

8 February 2023

Ms Dora Guzeleva
Director Wholesale Markets
Energy Policy WA
Email: energymarkets@dmirs.wa.gov.au

Dear Ms Guzeleva,

AEMO's submission to the Cost Allocation Review Consultation Paper

The Australian Energy Market Operator (AEMO) welcomes the opportunity to provide this submission in response to Energy Policy WA's (EPWA) Cost Allocation Review Consultation Paper (the Paper), published on 16 December 2022.

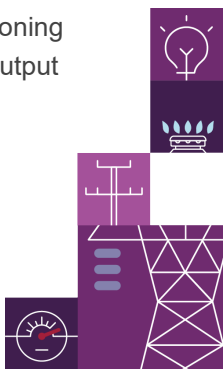
EPWA has requested feedback on the proposed cost allocation methods outlined in the Paper for Market Fees, relevant Frequency Co-optimised Essential System Services (Regulation, Contingency Reserve) and other Essential System Services (System Restart, Non-Co-optimised Essential System Services (NCESS)). AEMO has responded to each of the six consultation questions below, but expects that, where amendments are being adopted, further consultation will be undertaken on detailed implementation.

Consultation Question 1:

- (a) AEMO supports EPWA's recommendation not to change the Market Fee cost allocation method, as the costs and complexity of initiating changes are likely to outweigh the benefits at this time. Notwithstanding, AEMO recommends Market Fee allocation methods are reviewed at an appropriate time in the future, noting that there are opportunities to better align cost allocation with the causer-pays principle.
- (b) AEMO recommends that storage facilities are charged on both withdrawal and injection of energy as this is the basis in which costs are incurred in managing the system and market. Ignoring recharge when allocating Market Fees would result in associated costs being recovered from other Market Participants, which does not align with the causer-pays principle.

Consultation Question 2:

- (a) While AEMO supports a causer-pays approach for Regulation and many aspects of the proposed WEM Deviation Method, the suggested methodology for Semi-Scheduled Facilities is limited in its ability to appropriately recover costs and may also increase Regulation service requirements. The proposed approach ignores the expected output of the Semi-Scheduled Facility, instead apportioning costs based on deviations from a hypothetical linear dispatch target determined by measuring output



at the commencement and conclusion of the Dispatch Interval. As such, there is no incentive for Semi-Scheduled Facilities to meet their expected output, only to maintain a linear ramp to avoid Regulation costs. Where actual output deviates from expected output, and the Semi-Scheduled Facility maintains a linear ramp, the Regulation services to meet the deviation would be distributed to other Facilities. This misaligns with the causer-pays principle and fails to provide the incentives to improve both volatility and forecasting accuracy (AEMO can provide supporting data to characterise the causers for regulation utilisation if that would be of assistance). AEMO recommends that forecasts be determined ex-ante, which may be as Dispatch Targets (for Scheduled Facilities) or dispatch forecasts (for Semi-Scheduled or Non-Scheduled Facilities). AEMO welcomes the opportunity to discuss suitable forecast metrics.

(b) AEMO supports reviewing the merits of a transition to the NEM causer-pays method in 2027.

Consultation Question 3:

AEMO supports the policy intent for Contingency Reserve Raise but suggests that further work is undertaken on practical implementation, including how the proposed approach will assign costs for aggregations based on Facility risk, when these aggregations will continue to bid as an aggregation. Further work is also required on the runway calculations to define how multiple aggregated assets with multiple different risk profiles are treated as it is unclear how costs are to be distributed between them.

Consultation Question 4:

AEMO agrees with the principle of the proposed approach for Contingency Reserve Lower cost allocation, specially that any new loads which increase the Contingency Reserve Lower quantities beyond current levels should be responsible for a larger proportion of cost allocation. From the examples provided, AEMO does not yet fully understand the implementation of this policy, and we would welcome the opportunity to consult further during detailed design.

Consultation Question 5:

AEMO supports retaining the current System Restart cost allocation method.

Consultation Question 6:

AEMO agrees with retaining the current NCESS methodology at this stage. In the future, once there is sufficient operational experience with the NCESS framework, it may be appropriate to revisit the cost allocation methodology.

AEMO is committed to working with EPWA to further develop these new cost allocation methodologies. If you would like to discuss any of the matters raised in this submission, and work through any examples, please contact Mena Gilchrist, Manager – WA Regulatory Affairs at mena.gilchrist@aemo.com.au.

Yours sincerely,



Kate Ryan

Executive General Manager – Western Australia & Strategy