

24 January 2025



Energy Policy WA
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Sent via email: energymarkets@dmirs.wa.gov.au

Dear Energy Policy WA

DRAFT RULE CHANGE REPORT: AEMO'S ALLOWABLE REVENUE FRAMEWORK (SECOND SUBMISSION)

The Chamber of Minerals and Energy of Western Australia (CME) is the peak representative body for the resources sector in Western Australia (WA). CME is funded by member companies responsible for 86 per cent of the State's mineral workforce employment.¹ In 2023-24, the WA resources sector accounted for 45 per cent of WA's economic activity, 93 per cent of goods exports, 47 per cent of investment and 9 per cent of employment (direct).² The sector also contributed 27.3 per cent of the WA Government's general revenue, enabling the provision of public goods and services such as doctors and nurses, teachers and police.³

CME members account for around 60 per cent of large industrial demand in the WA Wholesale Electricity Market (WEM). Access to low emission, reliable and globally cost-competitive energy is a key enabler for the ongoing viability of existing operations, the achievement of emissions reductions targets and the ability to secure future investment.

CME appreciates the opportunity to respond to the Draft Rule Change Report and recognises the important function that the Australia Energy Market Operator (AEMO) provides for our members, who comprise large electricity users and generators, and other WA businesses and households. We also acknowledge that there are difficulties for all market operators, regulators and policy makers in forecasting expenditure during a time of significant change for Australia's, and the world's, energy systems.

CME supports the Coordinator of Energy's draft decision to reject Rule Change Proposal RC_2024_01 (the rule change proposed by AEMO). Removing regulatory oversight of a monopoly service provider could lead to inefficient market outcomes including higher market fees. Given any increases in AEMO's costs are passed on as fees to market participants, including CME members, we are concerned that the removal of formal regulatory oversight could result in further increases in electricity costs in the WEM. Other stakeholders, including market participants, simply do not have the resources or regulatory weight to interrogate AEMO's proposed expenditure and compel them to operate more efficiently; especially if the current regulator has found it difficult to stop the operator from materially exceeding its allocated funds. Therefore, the regulatory supervision role by the Economic Regulation Authority (ERA) is critical to maintain trust and confidence for market participants and ensure accountability and credibility.

CME acknowledges the challenges faced by the ERA and AEMO in estimating efficient forward costs in a rapidly changing environment, with many other energy-related businesses and regulators encountering similar challenges and uncertainty. As such, **we support the Coordinator's decision to suspend AEMO's current Allowable Revenue Framework (ARF) until fees can be set under a new framework, and to undertake a fulsome review of the ARF to develop a new fit-for-purpose replacement framework** for the determination of

¹ Government of Western Australia, [2023-24 Economic indicators resources data](#), full-time equivalents onsite under State legislation, DEMIRS, 10 November 2023.

² Economic activity as measured by gross value add (GVA). Australian Bureau of Statistics, [5220 Australian National Accounts: State Accounts](#), Table 6. Department of Energy, Mines, Industry Regulation and Safety (DEMIRS), [2023-24 Economic Indicators Resource Data File](#), 17 January 2024. Australian Bureau of Statistics, [5302 Balance of Payments and International Investment Position](#), Table 21. Investment includes Gross Fixed Capital Formation plus minerals and petroleum exploration. Australian Bureau of Statistics, [5220 Australian National Accounts: State Accounts](#), Table 25. Australian Bureau of Statistics, [8412 Mineral and Petroleum Exploration](#), Table 4. Australian Bureau of Statistics, [6291 Labour Force, Australia, Detailed](#), Table 5.

³ Includes Commonwealth grants from North West Shelf royalties, iron ore lease rentals, payroll taxes, transfer duties and other payments to government agencies. Government of Western Australia, [2023-24 Annual report on State finances](#), Department of Treasury, 28 September 2024, table 2.1.A

AEMO's Allowable Revenue and Forecast Capital Expenditure under the WEM Rules (Replacement Framework).

With AEMO's current ARF ending on 30 June 2025,⁴ determining the quantum of Market Participant Market Fees and Application Fees to be charged beyond this date is critical to ensuring the viability of AEMO's operations and provide clarity to market participants. The current WEM Rules provide that the current Market Participant Market Fee rates continue to apply until the ERA makes a final determination on AEMO's next ARF. However, the Coordinator considers that the fee will likely need to be increased in line with inflation, and therefore proposes to amend the WEM Rules to continue to apply the current Market Participant Market Fee rate and Application Fees (the Fees) adjusted for changes in the Wage Price Index (WPI) while the ARF Review is underway.

Feedback on the transitional Rules

CME agrees that indexation of the Fees is required to ensure AEMO's continuing viability but suggest that some adjustment to the indexation calculation may be required.

The largest component of AEMO's costs are labour costs, as shown in the ERA's determination for the 2022-25 Review Period⁵ and subsequent in-period determinations. The Coordinator is therefore proposing to adjust the Fees to reflect changes to the Wage Price Index (WPI) to provide certainty to AEMO and Market Participants while the ARF Review progresses. This is expressed mathematically below:

$$\text{MP Market Fee rate [FY]} = \text{MP Market Fee rate [FY-1]} \times (1 + \text{WPI [March quarter FY-1]})$$

However, with labour costs only representing around one third of total costs,⁶ indexing the Fees by the WPI would likely result in the bulk of AEMO's costs being indexed to an unrelated measure (i.e. non-labour costs being indexed to a measure of labour costs). Instead of the entire market and application fees being indexed to the Wage Price Index, a more appropriate method may be to index the wage costs component (one third of total costs) by the WPI, and index the remaining costs (two thirds) by the Perth Consumer Price Index (CPI). Given the volatility in year-ended Perth 'All Group' CPI growth rates introduced by state and federal electricity subsidies, the most appropriate CPI measure may be the Perth All Groups CPI excluding food and energy, or the Perth All Groups CPI excluding 'volatile items'.⁷

Regardless of whether the Coordinator decides to change the indexation methodology, CME suggests reflection on whether the WPI measure chosen (national, all groups) is more appropriate than the WA all groups WPI measure. The choice of national or WA WPI should take into account whether AEMO is primarily competing for labour in the national or WA labour markets for its required skills. For completeness, the rules should confirm it is the WPI measure excluding bonuses.

In conclusion, CME supports the Coordinator's decision to reject AEMO's Rule Change Proposal and undertake a fulsome review of the ARF. We agree that indexation is required to ensure AEMO's viability but suggest that some adjustment to the indexation calculation may be required. For further information regarding this submission, please contact Aaron Walker, Manager - Industry Competitiveness and Economics, on 0477 679 195 or via email at a.walker@cmewa.com.

Yours sincerely



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⁴ AEMO, [Adjustment to 2022-2025 Forecast Capital Expenditure](#), p.2, April 2023, Accessed on 16 Jan 2025

⁵ Economic Regulation Authority, 15 May 2024, '[Australian Energy Market Operator's AR6 second in-period allowable revenue and forecast capital expenditure proposal](#)', p.15

⁶ Economic Regulation Authority, 15 May 2024, '[Australian Energy Market Operator's AR6 second in-period allowable revenue and forecast capital expenditure proposal](#)', p.7

⁷ Series available from ABS, [Consumer Price Index](#), Download Table 9.