Government of **Western Australia**
Energy Policy WA

Minutes

Meeting Title:	Cost Allocation Review Working Group (**CARWG**)
Date:	9 May 2022
Time:	1:00pm – 2:30pm
Location:	Microsoft TEAMS

Attendees	Company	Comment
Dora Guzeleva	Chair	
Oscar Carlberg	Alinta Energy	
Tom Frood	Bright Energy	
Rebecca White	Collgar Wind Farm	
Noel Schubert	Small-Use Consumer Representative	
Mark McKinnon	Western Power	
Jason Found	Synergy	
Genevieve Teo	Synergy	
Paul Arias	Bluewaters Power	
Edwin Ong	AEMO	
Cameron Parrotte	Woodside	
Grant Draper	Marsden Jacob Associates (**MJA**)	
Andrew Campbell	MJA	
Hana Ramli	MJA	
Stephen Eliot	Energy Policy WA (**EPWA**)	
Shelley Worthington	EPWA	

Apologies	From	Comment
None		

Item	Subject	Action
1	**Welcome and Agenda** The Chair opened the meeting at 1:00pm and invited the attendees to introduce themselves.	

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	The Chair reminded CARWG members of the guiding principles for the Cost Allocation Review (section 2.2 of the Scope of Works) and, in particular, noted that: • the cost allocation methodologies must be cost effective, simple, flexible, sustainable, practical and fair; and • the 'causer pays' principle will be applied where practicable and efficient so that the cost allocation methodologies incentivise Market Participants to minimise overall costs to consumers.	
2	**Meeting Apologies/Attendance** The Chair noted the attendance as listed above.	

3	**Project Scope and Timeline**
	Mr Draper reviewed the project scope (slides 3-5), which is to align the allocation of Market Fees and Essential System Services (**ESS**) costs with the causer pays principle.
	• Ms White sought clarity on the ESS costs that are out of scope because they were recently reviewed by the Energy Transformation Taskforce. The Chair indicated that:
	  ○ the Scope of Work highlights what the Taskforce had previously considered, which will not be reconsidered, including the full runway method for allocating Contingency Raise services and Rate of Change of Frequency (**RoCoF**) Control service;
	  ○ the Taskforce did not look at allocating costs for Regulation Raise and Lower, so this is in scope; and
	  ○ for the Market Fees, the review will look at the costs recovered under AEMO's allowable revenue, not at costs recovered elsewhere in the market, such as existing application fees.
	• Ms White noted that the Taskforce substantially looked into allocation of costs for Regulation services but that there were implementation problems related to the lack of five-minute metering until 2025.
	  ○ The Chair indicated that the CARWG should consider data requirements after determining the best cost-reflective and efficient allocation methodologies, and implementation may need to be delayed if five-minute settlement is required.
	  ○ Mr Draper indicated that the team would contact Ms White to discuss the Taskforce's work on allocation of Regulation service costs.
	Mr Draper reviewed the timeline for the project (slides 6-7).	

4	**Stakeholder Engagement Plan** Mr Draper reviewed the stakeholder engagement plan (slides 7-9) and noted that EPWA has emphasised stakeholder engagement and that the WEM Rules require the Coordinator to consult with the MAC before	

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	developing a Rule Change Proposal. Stakeholder engagement will be primarily through CARWG and MAC. Mr Draper provided a revised schedule for CARWG meetings. No CARWG members indicated concerns with the revised schedule.	

5	**Approach to Policy Assessment**
	Mr Draper provided an overview of the approach to policy assessment (slides 10-11):
	• Mr Draper noted that the causer pays concept has always been implicit in the Wholesale Electricity Market (**WEM**) but there has never been an explicit framework for how it should be applied.
	• The only explicit cost allocation framework that MJA has identified was developed by the Independent Pricing and Regulatory Tribunal (**IPART**) (NSW) around allocation of local government water costs. Mr Draper reviewed this framework (slide 11).
	• Mr Draper noted that the literature indicates that the causers and beneficiaries are often the same party if there are no externalities, but they can be also quite different. The allocation methodology can be considered once the causers and beneficiaries are identified, at which point consideration needs to be given to economic efficiency, incentives and equity.
	• Mr Carlberg asked whether cross-subsidies should be considered in formulating the allocation framework.
	  ○ The Chair noted that there are clear cross-subsidies where flat fees and charges are used – such as for Regulation services or Market Fees, and to an extent cross-subsidies are also embedded elsewhere, such as in the allocation of RoCoF Control costs.
	  ○ Mr Carlberg, responded that the biggest cross-subsidies are in the Market Fees and Regulation services, and in relation to Distributed Energy Resources (**DER**), because DER can get around Market Fees. Mr Carlberg clarified that he wants to focus first on the biggest cross-subsidies.
	  ○ The Chair asked CARWG members to provide examples of where the Market Fee or ESS cost allocations are not sending the appropriate signals and where the causer pays principle should apply.
	  ○ The Chair indicated that the CARWG should first focus on Market Fees and Regulation services but can shift this focus if it determines that there are bigger cross-subsidy issues.
	  ○ Ms White agreed with having an eye on cross-subsidies, particularly in relation to transmission connected participants subsiding DER, noting there is an intent to have DER pay some costs under the causer pays principles, via aggregators participating in the WEM. The Chair indicated that this issue will be considered.	

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	○ Mr Schubert noted that the Cost Allocation Review is about improving the allocation of costs to causers or beneficiaries, but there might be other parties that could help reduce costs if they are adequately incentivised to do so. Mr Schubert suggested that there is an opportunity to introduce incentives to third party 'enablers' who could reduce overall costs. ○ The Chair agreed that, when we consider passing costs through to a causer, it is important to account for any benefits that the causer creates in reducing costs elsewhere. ○ Mr Froud noted that all cost will be paid by either electricity users or taxpayers, and one of the ongoing challenges is managing the cross-subsidy between users and taxpayers. The Chair reminded the CARWG members that they can only recommend changes to the WEM Rules. ○ Mr Parrotte noted that the CARWG should not get into the space of defining ESS. Mr Parrotte also noted that, in designing an approach to cost allocation, it is important to not put incentives in place to avoid costs which in turn may result in worse overall market outcomes. ○ Mr Draper provided an example – allocating fees and charges based on grid (or net) energy rather than gross energy provides an incentive for parties to install behind the meter technology. • Mr Draper noted that, based on the IPART framework, if we cannot easily charge the causer or beneficiary, then we would spread costs across all market participants and customers. **ACTION: CARWG members are to advise EPWA by email of any examples where the Market Fees or ESS cost allocations are not sending the appropriate signals and where the causer pays principle should apply.**	**CARWG members (before the next CARWG meeting)**
6	**Early Findings from the Policy Assessment Analysis** Mr Draper provided an indication of the relative significance of Market Fees and ESS costs (slides 12-13) – Market Fees represent only about 0.5% of total costs and ESS costs about 6%. • The Chair pointed out that the current thinking is that ESS costs will increase as a percentage of total costs with increased penetration of DER and renewable electricity generation, more generally. • Mr Draper and Mr Campbell agreed but suggested that increased storage penetration may dampen the increase in Regulation, Contingency Reserve Raise and Contingency Reserve Lower. • Mr Frood asked whether synchronous condensers could also provide ESS services. The Chair noted that synchronous condensers are compensated to an extent through network charges and Mr Parrotte noted that they can also receive compensation through RoCoF Control services.	

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	Mr Draper provided an indication of the drivers for WEM services costs (e.g. AEMO’s costs) (slide 14). • Mr Arias commented that business-as-usual (**BAU**) operations vs. large scale reforms potentially have different beneficiaries and asked about separating the allocation of these two types of costs. • Mr Draper indicated that AEMO tracks these costs and that it is in scope to consider what is BAU vs. programs to improve the overall efficiency of the market. • In response to a question from the Chair, Mr Arias indicated that his question does not relate to ESS costs, only whether it is appropriate to target reform costs via Market Fees when the reforms have distinct beneficiaries. • The Chair noted that the intent is to identify the causers and beneficiaries of costs and it is recognised that they may not be the same people. For example, policies that drive DER integration may benefit more than just DER participants, so we need to identify all of the causers and beneficiaries. • Mr Parrotte noted that AEMO did a lot of work in its latest revenue submission on the costs for the individual reform tasks and agreed with Mr Arias that there is a difference between BAU and the reforms, and between the causers and beneficiaries. Mr Draper provided an indication of the drivers for ESS costs (slides 15-16) and noted that: • Regulation services are caused by unexpected deviations between actual and forecasted supply and demand so, based on the causer pays principle, these costs could be allocated to parties with the largest deviations. However, this may not be implementable, so it may be necessary to allocate these costs to everyone. • Contingency Raise services deal with the loss of a generator or storage facility, and these costs are typically allocated to generators (noting that one of the potential gaps that needs to be considered is whether smaller non-scheduled generators contribute to the need for these services but do not directly bear these costs); • Contingency Lower services are typically about a drop in consumption, so these costs are typically allocated to loads; and • RoCoF Control services are about inertia, which can be impacted by generators and network facilities, as well as by users in terms of ride through capability, so all participants can impact RoCoF Control services. The Chair noted that RoCoF Control costs are currently split equally between generators, users and the network operator, and that this arrangement is not cost reflective, but it is a new arrangement that was implemented by the Taskforce, so it is not a priority. Mr Parrotte also noted that we do not yet know the value of the RoCoF Control service, so we do not yet know if it is a priority.	

Item	Subject	Action

Mr Draper outlined the preliminary work to identify the causers and beneficiaries of market services and ESS (sides 17-24).

- Mr Draper pointed out that all Market Participants are both causers and beneficiaries of market services and ESS to some extent, so there is some justification to allocate Market Fees and various ESS costs to each of them. However, there are other parties that are also causers or beneficiaries that are not formal Market Participants and cannot be attributed charges, such as embedded storage or generation owners, microgrid owners, final customers, Distribution Network Service Providers, Transmission Network Service Providers and the State Government.
- Mr Draper asked all CARWG members to review the table in slides 18-21 and provide comments on whether anything is incorrect or missing. The Chair reminded the CARWG members to keep comments to issues that can be practically addressed under the WEM Rules.
- Ms White considered the table was useful but suggested that the identification of causes and beneficiaries may need to be more granular. Ms White also suggested that, while Government will not inject funds into the market, it would still be useful to capture where Government reforms drive market costs and benefits, particularly in the DER space. Mr Schubert agreed with Ms White.
- Mr Frood pointed out that the focus should not only be on the costs of Government policy but also on the benefits from these policies.
- Mr Draper noted that IPART’s hierarchy would first allocate costs to causers, then to beneficiaries and then, as a last resort, to taxpayers (which would be across all Market Participants).
- The Chair noted that the CARWG is to identify the parties that can impact market services or ESS costs and allocate costs to those parties, where this can be done under the WEM Rules. The CARWG is not to try to shift costs to Government.
- Mr Froud agreed that the CARWG’s scope should be limited to issues that can be addressed under the WEM Rules and noted that it would be out of scope to recommend changes to electricity retail tariffs or for government to commit to paying costs.

Mr Draper advised that MJA is reviewing cost allocation methods in other jurisdictions and provided some early feedback from its review on two issues:

- If grid demand is reducing due to growth in behind the meter generation, should charges be levied based on net or gross demand?
    - Mr Draper indicated that Ofgem (UK) uses a bundled service for Balancing Services Use of System (BSUoS) charges, and that they are moving to a definition of gross demand to capture behind the meter technology.

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	- With declining operational consumption, should Market Fees be charged on a different basis? - The National Energy Market (**NEM**) is: - moving away from only a $/MWh charge to both $/MWh and $/NMI charges; - changing the allocation of fees (e.g. Wholesale Participants to be allocated 55.9%, Market Customers to be allocated 26.6% and TNSPs to be allocated 17.5% of AEMO direct costs); and - looking to allocate costs for transformational projects to specific parties (including market customers, DER resources and/or existing market participants).	
	ACTION: CARWG members are to review the tables in slides 18-21 and provide comments on whether anything is incorrect or missing.	**CARWG members (prior to the next CARWG meeting)**
7	**Next Steps** The Chair thanked CARWG members for their participation and encouraged members to email any information to EPWA regarding cost allocation in other jurisdictions (e.g. in the NEM). The Chair noted the CARWG meetings will continue as per the agreed schedule.	
8	**General Business** No general business was discussed. The next CARWG meeting is scheduled for 7 June 2022.	

The meeting closed at 2:30pm.