

Energy Policy WA
Level 1,66 St Georges Terrace
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6 November 2024

Via email: energymarkets@demirs.wa.gov.au

Submission in response to Rule Change Notice: Allowable Revenue Framework

Dear Jai,

Thank you for the opportunity to make a submission in response to the Australian Energy Market Operator's (AEMO) rule change proposal to remove the requirement for the Economic Regulation Authority (ERA) to determine AEMO's budget.

As you know, I am a member of the Expert Consumer Panel (ECP), and also represent small use customers on the Market Advisory Committee (MAC). Both the ECP and MAC have been briefed by AEMO on its rule change proposal, and I also contributed to the MAC's advice on the matter outlined in the Independent Chair's letter.

I share the view of my colleagues on the ECP who I have discussed the matter with, as well as other members of the MAC, that the Economic Regulation Authority (ERA) plays a critical oversight role in relation to AEMO's budget and should continue to do so.

AEMO is a monopoly service provider, and it is appropriate that, like monopoly distribution and transmission networks who are not subject to the discipline of the competitive market to operate efficiently, its business plans are scrutinised by an independent, expert regulator like the ERA. As the ERA noted in the Final Determination for the most recent in-period submission, "AEMO is not incentivised in the same way as a typical profit-driven network service provider to seek out gains in efficiency."¹ As it stands, the cost of operating the Western Australian Wholesale Energy Market (WEM), is forecast to increase from \$56.4m in 2023/24, to \$96m in 2024/25 - almost \$100m that market participants will ultimately pass through to consumers.² Escalating costs are particularly concerning because Western Australian households and small businesses are under significant financial pressure - as disconnection and energy debt statistics reported by

¹ Australian Energy Market Operator's AR6 second in-period allowable revenue and forecast capital expenditure proposal Final determination, page 32, <https://www.erawa.com.au/cproot/24147/2/AR-6-2nd-In-period-CapEx-and-OpEx-submission-Final-determination.PDF>

² Australian Energy Market Operator's AR6 second in-period allowable revenue and forecast capital expenditure proposal Final determination, page 11, <https://www.erawa.com.au/cproot/24147/2/AR-6-2nd-In-period-CapEx-and-OpEx-submission-Final-determination.PDF>

the ERA show - and it is critical that we can be confident that every dollar passed through in their bills is efficient and justified.³

Importantly, the ERA's role is not one that can be outsourced to industry, or indeed consumer representatives, who do not have the capability or resourcing to assess AEMO's business plans, or indeed powers to compel it to produce information. For example, in the most recent in-period submission for the AA6 period, the ERA reported that it had to go to considerable lengths to get clarity about the reasons for increases in AEMO's operational labour costs between the original AA6 proposal and the second in-period submission.⁴ This kind of back-and-forth between a regulator and a regulated entity in an access arrangement process is not unusual and it is unrealistic to expect industry to be as forensic, or persistent as a regulator whose core function is to ensure business plans are aligned with the long term interests of consumers. It is also important to note that AEMO is funded by a levy on market participants, rather than consolidated revenue, its activities are not subject to oversight by Treasury or other central WA Government agencies.

Importantly, the independent oversight provided by the ERA is also good for AEMO, helping maintain community trust and confidence in it as an institution which has a unique role to manage the electricity system on its behalf. Consumer sentiment research by Energy Consumers Australia over a number of years has found that consumers have low levels of trust in energy companies, and once trust is lost, as it was by networks and retailers in the National Electricity Market in the last decade who failed to get the balance right on affordability, winning it back is a difficult and lengthy process.⁵ It is also notable that in jurisdictions such as the United Kingdom, the trend is towards greater independence and oversight of organisations like AEMO, not less because of their central role in achieving Net Zero - with the newly created Electricity System Operator (ESO) regulated by Ofgem under an adapted 'RIIO' framework.⁶

While I do not support the rule change, it must be acknowledged that the energy transition is imposing a real set of challenges on AEMO as the market operator, to simultaneously keep the power on and implement a rolling series of system changes and market reforms. No organisation can have perfect foresight in an uncertain operating environment and there is a case for the allowable revenue framework to be reviewed and if necessary adapted, to provide a greater level of flexibility for AEMO to manage its business planning. I would support extending the timeline for the next allowable revenue process, to give EPWA, the ERA and stakeholders more time to review the framework and identify changes to enhance the framework.

³ See pages 18 and 32 of ERA Annual data report 2022/23 Energy retailers 20 December 2023 <https://www.erawa.com.au/cproot/23827/2/Final-for-publication-Retailers-Annual-data-report-202223.pdf>

⁴ Australian Energy Market Operator's AR6 second in-period allowable revenue and forecast capital expenditure proposal Final determination, page 32, <https://www.erawa.com.au/cproot/24147/2/AR-6-2nd-In-period-CapEx-and-OpEx-submission-Final-determination.PDF>

⁵ Energy Consumers Australia, Energy Consumer Sentiment Survey, June 2024, page 7, <https://energyconsumersaustralia.com.au/wp-content/uploads/ecss-jun24-topline-results-report.pdf>

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https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/electricity-system-operator-eso-regulation?sort=publication_date&page=5

Please do not hesitate to get in touch if you would like to discuss this submission further.

Yours sincerely,

Chris Alexander
Expert Consumer Panel