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AEMO's NEM participant fee structure Draft Determination

Transgrid welcomes the opportunity to respond to the Australian Energy Market Operator's (AEMO) National Electricity Market (NEM) participant fee structure Draft Determination, which was published on 30 September 2025. The Draft Determination is seeking feedback on AEMO's proposed NEM Participant Fees which apply from 1 July 2026 to 30 June 2031. The Draft Determination outlines several key changes that include reducing the number of fees, updating which Participants are allocated each fee type and modifying the basis for charging. AEMO states that the proposal better reflects how Participants interact with the energy system.

Given energy bills and cost of living are top of mind for both energy consumers and regulators, it particularly important that an increase in energy costs (including AEMO fees) are transparent, traceable and prudent and efficient. In Transgrid's submission to AEMO's NEM Participant Fee Structure Consultation Paper¹ we encouraged AEMO to consider:

- 1. Cost transparency** – Transgrid encouraged AEMO to provide greater cost transparency through forward visibility of costs and assumptions.
- 2. New energy system roles and participants and fee allocation** – Transgrid supported expanding fee allocation to include other entities such as Distribution Network Service Providers (DNSPs), state-based planners and contestable TNSPs.
- 3. Specific fee types** – Transgrid encouraged AEMO to provide cost-reflective fee structures such as splitting the NEM Core Fee into a base and flexible component and sharing the National Transmission Planner fee with state-based planning bodies given the joint planning roles.

Clause 2.11.1(b) of the National Electricity Rules (NER) provides that the fee structure must be simple, reflective of each Participants' involvement, non-discriminatory and provide for the recovery of AEMO's budgeted revenue. We support AEMO's ability to recover its efficient costs however, we have some concerns that the Draft Determination does not meet the criteria of being reflective and non-discriminatory.

With over 600 NEM participants, we believe TNSPs are being allocated a disproportionate share of AEMO's costs, and risks associated with future fee increases. Given there is no cost recovery mechanism for any differences between budgeted costs in a TNSP's next revenue determination and actual costs, TNSPs will be exposed to cost variances that we will not be able

¹ See [Transgrid submission to AEMO's NEM participant fee structure consultation paper](#)

to recover. In practice, this would require TNSPs to either overspend operating expenditure allowances (and bear regulatory penalties) or reduce operating expenditure elsewhere in the business which could have detrimental impact on TNSPs and consumers.

In addition, the proposed approach to allocating costs between TNSPs which is based on energy consumed, means that new TNSPs such as Renewable Energy Zones network operators (REZ NO) are not allocated any share of AEMO fees. Transgrid on the other hand has disproportionate share allocated to it, as we service all major load centres. Allocating fees based on energy consumed does not meet AEMO's principle of 'reflective of involvement' for TNSPs because the time/cost of providing services to a REZ NO is not proportional to the demand on their network.

We believe these concerns would impose additional risk, including cost recovery uncertainty. Given these costs are completely outside the control of a TNSP, there is no way to appropriately manage them or influence the outcome through business decisions.

The following sections provide specific comments on key areas of concerns.

NEM Core

AEMO has proposed reducing the total number of different fees by combining the fees for NEM Core (Unallocated and Allocated), IT upgrade & 5MS/GS, and Electricity Retail Markets. These fees are currently separated.

Under the existing NEM Core Allocation, TNSPs are allocated 17.5% of the NEM Core (allocated) fees. Under the proposed structure, TNSPs will be allocated 27.1% of the NEM Core Allocated costs. We understand this was based on surveying members of AEMO's Senior Leadership Team across key divisions.

Leveraging AEMO's financial year 2026 budgeted revenue requirement as a proxy, the proposed NEM Core allocation for TNSPs would translate to approximately \$42 million compared to \$28 million under the current structure – an increase of 50%.

We understand that it is challenging for AEMO to strike a balance between simplicity, involvement and non-discriminatory allocation. However, we are concerned that the substantial increase in TNSP NEM Core fee allocation is not based on consistency and transparency. We believe the allocation and methodology used:

- Will have adverse financial and operational impacts on TNSPs and their consumers, because of the inability for TNSPs to recover any differences between the allocated revenue allowance for fees and AEMO's actual invoiced amounts.
- Is not transparent or traceable, which will lead to an unpredictable fee quantum. We understand that the allocation was based on a survey of senior leaders at AEMO however it is unclear why TNSPs were allocated an increased share of NEM Core fees given the fee activity details are largely unknown. We would value greater transparency about how the principle of 'reflective of involvement' has been applied in the survey. We

note results seem to skew heavily towards participant interaction with AEMO in relation to outputs rather than benefits derived, or consideration of the number and relative size of participants represented in each category.

- Should be improved by using an activity-based approach to allocating fees among participants, as well as undertaking independent review of the process to ensure it is fair and consistent with the Fee Structure Principles. Comprehensive analysis of alternative cost methodologies could enhance transparency and provide traceability of fees for all classes of registered participants, and ultimately consumers.

Cyber Security & Resilience

AEMO proposes to expand the description and scope of its existing cyber security fee to accommodate the implementation of anticipated cyber security related reforms, as well as activities and outputs that support continued improvements to physical and digital capabilities. AEMO has proposed that TNSPs are allocated a third of these fees. Transgrid is concerned by this proposal because:

1. The Cyber Security & Resilience fee will be unpredictable and TNSPs have minimal influence over the fee quantum. Coupled with the significant allocation to TNSPs, this would result in forecast uncertainty and ultimately gaps in cost recovery.
2. Cyber security management is a nationally important function which benefits all NEM participants. There are over 600 participants in the NEM, and allocating a third of these fees to TNSPs does not reflect the relative benefits each NEM participant receives.

Recommendations

As part of AEMO's stakeholder engagement for the Consultation Paper, TNSPs made several recommendations to increase transparency and minimise risks. However, AEMO has mostly retained their original position, while stating that the Draft Determination is reflective of involvement and retains simplicity. Given the Draft Determination imposes high costs and additional risks on TNSPs, we request that AEMO consider the following proposals.

1. **Five- to seven-year budgets** – Provide fixed forward budgets or forecasts for at least five years (ideally seven years) to support full cost recovery by enabling NSPs to accurately account for associated costs when preparing revenue proposals for future revenue periods. The current arrangements require TNSPs to apply for opex allowances in a five-year regulatory control period but does not provide TNSPs with the appropriate fee data to incorporate into their regulatory control periods. This is despite AEMO only providing their budget one year ahead.
2. **Greater visibility and consistency** – The Financial Consultation Committee (**FCC**) was established in 2021 to improve transparency around the development of AEMO's budget and fees and AEMO's financial health and performance². We acknowledge the FCC can play an important role in building stakeholder confidence in cost-effectiveness and grow stakeholder understanding of the budgeted fee impacts. The FCC had some impact,

² AEMO, Terms of reference Financial Consultative Committee (FCC), version 2, 4 February 2022.

resulting in greater transparency on costs and information such as receiving more detail on the budgets and a 1-2 year forward look however this is not enough. Over the past four years, it is not clear that FCC feedback has had significant influence on AEMO's multi-year budgeting process. To the benefit of AEMO, we do not believe AEMO (along with industry members) could have appropriately predicted the large increase in resources required (which has translated to large year-on-year increases in AEMO fees allocated to NEM participants) to meet the need of the energy transition. Contrary to the Australian Energy Market Commission's (AEMC) assumption that '*TNSPs have the ability to influence AEMO's total costs through their participation in a wide range of forums*'³, TNSPs have little influence on total AEMO costs through the FCC or other forums such as Connection Reform Initiative, National Electricity Market Operations Committee and others.

3. **Cost recovery certainty** – We urge AEMO to work with TNSPs to ensure an appropriate cost recovery mechanism is in place to mitigate fee quantum uncertainty. Given the significant increase in TNSP fee allocation, minimal TNSP influence over fees and highly volatile and unpredictable fees, we urge AEMO to consider a Rule change proposal that mitigates this risk. We propose that AEMO engage with TNSPs to draft a Rule change proposal to the AEMC to embed the current transitional arrangements⁴ in the NER. This will ensure TNSPs can appropriately recover AEMO fees.

We appreciate the opportunity to provide a submission to the Draft Determination and look forward to continuing to work with AEMO to ensure fee structures are transparent and TNSPs have cost recovery certainty. If you would like to discuss this submission, please feel free to contact Zainab Dirani, Policy and Advocacy Manager at zainab.dirani@transgrid.com.au.

Yours sincerely

Alex McPherson

General Manager Regulation & Policy

³ See page 16, AEMC's Recovering the cost of AEMO's participant fees [Final determination - ERC0335](#)

⁴ See AEMC's [Recovering the cost of AEMO's participant fees | AEMC](#).