



Wholesale Electricity Market Rule Change Proposal Submission

RC_2024_01

AEMO's Allowable Revenue Framework

Submitted by:

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1. Please provide your views on the proposal, including any support, objections, or suggested revisions.

AEMO provides an integral market function and its performance as market operator directly influences the market's ability to achieve the Wholesale Market Objectives. AEMO's performance is underpinned by its budget which must be sufficient to support all of its functions including its capital works program and all of the transformation initiatives that are enabling the energy transition.

We support a fulsome review of the Allowable Revenue Framework (ARF) and the Coordinator's draft decision to reject the rule change proposal (RC_2024_01) but do not consider that the suspension of the ARF in its entirety until fees can be set under a new framework as the most appropriate way forward. The proposed approach does not address the budget setting issues raised by AEMO in its Rule Change Proposal; nor the need to retain appropriate regulatory oversight to ensure transparency and accountability of AEMO's financial management and alleviate the concerns raised by Market Participants and other stakeholders through the consultation process.

The proposal to suspend the ARF until a replacement framework can be determined does not alleviate the fundamental concerns raised in our previous submission for the following reasons:

1. *Suspending the ARF in its entirety removes regulatory oversight of AEMO's financial decision making and the efficiency of its operations.*

Alinta Energy considers that the proposed interim approach extends too far in providing for a 'set and forget' revenue framework that does not effectively address the core concerns regarding AEMO's ARF. It effectively removes all regulatory oversight as it relates to AEMO's financial decision-making, the efficient cost of its operations and the determination of its capital expenditure. A key theme in stakeholder submissions was that AEMO's allowable revenue should remain subject to regulatory oversight.

While we recognise the challenges, we cannot support an interim framework that does not address the core issues and concerns, including the fluctuations and shortfalls in AEMO's revenue and expenditure.

We recommend an interim approach that deals with revenue for business operations differently to major projects. Such an approach may have the following elements:

- set a benchmark indexed fee structure ('set and forget' approach) for AEMO's business as usual operations - the performance of its functions as the WEM Market Operator;
- require funding for projects to be forecast on an annual basis with oversight by the ERA;
- in circumstances where additional project funding is required, a submission (possibly a business case) that clearly articulates the costs and benefits of the project outcome is provided by AEMO for assessment and approval to the ERA, (or potentially the Energy Coordinator if the project arises due to a reform project); and
- where projects are approved and there is insufficient funding available, AEMO recovers the loss with a proportionate increase in the relevant fees in the following year.

An interim approach that provides oversight and scrutiny of the cost/benefit of projects will support sound project management and commercial decision making. It will also help to ensure appropriate timeframes and budgets are developed as well as improved prioritisation of reform initiatives.

2. *Retaining the current Market Participant Market Fee rate and Application Fees adjusted for changes in the Wage Price Index (WPI) is a 'set and forget' approach that does not provide any remedy to correct shortfalls or cost fluctuations arising from uncertainty in AEMO's operating environment including policy and regulatory changes as well as projects that support transformation initiatives and the broader the energy transition.*

While certainty of ongoing fees is important, ensuring AEMO has sufficient funding to perform its functions is critical in ensuring the achievement of the WEM Objectives. AEMO's Rule Change Proposal was founded on the rigidity of the current framework particularly its inability to adopt to AEMO's dynamic financial needs. While recognising the short-term intention, the proposed approach will be even more restrictive on AEMO's financial management and resources.

Since the commencement of the ARF AEMO has consistently sought budget increases with four submissions to the ERA since 2020. AEMO's 2024 WA Financial Report for the year ended 30 June 2024 shows AEMO achieved a financial deficit of just over \$11.5 million for the year.

We are concerned that the practical separation of the determination of AEMO's revenue from its

expenses, as proposed by the Draft Determination, will compromise the financial viability of the market operator. This concern is based on the fact that the current fee was unable to cover AEMO's 2023/24 expenses and the proposed indexing using the WPI would not come close to covering or meeting this revenue shortfall (or over expenditure). We are of the view that the interim arrangement must enable a break-even remedy.

We strongly suggest that consideration be given to implementing an interim arrangement that enables AEMO to recover any operating losses it incurs in the direct performance of its functions i.e. all business-as-usual activities. In relation to funding for specific projects, we suggest that the ERA retain the ability to approve additional project specific funding based on the production of appropriate project documentation including a business case that clearly demonstrates the benefits to the WEM outweigh the costs.

3. *The proposal to adjust the current Market Participant Market Fee rate and Application fees in accordance with the Wage Price Index (WPI) appears inappropriate.*

While we support the need for regular and appropriate indexing of the Market Participant Market Fee rate and Application fees the proposal to adjust these fees based on a figure released by the Australian Bureau of Statistics (ABS) to measure the impact of inflation on wages seems inappropriate for the circumstances. In accordance with the WEM Rules the Market Participant Market Fee rate is set based on the ERA's determination of AEMO's Allowable Revenue and Forecast Capital Expenditure. The Allowable Revenue is determined on a cost recovery basis of AEMO's forecast budget expenditure that includes all operating, non-operating and other expenses.

Table 2 published in AEMO's 2024 WA Financial Report for the year ended 30 June 2024, highlights the diversity of AEMO's expenditure with just over 49% allocated as internal labour costs. As just under half of AEMO's expenditure is salaries, it would be inappropriate to index the entirety of the Market Participant Market Fee in accordance with the WPI. While data shows that the annual WPI for 2023 was 4.2% and the annual inflation rate (CPI) was 4.1%, this is the first time in three years that the WPI has exceeded CPI.

To ensure appropriate levels of adjustment are made, we suggest that the Market Participant Market Fee and the Application fees are adjusted on an annual basis using a recognised annual inflation rate. As these fees relate specifically to AEMO's operations in Western Australia, the inflation rate used could be the annual CPI for Perth.

Alternatively, the Market Participant Market Fee (as it relates to AEMO's internal labour cost as opposed to operating, non-operating and other expenses) could be adjusted proportionately using the WPI for internal labour costs and the CPI for all other expenses including operating and non-operating.

2. Please provide an assessment of whether the change will better facilitate the achievement of the Wholesale Market Objectives.

We consider that the Draft Determination risks creating uncertainty as to the achievement of the Wholesale Market Objectives as it will implement a 'set and forget' approach to the determination of AEMO's fees without regard to its expenditure potentially undermining the financial viability of the Market Operator. This risks adverse outcomes as AEMO:

1. has an important role in providing the necessary systems to enable the energy transition.

2. is a monopoly market operator within Australia and is not subject to usual market forces or incentives.

3. has not been able to accurately forecast its anticipated costs which has consistently resulted in the under recovery of its costs via market fees.

4. has less than a full year of experience operating in the new Wholesale Electricity Market (October 2023) and therefore has not had an opportunity to make system changes and embed its processes and governance arrangements.

3. Please indicate if the proposed change will have any implications for your organisation (for example changes to your IT or business systems/processes) and any costs involved in implementing the changes.

Alinta Energy considers that delays in important and significant WEM reforms due to AEMO being insufficiently funded would result in additional operating and project costs to market participants. Delays in the transition and the constant rescheduling of reform implementation has already brought about uncertainty and cost for Market Participants. Implementation of the Draft Determination without amendments to ensure the financial viability of AEMO and that funding for transition and reform initiatives can be made available could have catastrophic consequences for the market, its participants and consumers.

4. Please indicate the time required for your organisation to implement the change, should it be accepted as proposed.

N/A
