

29 January 2025

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Submitted via: energymarkets@demirs.wa.gov.au

Dear Mr Thomas,

AEMO's Allowable Revenue Framework: Draft Rule Change Report

Erne Energy welcomes the opportunity to provide a submission to the Draft Rule Change Report: AEMO's Allowable Revenue Framework (RC_2024_01)¹.

We support the draft decision to reject Rule Change Proposal RC_2024_01, ensuring that the Economic Regulation Authority (ERA) retains the critical oversight of AEMO's revenue. We also support the Amending Rules to suspend AEMO's current Allowable Revenue Framework (ARF) pending a full review of the Allowable Revenue Framework (ARF Review) to:

- identify any issues and inefficiencies regarding the current AEMO Allowable Revenue and Forecast Capital Expenditure process; and
- develop a new fit-for-purpose replacement framework for the determination of AEMO's Allowable Revenue and Forecast Capital Expenditure under the WEM Rules (Replacement Framework).

While supporting the need for a review to ensure that the ARF is fit-for-purpose, several key issues need to be considered when developing a replacement framework to ensure that AEMO's costs are managed and that the desired outcomes are delivered for West Australian consumers.

Prudent and efficient delivery of outcomes

The Australian Energy Market Operator's (AEMO) original rule change request² suggested that current regulatory regime in the WEM is limiting its ability to effectively deliver the clean energy transition in the South-West Interconnected System (SWIS) because of the repeated need to return to the ERA to seek additional revenue to perform its role in a rapidly changing context.

Another view could be that AEMO lacks the necessary fiscal rigour to appropriately forecast and budget over the relatively short 3-year price control period. This appears particularly true of specific project-based funding³. If this view is correct, then it would suggest AEMO needs to develop better forecasting and planning approaches that support the prudence needed to operate within a regulated budget.

AEMO needs to be strongly incentivised in the WEM to deliver its roles efficiently and effectively, suggesting that potentially a more robust ARF is required for the 3-year period, but with intermediate opportunities to review and update plans within that period.

Retaining good governance

In the National Electricity Market (NEM), AEMO lacks the critical governance that most national system operators have, and the approach taken in the Wholesale Electricity Market (WEM)⁴. In the CEPA report prepared in 2020 for Energy Networks Australia and the Australia Energy Council, several governance models for system operators were explored, including the WEM model.

¹ https://www.wa.gov.au/system/files/2024-12/rc_2024_01_draft_rule_change_report_wem_rules_standard_rule_change_process_aemos_allowable_revenue_framework.pdf

² https://www.wa.gov.au/system/files/2024-09/rc_2024_01_rule_change_notice_and_proposal.pdf

³ https://www.wa.gov.au/system/files/2024-12/rc_2024_01_draft_rule_change_report_wem_rules_standard_rule_change_process_aemos_allowable_revenue_framework.pdf

⁴ <https://www.energynetworks.com.au/resources/reports/2020-reports-and-publications/governance-and-regulation-of-market-system-operators/>

The WEM model, with AEMO regulated by the ERA, was strongly supported by market participants and electricity network service providers in the NEM during the development of the CEPA report in 2020, with the hope that AEMO would be similarly regulated in the NEM.

In response to the CEPA report, AEMO established the Financial Consultation Committee (FCC)⁵, with the goals of:

- assuring stakeholders of AEMO's balance sheet health and provide financial transparency
- building stakeholder confidence in AEMO's financial management and commitment to being cost-effective
- building stakeholders' confidence that AEMO is maturing its financial management, governance, accountability and transparency
- growing stakeholders' understanding of the budget and fee impacts of AEMO's evolving roles and responsibilities

The FCC members, including representatives from the WEM, are largely C-level staff from market participants⁶. However, the AEMO engages the FCC only at an "inform" level, rather than consulting (or beyond)⁷ on financial matters. Even though AEMO's shareholders are the governments of Australia and market participants, the latter have very little to no influence on AEMO's operation or financial operation and, in the NEM, AEMO's cost are not regulated⁸.

In the NEM, as in the WEM⁹, AEMO's costs continue to increase in an environment where consumers are managing the increasing everyday costs of living. It would be a backward step for consumers in the WEM to reduce requirements on AEMO to operate efficiently.

Managing monopolies

AEMO is a monopoly, as the only provider of market and power system operation services. AEMO is also a monopsony as it is the only purchaser of system services. As the only provider and purchaser of critical market and power system services, AEMO is unusual, outside the WEM, in being completely unregulated, while other monopoly providers, such as electricity distribution and transmission network service providers in Australia are regulated.

Economic regulation ensures that monopoly entities operate efficiently and meet expected performance goals, providing transparency and confidence to market participants and the end consumers that fund the operation of the market that they are receiving value for their money.

While the UK have recently changed the governance of their electricity system operator, the newly not-for-profit, independent National Energy System Operator (NESO) it is still a monopoly, and it is still regulated as such by Ofgem under the Revenue = Input + Innovation + Outputs (RIIO) regulatory framework that the privately held predecessor operated within^{10,11}. Ofgem and NESO are currently consulting on the regulatory arrangements, including performance assessment criteria and value for money that will be defined in a Business Plan (BP3) for the current 2-year period (within RIIO-2).

Ofgem propose to continue to use the current Cost Monitoring Framework to provide assurance on the NESO spending through the pass-through model, using ex-ante and ongoing assessments, and a requirement for regular reporting on the value for money NESO is delivering through its activities¹².

While it is hoped that establishing the UK NESO as an independent not-for-profit entity will facilitate efficient outcomes and a clean energy system for UK, economic regulation, overseen by Ofgem, remains the primary approach for ensuring efficient outcomes for consumers.

⁵ <https://aemo.com.au/consultations/industry-forums-and-working-groups/list-of-industry-forums-and-working-groups/financial-consultation-committee>

⁶ https://aemo.com.au/-/media/files/stakeholder_consultation/working_groups/other_meetings/financial-consultation/terms-of-reference.pdf?la=en

⁷ <https://iap2.org.au/resources/spectrum/>

⁸ <https://www.energynetworks.com.au/resources/reports/2020-reports-and-publications/governance-and-regulation-of-market-system-operators/>

⁹ <https://www.erawa.com.au/cproot/24147/2/AR-6-2nd-In-period-CapEx-and-OpEx-submission-Final-determination.PDF>

¹⁰ <https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/future-system-operation-fso>

¹¹ <https://www.neso.energy/about/operational-information/how-were-regulated>

¹² https://www.ofgem.gov.uk/sites/default/files/2024-11/Decision_on_the_Performance_Incentives_Framework_for_BP3.pdf

AEMO's not-for-profit model in the NEM has not resulted in prudence for NEM consumers, while the FCC in the NEM, akin to the approach initially proposed by AEMO in its rule change request for the WEM, has had little or no influence on AEMO's costs in the NEM.

The argument that at a time of transition AEMO should not be financially constrained in the areas in which it operates is leading to growing costs, with no driver to minimise those costs. Other transmission system operators globally are dealing with the same dynamic energy transition¹³ and yet are still required, by their regulator, to meet economic efficiency and performance obligations.

The need for trust

As the SWIS transforms, West Australians need to be able to trust that AEMO is operating efficiently and meeting both policy requirements and consumer needs. The energy industry is one of the least trusted in Australia¹⁴ and AEMO remains one of the least trusted entities in the energy industry¹⁵. This lack of trust in AEMO will delay the clean energy transition and is already being leveraged for political purposes around the veracity of the assumptions that underpin key AEMO planning reports¹⁶.

The recent Senate Inquiry into Energy Planning and Regulation in Australia¹⁷ identified that AEMO's governance in the NEM needed to be updated and clarity provided on its many and varied roles as the operator and planner with the NEM, while also operating private companies in individual states¹⁸.

Additionally, it is unclear whether there is cross-subsidy of AEMO in the NEM by funds provided to AEMO for its operation in the WEM (or vice-a-versa). This lack of clarity may mean that customers in the NEM and WEM are both funding the same piece of work (e.g. Input, Assumptions and Scenarios Report¹⁹). Better separation of AEMO's functions in the NEM and WEM would ensure that the relevant consumers were funding only the work relevant to each market. While there may be efficiencies in combining AEMO planning and research efforts across the WEM and NEM, full transparency on the proportion of costs borne by consumers in each market is needed.

The ERA's ongoing key role

As many of the submissions to the Rule Change Notice and Proposal indicated, industry and consumers do not have the expertise to provide oversight of AEMO's finances and do not have the regulatory powers to compel AEMO to operate in a prudent and efficient manner while delivering required performance outcomes²⁰. Only the ERA has the expertise and power to ensure that AEMO is efficient, and the ERA needs to be resourced appropriately to ensure that it can perform its role regulating AEMO in a rapidly transitioning context.

Retaining the current strong economic oversight of AEMO by the ERA in the WEM will ensure economically efficient, safe and reliable production and supply of electricity and electricity related services, while reducing the long-term cost of electricity supplied to West Australian consumers²¹.

Please contact me if you need further information.

Yours Sincerely



Dr. Jill Cainey MBE

¹³ <https://globalpst.org/>

¹⁴ <https://www.youtube.com/watch?v=9EUnyoxOxRw>

¹⁵ https://aemo.com.au/-/media/files/stakeholder_consultation/working_groups/other_meetings/consumer-forum/2023/fy23-annual-stakeholder-engagement-perception-survey---results-summary.pdf?la=en

¹⁶ <https://www.theguardian.com/australia-news/2024/mar/15/csiro-peter-dutton-gencost-report-nuclear-energy-renewables-cost>

¹⁷ https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Energy_Planning_and_Regulation_in_Australia

¹⁸ https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Energy_Planning_and_Regulation_in_Australia/EnergyPlanning/Final_Report, p37 onwards

¹⁹ <https://aemo.com.au/-/media/files/major-publications/isp/2025/draft-2025-inputs-assumptions-and-scenarios-report-stage-1.pdf?la=en>

²⁰ <https://www.wa.gov.au/government/document-collections/rule-change-rc202401>

²¹ <https://www.wa.gov.au/organisation/energy-policy-wa/electricity-industry>