



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

Final Rule Change Report – AEMO's Allowable Revenue Framework (RC_2024_01)

Standard Rule Change Process

26 February 2025

Working together for a **brighter** energy future.

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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” (RC_2024_01).

On 3 September 2024, the Coordinator of Energy (Coordinator) sought clarification under clause 2.5.5 of the Wholesale Electricity Market (WEM) Rules and 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 section 2.7 of the WEM Rules.

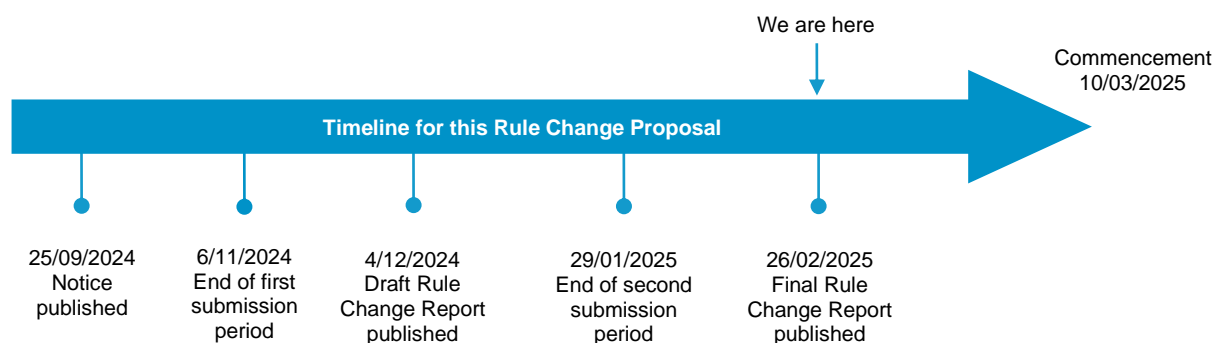
On 4 December 2024, the Coordinator published a Draft Rule Change Report setting the second submission period to 29 January 2025 to account for the End-of-Year holiday period.

The Rule Change Proposal RC_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 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, 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 as part of regular WEM effectiveness reporting.

The Rule Change Proposal Notice and all other documents related to this Rule Change Proposal can be found on the Coordinator’s website at [Rule Change: RC_2024_01 \(www.wa.gov.au\)](http://www.wa.gov.au).

The key dates for progressing this Rule Change Proposal are:



This Final Rule Change Report is drafted in accordance with clause 2.7.7A(b) of the WEM 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 final decision is to reject 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.

The Coordinator is commencing a review of the Allowable Revenue Framework (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).

The Coordinator is undertaking the review of AEMO's ARF through a separate process and not as part of the progression of RC_2024_01 to allow for adequate stakeholder consultation while providing clarity regarding AEMO's fees during the period of the AFR Review.

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

The Coordinator is amending the WEM Rules to:

- suspend the current ARF under section 2.22A of the WEM Rules until fees can be set under the Replacement Framework;
- continue to apply the current Market Participant Market Fee rate and Application Fees while the ARF Review is progressing; and
- for every Financial Year while the ARF Review is underway, 50% of the previous Financial Year's Market Participant Market Fee rate and Application 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 to set the interim fees are set out in section 7 of this report.

2.1 Reason for the Coordinator's Decision

The Coordinator's final decision is to reject RC_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 and the Market Advisory Committee's (MAC's) advice during the first submission period that improvements are necessary, but the Rule Change Proposal will not address the current issues for reasons including:

- that AEMO's ARF requires the regulatory oversight of the ERA to ensure the process receives the appropriate scrutiny and transparency;
- concerns that Market Participants and customers are not well placed to review or influence AEMO's Allowable Revenue;
- concerns that, under the proposed framework, Market Participants would likely incur substantial costs reviewing AEMO's Allowable Revenue; and

- that AEMO's proposed changes would not be consistent with the WEM Objectives (now the State Electricity Objective).

The ARF Review, commenced by the Coordinator, will best allow for adequate stakeholder consultation and 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 market fees. These were supported by most stakeholders responding to the Coordinator's draft decision. The Amending Rules set out in section 7 in 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 Market Participant Market Fee rate and Application Fees until new fees are set once a Replacement Framework is implemented.

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

2.2 Commencement

The Amending Rules will commence at **8:00am** on **10 March 2025**.

3. Proposed Amendments

3.1 The Rule Change Proposal

This section provides a summary of Rule Change Proposal RC_2024_01. The full Rule Change Proposal can be found on the Coordinator's website at [Rule Change: RC_2024_01 \(www.wa.gov.au\)](https://www.wa.gov.au).

3.1.1 Issues raised

In RC_2024_01, AEMO considered that its current ARF is not fit for purpose because:

- The current framework allows the ERA only to approve forecast costs that have a high degree of certainty and, in the current environment of fast-paced WEM reforms, costs are difficult to forecast with certainty.
- The ongoing WA energy transition leads to year-on-year uncertainty on obligations and costs for AEMO and Market Participants.
- 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:

- requiring AEMO 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 Market Participants regarding the delivery of critical projects due to funding uncertainty, leading to inability to accurately forecast Market Fees; and
- the administration and associated resourcing to develop the allowable revenue submissions 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.

3.1.2 Proposed changes

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

RC_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 AEMO established processes with requirements to consult with its stakeholders;
- major project 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 as part of its WEM effectiveness reporting.

3.2 The Coordinator's Initial Assessment of the Proposal

The Coordinator decided to progress RC_2024_01 based on a preliminary assessment that it:

- was not inconsistent with the Wholesale Market Objectives¹;
- raised a valid issue within the WEM Rules;
- did not create other problems within the WEM Rules; and
- was not, at that time, part of an upcoming review or reform program.

¹ On 6 February 2025, the Electricity Industry Act 2004 was amended and the Wholesale Market Objectives were replaced by the State Electricity Objective. While the WEM Rules have not yet been updated to reflect this change, the Electricity Industry Act takes precedence over the WEM Rules as provided by clause 1.5.2.

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 Market Advisory Committee (**MAC**) and the Coordinator's response to the views of the MAC;
- submissions made in the first and second submission periods, and the Coordinator's response to the issues raised in those submissions;
- any consultation regarding the WEM Technical Standards, as required under clause 2.4.3B of the WEM Rules; 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 making a decision on RC_2024_01.

4.1 Draft 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 Market Advisory Committee

A summary of the consultation conducted with the MAC regarding this Rule Change Proposal prior to publication of the Draft Rule Change Report is provided in section 5.2 of the Draft Rule Change Report.

The MAC has not provided any further advice to the Coordinator since publication of the Draft Rule Change Report regarding the evolution or development of the WEM or the WEM Rules that is relevant to the issues addressed in RC_2024_01.

4.3 The Coordinator's Response to the Market Advisory Committee

The Coordinator's response to the MAC's advice regarding RC_2024_01 is provided in section 5.3, section 6 and Appendix A of the Draft Rule Change Report.

The MAC did not provide further advice to the Coordinator regarding Rule Change Proposal RC_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 submissions from:

- Australian Energy Council (AEC)
- Alinta Energy
- Bluewaters Power
- Chamber of Minerals and Energy of Western Australia (CME)

- Expert Consumer Panel member Chris Alexander
- Perth Energy
- Shell Energy
- Summit Southern Cross Power
- Synergy

A summary of these submissions 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 and Appendix B 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
- Alinta Energy
- CME
- Erne Energy
- Expert Consumer Panel member Chris Alexander
- Synergy

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

Out of all submissions, only Alinta Energy did not support the Coordinator's draft decision to suspend the current ARF. Alinta Energy considers that the suspension removes regulatory oversight and will not address any of the problems that were raised during this Rule Change Process. Alinta suggested that the Coordinator implements an interim ARF that combines indexation and regulatory oversight. All other submissions supported the Coordinator's draft decision to suspend the current ARF.

Stakeholders, who commented on the draft indexation of market fees, supported the Coordinator's draft decision to index fees during the transitional period.

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

- using a proportional adjustment to reflect AEMO's labour and non-labour costs; and
- using the Perth price index series instead of the national series.

CME also suggested:

- using the Consumer Price Index (CPI) '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.

The assessments by the submitting parties as to whether the WEM Rules, as amended by the Amending Rules in the Draft Rule Change Report, would better achieve the Wholesale Market Objectives² are summarised in Table 1. Stakeholders not listed in the table did not provide an assessment.

Table 1: Comments on the Wholesale Market Objectives from the Second Period Submissions

Submitter	Wholesale Market Objectives Assessment
Alinta Energy	<p>Alinta Energy supports the Coordinator’s draft decision to reject RC_2024_01 and to commence the ARF Review. However, Alinta Energy considers that the Coordinator’s draft decision to suspend the ARF entirely risks creating uncertainty for achieving the WEM objectives as it will implement a ‘set and forget’ approach to determining AEMO’s fees without regard to its expenditure, potentially undermining the financial viability of AEMO. Alinta Energy believes that this is due to AEMO’s:</p> <ul style="list-style-type: none"> • important role enabling the energy transition; • position as a monopoly market operator and therefore not subject to market forces; • inability to accurately forecast its costs resulting in under recovery; and • limited experience operating the new WEM.
Synergy	<p>Synergy supports the Coordinator’s draft decision on the basis it:</p> <ul style="list-style-type: none"> • Better facilitates the achievement of the WEM objectives and will result in better market outcomes consistent with WEM Rule objectives 1.2.1(a) and (d) relative to AEMO’s proposal; and • Provides a reasonable transition approach while a replacement framework is developed and implemented.

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.

² On 6 February 2025, the Electricity Industry Act 2004 was amended and the Wholesale Market Objectives were replaced by the State Electricity Objective. At the time the second submissions period closed, the Wholesale Market Objectives were still in place.

4.8 Advice on the WEM Technical Standards

The Coordinator did not consider that the Amending Rules will directly or indirectly affect the WEM Technical Standards and therefore did not seek advice from AEMO or a Network Operator.

4.9 Public Forums and Workshops

The Coordinator did not hold a public forum or workshop for RC_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 clauses 2.4.2 and 2.4.3 of the WEM 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 RC_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

In preparing its Final Rule Change Report, the Coordinator must assess the Rule Change Proposal considering clauses 2.4.2 and 2.4.3 of the WEM Rules.

Clause 2.4.2 states:

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

Clause 2.4.3 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 under clause 2.5.2;
- (aA) any advice provided by the MAC regarding the evolution or the development of the WEM or these WEM Rules;
- (b) the practicality and cost of implementing the Rule Change Proposal;
- (c) the views expressed in any submissions on the Rule Change Proposal;
- (d) any advice by the MAC where the MAC met to consider the Rule Change Proposal;
- (dA) whether the advice from the MAC provided under clause 2.4.3(d) 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 taken into account by the Coordinator;
- (e) any technical studies that the Coordinator considers are necessary to assist in assessing the Rule Change Proposal; and
- (f) any advice or information provided by AEMO or a Network Operator under clause 2.4.3C.

When making its decision, the Coordinator has had regard to each of the matters identified in clauses 2.4.2 and 2.4.3 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 Wholesale Market Objectives can be found in section 6.3;
- the Minister has not provided a statement of policy principles to the Coordinator in respect of this Rule Change Proposal;
- the Coordinator's assessment of the practicality and cost of implementing the Rule Change Proposal can be found in section 6.7;
- a summary of the views expressed by the MAC is 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 MAC are provided in sections 4.3 and 6.1 of this Final Rule Change Report, and in section 5.3, section 6.1 and Appendix A 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 section 5.5, section 6.1 and Appendix B 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;
- the Coordinator's responses to the second period submissions are provided in section 4.7 and Appendix A of this Final Rule Change Report;
- the Coordinator does not believe a technical study in respect of this Rule Change Proposal is required and therefore has not commissioned one; and
- the Coordinator did not consider that the Amending Rules will directly or indirectly affect a WEM Technical Standard and therefore did not seek advice from AEMO or Western Power on the WEM Technical Standards.

6.1 Assessment of the Proposed Changes

6.1.1 Case for change

As outlined in the Draft Rule Change Report, AEMO, the MAC 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 an incentive-based 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 the various concerns raised with AEMO's ARF and agrees that the current framework requires improvement.

6.1.2 Reject RC_2024_01

Stakeholder submissions received during the second submission period, reinforce 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 RC_2024_01.

Therefore, the Coordinator's final decision is to reject RC_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.

All stakeholder submissions received during the second submission period support 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 RC_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 AFR that were made during the first and second submission periods will be taken into account in the ARF Review.

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.

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

Alinta Energy considered that it is not appropriate to suspend the current ARF and suggested that any interim solution should allow AEMO to fully recover its expenditure for its business-as-usual operations. Alinta Energy believed that an appropriate interim framework should:

- maintain regulatory oversight for major projects;
- address the core issues in the current ARF;
- deal with revenue for business as usual operations differently from that for major projects; and
- specify what happens when there is insufficient project funding.

The Coordinator considers that the costs of implementing an interim regulatory process, which addresses the above issues, would outweigh its benefits because:

- AEMO previously highlighted that it spends considerable resources and an estimated \$1 million to develop funding proposals under the current ARF framework;
- the ERA previously highlighted that there are issues with incentive-based regulation for a not-for-profit entity like AEMO;
- the ERA assigns significant resources to bridge information gaps and undertake ongoing analysis; and
- the development of an "interim" framework would either require similar time and effort to the development of the Replacement Framework or forego adequate consultation and sufficient analysis of alternative options.

The Coordinator considers that there is greater benefit from implementing a workable long-term ARF than from implementing an "interim" framework that has not been sufficiently considered by AEMO, the ERA and Market Participants. Implementing an "interim" framework will likely not address all the problems with the current ARF while creating a resource drain on stakeholders, the ERA and AEMO that causes further delays in implementing important reform projects.

Further, the Coordinator's decision to commence the ARF Review signals that credible alternative options for AEMO's ARF will be considered so that a 'set and forget' approach is not entrenched within the WEM Rules.

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 support indexing market fees by a Price Index series to allow AEMO adequate cost recovery during the transitional period. However, some stakeholders suggested that a proportional indexation should apply to reflect AEMO's labour and non-labour costs. Some stakeholders also suggested that the Perth Series would be more appropriate to reflect AEMO's costs associated to the WEM than the national/all capital cities series.

The below table shows an indicative Market Participant Market fee using AEMO's 2025 Financial Year fee (\$2.6717/MWh) 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 the Market Participant Market Fee

Adjustment	Market Participant Market Fee
Adjusted by the annual percentage change in the Perth WPI	\$2.7599/MWh
Adjusted by the annual percentage change in the Australian WPI	\$2.7572/MWh
50% adjusted by the annual percentage change in the Perth WPI and 50% adjusted by the annual percentage change in the Perth CPI	\$2.7545/MWh
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	\$2.7527/MWh
Adjusted by the annual percentage change in the Perth CPI	\$2.7492/MWh
50% adjusted by the annual percentage change in the Australian WPI and 50% adjusted by the annual percentage change in the Australian CPI	\$2.7465/MWh
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	\$2.7429/MWh
Adjusted by the annual percentage change in the Australian CPI	\$2.7358/MWh

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

Proportional adjustment

The Coordinator agrees with stakeholders' feedback from the second period submissions, 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 deliver WEM reforms and to perform its business as usual functions.

Based on the AEMO's cost 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 draft 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 requirement

Synergy suggested that clause 1.65.3 be amended to require AEMO to provide supporting information detailing why actual financial performance has varied against its budget for the previous year.

The Coordinator agrees that AEMO should publish supporting information detailing why actual financial performance has varied against its budget as it will improve transparency and assist in determining the cost drivers for AEMO.

6.2 Additional Amendments to the Proposed Amending Rules from 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 the price index adjustment 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 practicable. Consequently, the Coordinator has made changes to the new clauses 1.65.4 and 1.65.5 to specify 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 Market Participation Fee rate will adjust by:

$$\begin{aligned} & \text{Market Participation Market Fee}(2025 - 26) \\ &= ((0.5 \times \text{Market Participation Market Fee}(2024 - 25)) \times (1 + 0.03)) \\ &+ ((0.5 \times \text{Market Participation Market Fee}(2024 - 25)) \times (1 + 0.025)) \end{aligned}$$

The Coordinator considers that any other price index adjustments within the WEM Rules should be consistent with the more specific price index adjustment in clauses 1.65.4 and 1.65.5.

Therefore, the Coordinator will take the next opportunity that allows for stakeholder consultation to consider changes to clauses 1.63.9, 4.29.1D and 4.29.2 to make the price index adjustment clearer and consistent with the wording for clauses 1.65.4 and 1.65.5.

6.2.2 Requirement for AEMO to publish additional information

The Coordinator has made changes to the new clause 1.65.3 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 State Electricity Objectives

Based on feedback from the second submission period, the Coordinator considers that rejecting RC_2024_01 will better achieve the State Electricity Objective.³ In particular, the rule changes proposed by AEMO would remove the regulatory oversight of the ERA, and reduce AEMO's accountability and the certainty regarding its costs. This has the potential to:

- reduce the economic efficiency of the market; and
- lead to increased market costs.

Therefore, the changes proposed in the Rule Change Proposal would not be in the long-term interest of the consumer relating to Section 3A(1)(b) of the Electricity Industry Act.

The Coordinator considers that the Amending Rules in this Final Rule Change Report are consistent with the State Electricity Objective as they provide for a reasonable transition until the Replacement Framework is implemented, and allow AEMO to continue to undertake all of its functions effectively in the intervening period.

³ On 6 February 2025, the Electricity Industry Act 2004 was amended and the Wholesale Market Objectives were replaced with the State Electricity Objective. While the WEM Rules have not been updated to reflect this change, the Electricity Industry Act has precedence over the WEM Rules as provided by clause 1.5.2.

6.4 Protected Provisions

The final Amending Rules do not amend any clauses that are Protected Provisions, nor does the Coordinator consider that any of the new clauses should be Protected Provision.

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 clauses 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 include decisions that should be Reviewable Decisions.

6.7 Cost and Practicality of Implementation

6.7.1 Cost

Stakeholders noted the following cost implications relating to the Coordinator's draft decision:

- Alinta Energy considered that implementing the draft Amending Rules without amendments to ensure the financial viability of AEMO and that funding for transition and reform initiatives is available, thereby preventing delays, can have a catastrophic cost impact on the Market Participants and consumers; and
- Synergy did not expect to incur significant costs to implement the draft Amending Rules. Further, and believed that it is more cost effective to maintain the ERA's role in assessing AEMO's ARF over having Market Participants and consumers performing the role.

As outlined in section 6.1.4, the Coordinator considers that the costs of developing and implementing an interim regime, as proposed by Alinta, outweigh any benefits of such a regime.

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 RC_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 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

Section 1.65 has been replaced.

~~1.65. Specific Transitional Provisions regarding the timelines for AEMO's Allowable Revenue and Forecast Capital Expenditure for the Review Period from 1 July 2025 to 30 June 2028.~~

~~1.65.1. Notwithstanding clause 2.22A.2A, for the Review Period from 1 July 2025 to 30 June 2028, the following timelines apply:~~

- ~~(a) AEMO must submit a proposal for its Allowable Revenue and Forecast Capital Expenditure for the Review Period to the Economic Regulation Authority by 31 March 2025;~~
- ~~(b) the Economic Regulation Authority must publish on its website a draft determination of AEMO's Allowable Revenue and Forecast Capital Expenditure for the Review Period for public consultation by 30 April 2025;~~
- ~~(c) the Economic Regulation Authority must prepare and publish on its website its final determination of AEMO's Allowable Revenue and Forecast Capital Expenditure for the Review Period by 30 June 2025; and~~
- ~~(d) if the Economic Regulation Authority does not make a determination by the date in clause 1.65.1(c), the last Market Participant Market Fee rate determined in accordance with section 2.24 will continue to apply until the Economic Regulation Authority makes a determination.~~

Explanatory Note

Clause 1.65.3 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.

Clauses 1.65.4 and 1.65.5 have been changed since the Draft Rule Change Report, to:

- implement a 50% adjustment using the Wage Price Index and a 50% adjustment using the Consumer Price Index, as outlines in section 6.1.5 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 with the Australian Bureau of Statistics' terminology for the Wage Price Index.

1.65. Specific Transitional Provisions disapplying section 2.22A - determination of AEMO's budget

1.65.1. Subject to clause 1.65.2, section 2.22A does not apply to the determination of AEMO's Allowable Revenue and Forecast Capital Expenditure or budget.

1.65.2. The Regulatory Reporting Guideline issued by the Economic Regulation Authority under clause 2.22A.9(b), effective 21 September 2022, will continue to apply as contemplated in this section 1.65.

1.65.3. By 31 October 2025, AEMO must publish on the WEM Website a financial report showing actual financial performance of AEMO against its budget for the previous Financial Year (including, without limitation, the actual amount paid to a Delegate compared to the budgeted amount) 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 clause 1.65.2.

1.65.4. Notwithstanding clause 2.24.2(f), for the purpose of clause 2.24.2(a), for each Financial Year FY starting with the Financial Year commencing on 1 July 2025, the Market Participant Market Fee rate will be determined as follows:

$$\text{MP Market Fee rate(FY)} = ((0.5 \times \text{MP Market Fee rate(FY-1)}) \times (1 + \text{WPI(March quarter FY-1)})) + ((0.5 \times \text{MP Market Fee rate(FY-1)}) \times (1 + \text{CPI(March quarter FY-1)}))$$

where:

- (a) MP Market Fee rate(FY) is the Market Participant Market Fee rate of the Financial Year FY;
- (b) 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 (not seasonally adjusted) 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) MP Market Fee rate(FY-1) is the Market Participant Market Fee rate for the Financial Year preceding the Financial Year FY.

1.65.5. Notwithstanding clause 2.24.2(f), for the purpose of clause 2.24.2(d), for each Financial Year FY starting with the Financial Year commencing on 1 July 2025, the maximum amount AEMO can determine for each Application Fee is:

$$\text{Max_AF(t,FY)} = ((0.5 \times \text{AF(t,FY-1)}) \times (1 + \text{WPI(March quarter FY-1)})) + ((0.5 \times \text{AF(t,FY-1)}) \times (1 + \text{CPI(March quarter FY-1)}))$$

where:

- (a) Max AF(t,FY) is the maximum Application Fee for the application type t for the Financial Year FY;
- (b) 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 (not seasonally adjusted) 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);
- (d) AF(t,FY-1) is the Application Fee for the application type t for the Financial Year preceding the Financial Year FY; and
- (e) t is the application type.

Appendix A. Response to Second Period Submissions

Issue	Submitter	Issue Raised	Coordinator's Response
Suspending the current Allowable Revenue Framework and commencing the Allowable Revenue Framework Review			
1	Alinta Energy	<p>Alinta supports the Coordinator's decision to commence a fulsome review of the ARF. However, Alinta considers it inappropriate to suspend the current ARF entirely. Alinta believes that suspending the current ARF does not address the budget setting issues raised by AEMO and Market Participants and it removed the regulatory oversight to ensure transparency and accountability of AEMO's financial management.</p> <p>Alinta cannot support an interim framework that does not address the core issues and concerns, including fluctuations and shortfalls in AEMO's revenue and expenditure. Alinta believes suspending the current framework and operating under the interim approach will implement a 'set and forget' approach for market fees undermining AEMO's financial viability.</p> <p>Alinta recommends an interim approach that deals with revenue for business operations differently from major projects and recommends the interim approach has the following elements:</p> <ul style="list-style-type: none"> Set a benchmark index fee structure for AEMO's business as usual operations When additional project funding is required, AEMO should submit a detailed proposal to either the ERA or the Coordinator Require funding for projects to be forecast on an annual basis with ERA oversight If there is insufficient funding for a project, AEMO should recover the loss with a proportional increase the next year 	<p>The Coordinator considers that the costs of developing and implementing such an interim regime outweigh any benefits of such a regime. See section 6.1.4 of this report.</p>
2	Synergy	<p>Synergy supports the draft decision as it provides a reasonable transition approach while a replacement framework is developed.</p> <p>However, Synergy suggests that Rule 1.65.3 be amended to require AEMO to publish supporting information detailing why actual financial performance has varied against its budget for the previous year in addition to publishing financial data.</p>	<p>The Coordinator has made further amendments to address Synergy's suggestion. See section 6.1.6.</p>

Issue	Submitter	Issue Raised	Coordinator’s Response
Wage Price Index adjustment formula			
3	Alinta Energy	<p>Alinta considers certainty of ongoing fees important, it is concerned that the current fee structure will not provide cost-recovery for AEMO, thereby, creating delays in AEMO implementing necessary market reforms that will adversely affect the market and consumers. Therefore, Alinta suggests a break-even remedy.</p> <p>Alinta believes it is inappropriate to adjust the Market Participant Market Fee and Application fees entirely by WPI as AEMO’s labour costs are approximately 49% of its expenditure. Alinta recommends that the fees be adjusted annually using a recognised inflation rate and as the fees concern AEMO’s Western Australia the inflation rate could be the annual Perth inflation rate.</p> <p>Alternatively, fees could be adjusted proportionally using the WPI for labour costs and the Consumer Price Index (CPI) for other expenditures.</p>	<p>In response to issues raised by Alinta Energy and the 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 their concerns that an adjustment based only on the WPI is not reflective of AEMO’s cost structure. See section 6.1.5.</p>
4	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).</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>	
Requested information about the ARF Review			
5	Synergy	<p>Synergy recommends that the Coordinator publishes replacement framework details in the Final Rule Change Report outlining:</p> <div><div><ul style="list-style-type: none">ObjectivesAssessment criteria and methodAdjustment mechanisms for under or over recovery during the transition period</div><div><ul style="list-style-type: none">TimelinesStakeholder engagement model</div></div>	<p>The Coordinator has published a scope of work for the ARF Review on the Coordinator’s website.</p>

Issue	Submitter	Issue Raised	Coordinator's Response
Matters to consider in the ARF Review			
6	Chris Alexander – Expert Consumer Panel member	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. 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.	These suggestions are welcome and will be considered as part of the ARF Review.
7	Erne Energy	Erne Energy considers the following key issues that should be considered when developing a replacement framework: <ul style="list-style-type: none"> • The need for trust • The ERA's ongoing key role • Prudent and efficient delivery of outcomes • Retaining good governance • Managing monopolies 	
8	Synergy	Synergy advocates energy reform proposal development and implementation should be considered as part of the ARF Review.	

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