



Department of Energy, Mines,
Industry Regulation and Safety
Energy Policy WA

Final Rule Change Report – AEMO's Allowable Revenue Framework (GRC_2024_01)

Standard Rule Change Process

26 February 2025

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1. The Rule Change Proposal, Process and Timeline

On 28 August 2024, the Australian Energy Market Operator (AEMO) submitted a Rule Change Proposal titled “AEMO’s Allowable Revenue Framework” (GRC_2024_01). On 3 September 2024, the Coordinator of Energy (Coordinator) sought clarification under subrule 129(3) of the Gas Services Information (GSI) Rules and the AEMO provided the clarification on 13 September 2024.

On 25 September 2024, the Coordinator published a Notice of the Rule Change Proposal advising that the proposal is being processed using the Standard Rule Change Process, described in Part 8, Division 4 of the GSI Rules.

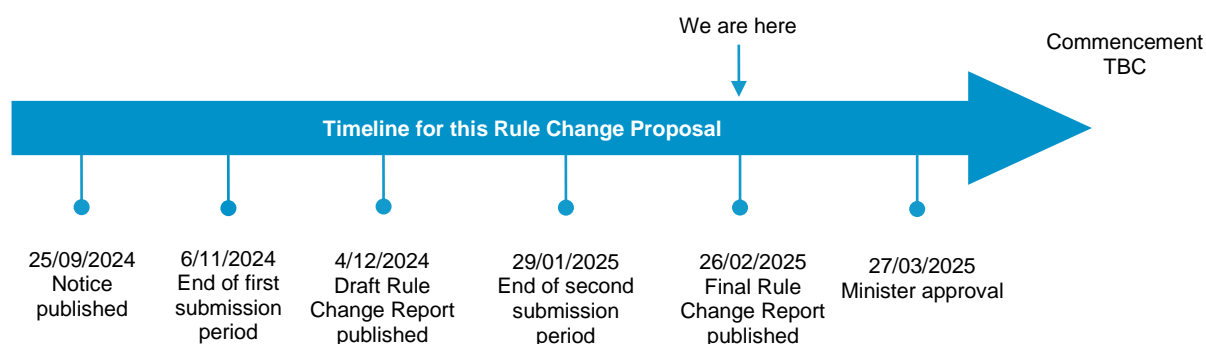
On 4 December 2024, the Coordinator published a Draft Rule Change Report setting the second submission period to 29 January 2025 to account for the End-of-Year holiday period.

This Rule Change Proposal GRC_2024_01 seeks to remove the requirement for the Economic Regulation Authority (ERA) to determine AEMO’s Allowable Revenue and Forecast Capital Expenditure. Instead, AEMO proposed that a new budget and fee design process features the following elements:

- annual priorities, activities, budget and fee setting using established AEMO processes with requirements to consult with its stakeholders;
- major projects delivery reporting, with the ability for stakeholders to provide input into the scope, sequency and prioritisation of projects;
- transparency around AEMO’s performance through annual reporting; and
- review and oversight of the effectiveness of this new framework by the Coordinator.

The Rule Change Proposal Notice and all other documents related to this proposal can be found on the Coordinator’s website at [Rule Change GRC 2024 01](#).

The key dates for progressing this Rule Change Proposal are:



This Final Rule Change Report is drafted in accordance with rule 136 of the GSI Rules on the basis that the reader has read all the related documents, including the Rule Change Proposal, the first period submissions, the Draft Rule Change Report and the second period submissions.

2. The Coordinator's Decision

The Coordinator's decision is to reject the Rule Change Proposal RC_2024_01 and make Amending Rules to suspend AEMO's current Allowable Revenue Framework (ARF) until market fees can be set under a new framework.

AEMO submitted a similar Rule Change Proposal under the Wholesale Electricity Market (WEM) Rules RC_2024_01. To address stakeholder concerns for RC_2024_01, the Coordinator is commencing a review of AEMO's Allowable Revenue Framework for the WEM (ARF Review) in consultation with stakeholders to:

- identify the issues and inefficiencies regarding the current AEMO Allowable Revenue and Forecast Capital Expenditure process;
- undertake a jurisdictional scan of similar revenue setting mechanisms and performance reviews; 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).

AEMO's ARF under the WEM Rules is very similar to the ARF for the GSI Rules and, historically, AEMO has combined both its WEM and GSI Allowable Revenue submissions to the ERA. Therefore, the Coordinator included a review of AEMO's ARF under the GSI Rules in the scope of the ARF Review for the WEM.

The Coordinator is undertaking a review of AEMO's ARF through a separate process and not as part of progressing GRC_2024_01 or RC_2024_01 to allow for adequate stakeholder consultation and provide clarity regarding AEMO's fees during the period of the review.

The scope of work for the review is published [here](#).

The Coordinator's decision is to amend the GSI Rules to:

- suspend the current ARF under Part 7 Division 2 and 3 of the GSI Rules until AEMO's Budget can be set under the Replacement Framework; and
- continue to apply the current AEMO Budget while the ARF Review is underway; and
- for every Financial Year while the ARF Review is underway, 50% of the previous Financial Year's AEMO Budget, used for the purpose of calculating the GSI Fees, will be adjusted by the annual percentage change in the Wage Price Index (WPI) and the remaining 50% will be adjusted by the annual percentage change in the Consumer Price Index (CPI).

The Amending Rules to suspend the current ARF and set the interim fees are set out in section 7 of this report.

As outlined in section 6.4, the Amending Rules are subject to the Minister's approval.

2.1 Reason for the Coordinator's Decision

The Coordinator's final decision is to reject GRC_2024_01 and commence the ARF Review. This takes into account the unanimous support for the draft decision in the second submission period and stakeholder feedback received during the first submission period, including feedback received on RC_2024_01, that the Rule Change Proposal did not address the current issues within the AFR for reasons including:

- concerns that Gas Market Participants may incur additional costs reviewing AEMO's Allowable Revenue;

- concerns that AEMO's proposed new framework provides AEMO with complete control over its budget decisions and allows it to run unchecked with unlimited spendable amounts being covered by the market; and
- concerns that the proposed changes would not be consistent with GSI Objectives (b) and (c).

The Coordinator is reviewing AEMO's ARF for the GSI together with the ARF Review for the WEM because:

- AEMO's practice is to make a joint submission to the ERA under both ARFs. Therefore, it will be efficient to review both the WEM and the GSI ARFs together; and
- reviewing the AEMO ARFs as part of a separate process, i.e. not as part of progressing GRC_2024_01 or RC_2024_01, will best allow for adequate stakeholder consultation and adequate time to develop a suitable Replacement Framework.

The Coordinator has decided to make Amending Rules that suspend the current ARF and implement an interim price indexation for AEMO's Budget used to calculate the GSI Fees taking into account stakeholders' support for the Coordinator's draft decision. The Amending Rules proposed in section 7 of this Final Rule Change Report will:

- reduce the administrative burden on AEMO, the ERA and stakeholders while the ARF Review is underway; and
- provide certainty about the GSI Fees until a new AEMO Budget is set once a Replacement Framework is implemented.

The detailed analysis behind the Coordinator's decision is provided in section 6 of this report.

2.2 Commencement

The Amending Rules proposed in this report are subject to Ministerial approval. Therefore, the commencement date is to be confirmed.

3. Proposed Amendments

3.1 The Rule Change Proposal

This section provides a summary of Rule Change Proposal GRC_2024_01. The full Rule Change Proposal can be found on the Coordinator's website at [Rule Change GRC 2024_01](#).

3.2 Issues raised

In GRC_2024_01, AEMO considered that its current ARF is not fit for purpose for the following reasons:

- The current framework allows the ERA only to approve forecast costs that have a high degree of certainty and in the current fast-moving energy transition, costs are difficult to forecast with certainty.
- Energy market participants' needs, energy reform agendas and policies, and project requirements are constantly evolving as WA's energy transition progresses. This introduces considerable uncertainty year-on-year regarding what AEMO and Gas Market Participants may be required to do, and the associated costs.
- The rigidity of the current framework does not allow the ERA sufficient flexibility to approve a three-year forecast that will be subject to changing priorities, with limited visibility of project scope.

AEMO considers that the current framework has caused the following problems:

- AEMO having to make four Allowable Revenue submissions to the ERA since 2020 because of the uncertainty inherent in the energy transition;
- Delays to the implementation of key reform projects required for the energy transition;
- Uncertainty for Gas Market Participants regarding the delivery of critical projects due to funding uncertainty, leading to an inability to accurately forecast future fees; and
- the administration and associated resourcing to develop the combined allowable revenue submissions under the WEM Rules and the GSI Rules, costing AEMO an estimated \$1 million.

AEMO considers that a 'set and forget' funding arrangement, that establishes a multi-year fixed budget via rigid ex-ante scrutiny, is not appropriate if there is uncertainty surrounding policy, regulatory outcomes and projects scope.

3.3 AEMO's proposed changes

AEMO proposes that its three-year ARF under the GSI Rules is replaced with an annual budget determined through consultation with Gas Market Participants and interested stakeholders, with a requirement for a nil surplus or deficit over the long-term.

GRC_2024_01 seeks to remove the requirement for the ERA to determine AEMO's budget. Instead, AEMO proposes that the budget and fee setting process features the following elements:

- annual priorities, activities, budget and fee setting using established AEMO processes with requirements to consult with its stakeholders;
- major project delivery reporting, with the ability for stakeholders to provide input into the scope, sequencing and prioritisation of projects;
- transparency around AEMO's performance through annual reporting; and

- review and oversight of the effectiveness of this new framework by the Coordinator.

3.4 The Coordinator's Initial Assessment of the Proposal

The Coordinator decided to progress GRC_2024_01 based on a preliminary assessment that it:

- is not inconsistent with the GSI Objectives;
- raises a valid issue within the GSI Rules;
- does not create other problems within the GSI Rules; and
- was not, at that time, part of an upcoming review or reform program.

4. Consultation

Section 4 of this Final Rule Change Report provides summaries of:

- the consultation that has been conducted on the Rule Change Proposal with the Gas Advisory Board (**GAB**) and the Coordinator's response to the views of the GAB;
- submissions made in the first and second submission periods, and the Coordinator's response to the issues raised in those submissions; and
- the outcomes of any public forums or workshops held.

Although a summary of these consultations is presented below, the Coordinator has considered and taken into account each matter raised in deciding on GRC_2024_01.

4.1 Pre-Rule Change Proposal

A summary of the consultation undertaken regarding this Rule Change Proposal prior to submission of the proposal to the Coordinator is provided in section 5.1 of the Draft Rule Change Report.

4.2 The Gas Advisory Board

A summary of the consultation conducted with the GAB regarding this Rule Change Proposal before the publication of the Draft Rule Change Report is found in section 5.2 of the Draft Rule Change Report.

The GAB has not provided advice to the Coordinator since publication of the Draft Rule Change Report regarding the evolution or development of the GSI Rules that is relevant to the issues addressed in GRC_2024_01.

4.3 The Coordinator's Response to the Gas Advisory Board

The Coordinator's response to the GAB's advice regarding GRC_2024_01 is provided in section 5.3, section 6 of the Draft Rule Change Report.

The GAB did not provide advice to the Coordinator regarding Rule Change Proposal GRC_2024_01 after publication of the Draft Rule Change Report.

4.4 Submissions Received during the First Submission Period

The first submission period for this Rule Change Proposal was held between 25 September 2024 and 6 November 2024. The Coordinator received one submission from CITIC Pacific Mining.

A summary of this submission is provided in section 5.4 of the Draft Rule Change Report.

4.5 The Coordinator's Response to Submissions Received during the First Submission Period

The Coordinator's assessment of the issues raised in the first period submissions is presented in section 6 of the Draft Rule Change Report.

4.6 Submissions Received during the Second Submission Period

The second submission period for this Rule Change Proposal was held between 4 December 2024 and 29 January 2025. The Coordinator received submissions from:

- AEMO
- Chamber of Minerals and Energy (CME)
- Expert Consumer Panel member Chris Alexander

All stakeholders supported the Coordinator's draft decision to reject RC_2024_01, suspend the current ARF and commence an ARF Review to create a fit-for-purpose replacement framework.

Stakeholders who commented on the draft indexation of market fees supported the Coordinator's draft decision to index fees to the change in the WPI.

While CME acknowledged that there needs to be some indexation to provide for AEMO's financial viability, it suggested:

- using proportional adjustments to reflect AEMO's labour and non-labour costs;
- using the Perth price index series and the 'excluding food and energy' or 'excluding volatile items' series for the price index adjustments; and
- defining the WPI to make it clear that it excludes bonuses.

Stakeholders did not provide comment as to whether the GSI Rules, as amended by the Amending Rules in the Draft Rule Change Report, would better achieve the GSI Objectives.

Copies of all submissions received during the second submission period are available in full on the Coordinator's website.

4.7 The Coordinator's Response to the Submissions Received during the Second Submission Period

The Coordinator's overall assessment of the issues raised in the second period submissions is presented in section 6 of this report.

The Coordinator's response to each of the specific issues raised in the second period submissions is presented in Appendix A of this report.

4.8 Public Forums and Workshops

The Coordinator did not hold a public forum or workshop for GRC_2024_01.

5. The Coordinator's Draft Decision

The Coordinator's draft analysis of the Rule Change Proposal and its draft assessment of the proposal against rule 127 and subrule 128(1) of the GSI Rules is presented in section 6 of the Draft Rule Change Report, which is available on the Coordinator's website.

The Coordinator's draft decision was to reject Rule Change Proposal GRC_2024_01 and make draft Amending Rules to suspend AEMO's current ARF until fees can be set under a new framework. The reasons for the Coordinator's draft decision are set out in section 2.1 of the Draft Rule Change Report.

The draft Amending Rules are set out in section 7 of the Draft Rule Change Report.

6. The Coordinator's Final Assessment

Subrule 137(2) indicates that, in preparing its Final Rule Change Report, the Coordinator must assess the Rule Change Proposal having regard to the rule making test in rule 127 and the factors listed for consideration in subrule 128(1) of the GSI Rules.

Rule 127 states:

The Coordinator must not make Amending Rules unless it is satisfied that the [GSI] Rules, as proposed to be amended or replaced, are consistent with the GSI Objectives.

Subrule 128(1) sets out the matters that the Coordinator must have regard to in deciding whether to make Amending Rules, including:

- (a) any applicable statement of policy principles given to the Coordinator by the Minister under rule 126;
- (aa) any advice by the GAB regarding the evolution or the development of the GSI Rules;
- (b) the practicality and cost of implementing the Rule Change Proposal;
- (c) the relevant views expressed in any submissions received by the Coordinator on the Rule Change Proposal;
- (d) the relevant views expressed at any public forums or workshops, or in other consultation with Gas Market Participants, held by the Coordinator on the Rule Change Proposal;
- (e) the relevant views expressed by the GAB where it met to consider the Rule Change Proposal;
- (ea) whether any advice from the GAB reflects a consensus view or a majority view, and, if the latter, any dissenting views included in or accompanying the advice and how these views have been considered by the Coordinator; and
- (f) any information that the Coordinator considers necessary to assess the Rule Change Proposal.

When making its final decision, the Coordinator has had regard to each of the matters identified in rule 127 and subrule 128(1), as follows:

- the Coordinator's overall assessment of the Rule Change Proposal is presented in section 6.1;
- the Coordinator's assessment of the Rule Change Proposal against the GSI Objectives can be found in section 6.3;
- the Coordinator's assessment of the practicality and cost of implementing the Rule Change Proposal can be found in section 6.8;
- a summary of the views expressed by the GAB is provided in section 4.2 of this Final Rule Change Report and section 5.2 of the Draft Rule Change Report;
- the Coordinator's responses to the views of the GAB are provided in sections 4.3 and 6.1 of this Final Rule Change Report; and in sections 5.3 and 6.1 of the Draft Rule Change Report;
- a summary of the first period submissions is provided in section 4.4 of this Final Rule Change Report and section 5.4 of the Draft Rule Change Report;
- the Coordinator's responses to the first period submissions are provided in section 4.5 and 6.1 of this Final Rule Change Report, and in sections 5.5 and 6.1 of the Draft Rule Change Report;

- a summary of the second period submissions is provided in section 4.6 of this Final Rule Change Report; and
- the Coordinator's responses to the second period submissions are provided in section 4.7 and Appendix A of this Final Rule Change Report.

6.1 Assessment of the Proposed Changes

6.1.1 Case for change

As outlined in the Draft Rule Change Report and the Draft Rule Change Report for RC_2024_01, AEMO, and stakeholders in their submissions raised concerns that AEMO's current ARF is not fit for purpose and should be reviewed.

The ERA did not provide a submission in either submission period. However, in its report on the final determination of AEMO's AR6 in-period Allowable Revenue and Forecast Capital Expenditure Proposal, the ERA strongly supported a replacement of the existing regulatory regime with a more workable arrangement.

In the final determination, the ERA specified the following concerns with the current ARF:

- The regulatory framework is not leading to outcomes that are beneficial to the WEM, especially given the resourcing required by AEMO and the ERA to bridge information gaps and undertake the ongoing analysis that is associated with the allowable revenue regulatory regime.
- That AEMO has spent most of its funding and needs to reclaim it from additional funding demonstrates that the regulatory framework is not suitable for making assessments of AEMO's funding requirements.
- Due to the timelines imposed by the WEM Rules, AEMO could not have asked for an operating expenditure adjustment when it made its first in-period submission.
- As the regulator, the ERA faces difficulty in assessing what would be an efficient level of operational costs given the nature of AEMO's business and the rapid pace of reforms to the WEM to support decarbonisation.

The Coordinator acknowledges that the various concerns raised with AEMO's ARF mostly relate to the WEM but, as AEMO's ARF under the WEM Rules is very similar to the ARF under the GSI Rules, both frameworks require improvements.

6.1.2 Reject GRC_2024_01

The stakeholder submissions received during this Rule Change Process and the process for RC_2024_01, reinforced the Coordinator's consideration in the Draft Rule Change Report that AEMO's proposed framework is unsuitable. In particular, the proposed removal of the regulatory oversight of the ERA removes a crucial factor that is necessary to maintain transparency and cost efficiency.

Stakeholders in the second submission period were unanimous in their support of the Coordinator's draft decision to reject GRC_2024_01.

The Coordinator's final decision is to reject GRC_2024_01.

6.1.3 Allowable Revenue Framework Review

The Coordinator agrees with stakeholders that the current ARF requires improvement and is commencing a review of AEMO's ARF in consultation with stakeholders. The scope of this review includes AEMO's ARFs under the WEM Rules and GSI Rules.

All stakeholder submissions received during the second submission period supported the Coordinator's decision to commence the ARF Review to create a fit-for-purpose framework (the Replacement Framework).

The ARF Review is conducted separately to progressing GRC_2024_01. This will allow for adequate stakeholder consultation and timeframes within which other options, not raised during this Rule Change Process, can be considered.

Stakeholder suggestions to enhance the ARF that were made during the first and second submission period will be taken into account.

6.1.4 Suspending the current Allowable Revenue Framework

The Coordinator's draft decision was to suspend the current ARF to reduce the administrative burden on AEMO and the ERA while the ARF Review progresses.

All stakeholders supported the Coordinator's draft decision to suspend the current ARF while the Replacement Framework is developed and implemented.

The Coordinator's final decision is to suspend the current ARF while the Replacement Framework is developed and implemented.

6.1.5 Price indexation formula

Proportional adjustment and use of Price Index series

Stakeholders supported indexing AEMO's GSI Budget by a Price Index series to allow AEMO adequate cost recovery during the transitional period.

One stakeholder suggested that a proportional indexation should apply to reflect AEMO's labour and non-labour costs. This stakeholder also suggested that the Perth Series would be more appropriate to reflect AEMO's costs associated with the GSI Rules than the national/all capital cities series.

The below table shows an indicative AEMO GSI Revenue Requirement using AEMO's 2025 Financial Year amount (\$1.607 million), as published on [AEMO's website](#), the latest available annual percentage change in the WPI (December quarter) from the Australian Bureau of Statistics (ABS) and the latest available annual percentage change in the CPI (December quarter) from the ABS.

Table 1: Different methods for indexing AEMO's GSI Revenue Requirement

Adjustment	AEMO GSI Revenue Requirement in millions
Adjusted by the annual percentage change in the Perth WPI	\$1.660
Adjusted by the annual percentage change in the Australian WPI	\$1.658
50% adjusted by the annual percentage change in the Perth WPI and 50% adjusted by the annual percentage change in the Perth CPI	\$1.657
33.3% adjusted by the annual percentage change in the Perth WPI and 66.6% adjusted by the annual percentage change in the Perth CPI	\$1.656
Adjusted by the annual percentage change in the Perth CPI	\$1.654
50% adjusted by the annual percentage change in the Australian WPI and 50% adjusted by the annual percentage change in the Australian CPI	\$1.652
33.3% adjusted by the annual percentage change in the Australian WPI and 66.6% adjusted by the annual percentage change in the Australian CPI	\$1.650
Adjusted by the annual percentage change in the Australian CPI	\$1.646

** Indicative only as the March quarter is used for the actual adjustment*

Proportional Adjustment

The Coordinator agrees that a proportional indexation is appropriate as it better reflects AEMO's cost structure.

The Coordinator notes that labour costs are a key driver for AEMO's costs to perform its business-as-usual functions under the GSI Rules. Based on AEMO's costs structure as shown in the ERA's determination for the 2022-25 Review Period and subsequent in-period determinations, the Coordinator considers that a 50% indexation by the WPI and 50% indexation by CPI would adequately reflect AEMO's labour and non-labour costs.

The choice of the national series

The Coordinator considers that using the national series is more appropriate than the Perth/WA series to account for the impact of inflation on AEMO's costs because:

- AEMO has WEM support staff that are located outside of Western Australia as stated in its Allowable Revenue submissions;
- AEMO sets the nature of its labour costs on a national level , as stated in [AEMO's 2024 enterprise agreement](#); and
- AEMO operates nationally, and therefore, it can leverage its staff in other jurisdictions to reduce costs.

The choice of the WPI series

The Coordinator accepts the suggestion to clarify that the WPI used for the adjustment excludes bonuses as this aligns with the intent of the Amending Rules.

The choice of the CPI series

The Coordinator does not accept the suggestion to 'exclude volatile items' or 'exclude food and energy' series from the CPI adjustment to account for state and federal electricity. The Coordinator considers the 'all group' series to be appropriate because the cost of energy contributes to AEMO's costs.

6.1.6 Additional information published

The Coordinator received a stakeholder submission requesting AEMO to provide supporting information detailing why actual financial performance has varied against its budget for RC_2024_01. The Coordinator agreed with this request and changed the final amending Rules for the WEM Rules.

The Coordinator considers that there should be consistency between the GSI Rules and WEM Rules regarding the transitional period until the Replacement Framework is implemented.

6.2 Additional Amendments to the Proposed Amending Rules since the Draft Rule Change Report

The Coordinator has made some changes to the proposed Amending Rules from the Draft Rule Change Report following the second submission period. These changes are reflected in the Amending Rules in section 7 of the Final Rule Change Report and are summarised below.

6.2.1 Price Index Adjustment

Taking into account stakeholder feedback, the Coordinator has made changes to the price index adjustment to include a 50% WPI and a 50% CPI adjustment

Additionally, the Coordinator has made changes to make it clear that the:

- WPI adjustment uses the original excluding bonuses series; and
- the decimal value of the annual percentage change in the price index is used to perform the calculation.

The Coordinator considers that the Price Index adjustment should be as specific as practical within the GSI Rules. Consequently, subrule 107A(5) is amended to show that the price index adjustment will use the decimal value of the annual percentage change figure for the March quarter published by the ABS.

For example, if the ABS publishes an annual percentage change of 3.0% for the Australian March quarter not seasonally adjusted WPI and 2.5% for the Australian March quarter not seasonally

adjusted CPI then the AEMO budget component used for calculating the GSI fees under subrules 114(a), 116(1), 117(1) and 117(3) will adjust by:

$$AEMO\ Budget(2025 - 26) = ((0.5 \times AEMO\ Budget(2024 - 25)) \times (1 + 0.03)) + ((0.5 \times AEMO\ Budget(2024 - 25)) \times (1 + 0.025))$$

6.2.2 Additional information published

The Coordinator has made changes to the new subrule 107A(4) to require AEMO to publish supporting information detailing why actual performance in a Financial Year varied against the budget for that Financial Year.

6.3 GSI Objectives

Taking into account the feedback from stakeholders, the Coordinator considers that rejecting GRC_2024_01 will better achieve the GSI Objectives. In particular, the proposed ARF would remove the regulatory oversight of the ERA and reduce AEMO's accountability and the transparency of its costs. This has the potential to:

- reduce efficiency of the operation of natural gas services in the State; and
- reduce efficiency of the investment in natural gas services in the State.

Therefore, the changes proposed in the Rule Change Proposal would not achieve GSI Objectives (b) and (c).

The Coordinator considers that the proposed Amending Rules in this Final Rule Change Report are consistent with the GSI Objectives and provide a reasonable transition approach until the Replacement Framework is implemented.

6.4 Protected Provisions

Rule 144 provides that Amending Rules that affect a Protected Provision require approval from the Minister for Energy.

The Amending Rules introduce a transitional provision to suspend Part 7 Division 2 and 3 and directly affect rules 114 and 116, which are Protected Provisions under subrule 142(2). Thus, the final Amending Rules will not take effect until they are approved by the Minister for Energy.

The Coordinator will provide the Amending Rules to the Minister for approval, in accordance with subrule 144(2).

Under Subrule 144(3), the Minister has 20 Business Days to make a decision. However, subrule 145(1) allows the Minister to extend the timeframe for the decision.

Under Rule 146 of the GSI Rules, if the Minister has not made a decision by the due date or by an extended date, as applicable, then the Protected Provision Amendment is taken to have been approved by the Minister.

6.5 Civil Penalty Provisions

The final Amending Rules do not amend any civil penalty provisions, nor does the Coordinator consider that any of the new rules should be a civil penalty provision.

6.6 Reviewable Decisions

The final Amending Rules do not amend any clauses that contain Reviewable Decisions, and the Coordinator does not consider that any of the Amending Rules includes decisions that should be Reviewable Decisions.

6.7 Cost and Practicality of Implementation

6.7.1 Cost

The Coordinator considers that AEMO and Market Participant will not incur any material costs to implement the changes outlined in the Amending Rules set out in section 7 of this report.

Any over or under recovery of AEMO's actual costs during the transition period will be addressed once the Replacement Framework is implemented.

6.7.2 Practicality

No comments were made specifically on the practicality of the Coordinator's draft decision.

The Coordinator considers that the implementation of the Amending Rules set out in section 7 of this report should not cause any practical issues for AEMO and Market Participants.

6.7.3 Assessment

The Coordinator has assessed that there is a net benefit from rejecting GRC_2024_01 and implementing the Amending Rules set out in section 7 of this report because:

- The ARF Review, which is being commenced by the Coordinator, is the most effective approach to develop a better, fit-for purpose framework; and
- While the ARF Review is underway, the Amending Rules in section 7 of this report will:
 - remove unnecessary burden on AEMO, the ERA and stakeholders by suspending the current ARF; and
 - provide certainty regarding AEMO's budget and its fees during the review period.

7. Amending Rules

The Coordinator has decided to implement the following Amending Rules (~~deleted text~~, added text, rules that are included for context but not amended):

Explanatory Note

Subrule 107A(4) has been changed since the Draft Rule Change Report to include a requirement for AEMO to publish supporting information detailing why financial performance varied against its Budget.

Subrule 107A(5) has been changed since the Draft Report to:

- implement a 50% adjustment using the Wage Price Index and a 50% adjustment using the Consumer Price Index, as outlined in section 6.1.4 and 6.2.1 of this report;
- make it explicit that the formula uses the decimal value of the annual percentage change in the Wage Price Index and Consumer Price Index; and
- align the drafting with the Australian Bureau of Statistics' terminology for the Wage Price Index.

107A. Specific Transitional Provisions disapplying Part 7 Division 2 and Part 7 Division 3 – determination of AEMO's budget

- (1) Subject to subrule 107A(2), Part 7 Division 2 and Part 7 Division 3 of these Rules do not apply to the determination of AEMO's Allowable Revenue, Forecast Capital Expenditure or the AEMO Budget.
- (2) The regulatory reporting guidelines issued by the ERA under subrule 109(7)(b), effective 21 September 2022, will continue to apply as contemplated in this rule 107A.
- (3) By 30 June 2025, AEMO must publish on the GSI Website the AEMO Budget for the Financial Year commencing on 1 July 2025 as determined in accordance with subrule 107A(5).
- (4) By 31 October 2025, AEMO must publish on the GSI Website a financial report showing actual financial performance of AEMO against its budget, for the previous Financial Year and including supporting information detailing why actual financial performance varied from its budget for the previous Financial Year. The report must be in accordance with the regulatory reporting guideline referred to in subrule 107A(2).
- (5) For the purpose of subrules 114(a), 116(1), 117(1) and 117(3), for each Financial Year FY starting with the Financial Year commencing on 1 July 2025, the AEMO Budget for a Financial Year FY is determined as follows:

$$\text{AEMO_Budget (FY)} = ((0.5 \times \text{AEMO_Budget (FY-1)}) \times (1 + \text{WPI (March quarter FY-1)})) + ((0.5 \times \text{AEMO_Budget (FY-1)}) \times (1 + \text{CPI (March quarter FY-1)}))$$

where:

- AEMO Budget (FY) is the AEMO Budget of the Financial Year FY;
- WPI (March quarter FY-1) is the latest decimal value of the published annual percentage change in the Australian Bureau of Statistics Wage Price Index for

the Australian all sectors excluding bonuses (Original) for the March Quarter immediately preceding the start of the Financial Year (FY);

(c) CPI (March quarter FY-1) is the latest decimal value of the published annual percentage change in the Australian Bureau of Statistics Consumer Price Index for the Australian all groups (not seasonally adjusted) for the March Quarter immediately preceding the start of the Financial Year (FY); and

(d) AEMO Budget (FY-1) is the AEMO Budget for the Financial Year preceding the Financial Year FY.

(6) For the purpose of the definition of 'AEMO Budget', the reference to the budget being published under rule 111A will be a reference to the budget being determined under rule 107A.

Appendix A. Response to Second Period Submissions

Issue	Submitter	Issue Raised	Coordinator's Response
Wage Price Index adjustment formula			
1	CME	<p>CME agrees that an indexation of the Fees is required to ensure AEMO's continued viability. However, with labour costs being approximately a third of AEMO's costs a better could use a combination of a WPI adjustment (one third) and a CPI adjustment (two thirds). The CME also suggest clarifying that the WPI adjustment should exclude bonuses.</p> <p>Additionally, CME believes that the CPI adjustment should use the Perth All-Group excluding food and energy or the Perth All Group excluding volatile items series due to the volatility in the All-Group series introduced by state and federal electricity subsidies.</p> <p>Finally, CME consider that the choice of the national or Western Australia WPI should account whether AEMO is competing for labour in the national or WA labour markets. Therefore, there should be a reflection on which measure is appropriate.</p>	In response to the issues raised by CME, the Coordinator has amended the Price Index adjustment formula to implement an adjustment of 50% using the WPI and 50% using the CPI to address its concerns that an adjustment based only on the WPI is not reflective of AEMO's cost structure. See section 6.1.5.
Matters to consider in the ARF Review			
2	Chris Alexander – Expert Consumer Panel member	<p>Mr Alexander considers that a core issue for the ARF review to consider is how to adapt the framework to incentivise AEMO to operate efficiently and that the ERA can consider while ensuring system security and achieving environmental objectives.</p> <p>Mr Alexander refers to reforms and practices within the United Kingdom electricity market regarding Ofgem and the National Electricity System Operator highlighting how they can be useful to consider.</p>	These suggestions are welcome and will be considered as part of the ARF Review.

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