energy Australia	<ul style="list-style-type: none"> Energy Australia supports the proposed methodology to recover fees for the ECA by connection point rather than per MWh for electricity. Energy Australia noted that the definition of connection point should be reviewed if rule changes to establish multiple trading relationships (MTR) at each connection point progress. 	2.3
Major Energy Users Inc. (MEU)	<ul style="list-style-type: none"> MEU noted that the initial concept of the intended role of the ECA and the proposed constitution was to support residential and small business customers. However the MEU highlighted that the development of the ECA has been modified so that it is not only to represent the large number of small business and residential consumers of energy, the ECA is also required to continue providing grants to advocacy groups which represent the interests of other sectors of the energy markets. It noted AEMO should ensure its approach to acquire funds for ECA adequately recovers the funds in a manner that ensures all energy users contribute to the advocacy undertaken on their behalf in an equitable fashion. Whilst MEU agrees with the observation that allocating costs using a consumption MWh basis means a disproportionate allocation of the cost is allocated to large energy consumers, MEU is not convinced that allocation of cost per connection point would be the solution as some funds provided to the ECA are likely to be allocated to large consumers through grants made by the ECA. MEU seeks AEMO to consider using a volume related charge but with a maximum cap, or a segmentation of costs using energy 	2.4 2.5



Major Energy Users Inc. (MEU), continued.

consumption MWh where larger customers pay a lower MWh rate compared to smaller customers.

- MEU also noted there are increasing numbers of energy consumers provided with energy services by bodies authorised under the 'retail exemption' from market responsibilities. MEU noted these consumers are "hidden" behind the meter that AEMO "sees", and hence would not be captured under the connection point methodology.

2.6

2.2 Accuracy of retailers small customer connection points

ERAA made the following submission clarification:

Recovery process - ERAA notes the proposal for AEMO to leverage the Market Settlement and Transfer Solutions (MSATS) application to determine a FRMP's small connection points. The use of this application will allow the recovery process to commence as of 1 January 2015. The ERAA seeks clarification from AEMO as to how they will ensure that a retailer's small customer connection points total is accurate for the calculation of the retailer's ECA charge.

The ERAA understands that a significant number of National Metering Identifiers (NMI) do not currently appear in MSATS, specifically where customers have not selected a new retailer since the commencement of retail contestability. Provided that this is taken into account when allocating the cost to ensure a fair and equal allocation amongst retailers, the ERAA is comfortable with the approached outlined in the Consultation."

AEMO's position:

The NMIs that are part of the NEM and not currently loaded in MSATS are all located in the Queensland region. In order to take these NMIs into account, the number of NMIs, and expected rate of growth, will be sourced annually from the distributor.

2.3 Connection point definition to be reviewed if rule changes to establish multiple trading relationships (MTR) progress

Energy Australia noted in their submission:

"The definition of connection point should be reviewed if rule changes to establish multiple trading relationships (MTR) at each connection point progress. We note the proposed demand response mechanism would also introduce multiple relationships at one connection point with the creation of a demand response aggregator role"

AEMO's position:

If multiple trading relationships or the demand response mechanism are introduced, the ECA fee structure will be reviewed.



2.4 ECAs purpose and constitution to reflect users-pays

MEU noted in their submission:

“The development of the ECA has been modified so that it is not only to represent the large number of small businesses and residential consumers of energy, the ECA is also required to continue providing grants to advocacy groups which represent the interest of other sectors of the energy markets”

AEMO's position:

In referencing the ECA constitution, the ECA Implementation plan Synopsis and the Hansard of SA Parliament House of Assembly held on the 15 October 2014, it is clearly outlined in these documents that the ECA's objective is to represent in particular residential customers and small business customers.

AEMO acknowledges that when the ECA is established and operational, its initiatives and objectives can be reviewed annually to test the validity of its initial purpose, and representation of type of customers. This will be taken into account when the ECA electricity fee structure is next reviewed in mid-2016.

2.5 Recovery based on caps or segmentation of costs

MEU in their submission encouraged AEMO to consider:

“equity between consumers is maintained by applying a volume related charge but with a cap (i.e. maximum payment), or having somewhat different charges for different consumer segments (i.e. with larger customers paying a lower MWh rate)”

AEMO's position:

In determining the fee structure, consideration needs to be given to the underlying key guiding principles of “simplicity” and “not unreasonably discriminating against a category or categories of participants”. In adopting these guiding principles, AEMO believes the tiered rate approach suggested by MEU will prove difficult in determining a \$ maximum cap that truly reflects ECA costs in carrying out its objectives, and therefore assumptions may lead to bias between large and small customers.

AEMO's position to apply a single consistent rate, on the basis of customer supply points, best reflects an equitable, simple approach that allows small or large businesses to be a cost neutral.

2.6 Energy bodies under the “retail exemption” from market responsibilities

MEU in their submission noted:

“there are increasing numbers of energy consumers provided with energy services by bodies under the “retail exemption” from market responsibilities. This means that there are significant numbers of consumers that are being “hidden” behind the meter that AEMO “sees”. These consumers will benefit from the advocacy undertaken via the ECA funding, yet would not be captured under the AEMO approach of levying costs per connection point.”

AEMO's position:

Exempt embedded network consumers that purchase from the embedded network owner's retailer will not be included in the supply point count. As the embedded network owner is effectively on-selling electricity to these consumers, it can be considered as not being part of the market.



APPENDIX A – CURRENT CONSUMER ADVOCACY PANEL FEE STRUCTURES

The existing gas fee structures for the electricity and gas markets to recover CAP revenue requirements is as follows:

A.1 Consumer advocacy panel current fee structure

Fee	Who pays	How fee is applied	
CAP – Electricity	NEM market customers	\$ rate per MWh consumed	\$ per MWh
CAP – Gas	VIC, SA, QLD and NSW/ACT FRC gas markets	\$ rate per customer supply point per month. Calculated and billed monthly.	\$ per customer supply point.