

14 August 2025

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Locked Bag 100, EAST PERTH WA 6892

## **Allowable Revenue Framework Review - Consultation Paper**

By online submission

Dear Ms Guzeleva,

The Australian Energy Market Operator (AEMO) appreciates Energy Policy WA's (EPWA) leadership in initiating the review of the Allowable Revenue Framework and the opportunity to contribute to this important process. AEMO acknowledges the efforts undertaken by EPWA to understand the challenges posed by the previous Allowable Revenue Framework and identify opportunities to improve its operation through reform. This has included extensive engagement with AEMO and the ERA that has supported a well-informed and constructive dialogue.

In response to the *Allowable Revenue Framework Review – Consultation paper* (consultation paper), AEMO generally supports the recommendations outlined in the consultation paper, many of which respond explicitly to the clear messages received from stakeholders desiring greater transparency and accountability from AEMO regarding its operations in Western Australia. AEMO is committed to addressing these matters.

### **AEMO's commitment to transparency**

Consistent with its commitment to responding to stakeholder feedback, over the last six months AEMO has undertaken several actions to address matters relating to transparency and accountability. These changes have been underpinned by consultation with stakeholders regarding the matters affecting them the most, including increasing cost, the implementation of major projects and the need for greater transparency. Recent actions that aim to increase transparency of AEMO's financial management practices for its WA operations include:

- establishment of the Major Projects Working Group (MPWG) under the Market Advisory Committee, including processes such as the development of Implementation Assessments and provision of advice for a transparent, trackable 'Wholesale Electricity Market (WEM) Implementation Roadmap';
- targeted meetings with Market Participants, peak bodies, and others to discuss AEMO's financial governance and costs;
- addition of Western Australian representatives to AEMO's enterprise-wide Financial Consultation Committee; and
- completion of a major uplift to our financial systems that will enable us to be compliant with all current financial and budget reporting obligations going forward.

AEMO notes that the efficacy of a new framework will depend largely on its final detailed design and how it is implemented and is committed to continuing to work closely with EPWA and the ERA to make this new framework as effective as possible.

In this submission, AEMO has considered matters relating to the ways of promoting the efficiency of the proposed framework, high-level regulatory design, day-to-day operation, and timing of implementation.

### **Efficiency of the new framework – Leveraging existing processes**

One of the challenges with the existing Allowable Revenue Framework identified by EPWA is the cost of its operation, relative to its perceived efficacy. This issue is critical as the costs of administering the framework and the impact of its outcomes are both ultimately borne by Market Participants.

AEMO supports EPWA's intent that reporting requirements would be limited to that which AEMO would produce in the ordinary course of doing business, while still achieving improved transparency, accountability and incentivisation. In practice, this may best be achieved through pragmatic and flexible approaches to how decision-making by the Economic Regulation Authority (ERA) and proposed Independent Panel is supported by information provided by AEMO.

Consideration might also be given to the granularity of information required by decision-makers, ensuring that it is proportionate to the scale of funds being sought for approval and the impact on Market Participants. A useful point of comparison may be the type and extent of information provided under Western Power's Access Arrangement framework.

### **High-level regulatory design – Outcome-driven and informed through consultation**

AEMO supports the implementation of a new Allowable Revenue Framework through the Electricity System and Market (ESM) Rules, with implementation being largely detailed in Guidelines and Terms of Reference, such as that proposed for the Independent Panel. Capturing more detailed, operational aspects of the replacement Allowable Revenue Framework within these subsidiary documents will enable it to evolve over time and be flexibly applied, responding to continued changes in the sector.

While aspects of the framework's operation may be contained in subsidiary instruments, it could be beneficial if these are guided by outcome-focused principles outlined in the ESM Rules. These may usefully have explicit reference to the State Electricity Objective and provide guidance of how it may be applied in the context of a new Allowable Revenue Framework.

Additionally, EPWA may wish to consider requiring subsidiary instruments relating to the proposed framework be subject to public consultation in their development and periodic review. This contrasts with the ERA's current Funding Proposal Guideline and Regulatory Reporting Guideline. While the ESM Rules require these instruments to be consulted-on when amended by the ERA, there is no requirement for their periodic review to ensure they remain relevant and responsive to stakeholder views on the operation of the framework.

Outside of formal review cycles, stakeholders may also identify ways to improve the framework's operation. To support this, it may be beneficial to establish methods by which stakeholders can propose amendments to the subsidiary instruments giving effect to the framework, which could then be considered by the 'owner' of those instruments (the ERA, or EPWA in the case of the Independent Panel's Terms of Reference).

### **Operation of the new framework – non-BAU intra-meeting project activity**

AEMO appreciates the intent for the proposed Independent Panel to not be a standing body and acknowledges that this approach may ultimately benefit Market Participants through reduced cost. However, AEMO considers that some minor adjustments to the proposed approach may be necessary if these benefits are to be realised.

EPWA proposes that the Independent Panel usually meet only once every six months and that project plans should be submitted by AEMO to the Independent Panel six months prior to commencement.

AEMO's development of project plans uses a standard, well-established approach consistent with good industry practices. Extensive work is undertaken in feasibility and planning stages of a project to design and estimate costs, and this work culminates in the development of a project plan. A team needs to be mobilised during the planning stage to develop a project plan with sufficient detail and cost certainty to warrant assessment by the Independent Panel, at which point, the project is ready to be executed. If, at this stage, the project needs to wait for over six months before commencing, as currently proposed, there will be significant cost and risk added either due to needing to demobilise and then subsequently re-establish the team, or to continuing to fund the run costs of the project during this waiting period.

An alternative that would still add some cost but shorten the period of delay between planning and execution may be for the project plan to be submitted just prior to the Independent Panel's review. Allowing six weeks for the Independent Panel to develop their report, and then for AEMO to consider any recommendations prior to any approval, this could potentially halve the waiting period from six months down to three.

Ensuring an adequate allowance is available for AEMO to commence planning and early work ahead of review and final recommendations by the Independent Panel (as suggested in EPWA's consultation paper) will be critical to mitigate risk of project delays, as will be the ability of the Independent Panel to convene during the intra-meeting period to consider urgent matters. For these reasons, AEMO supports both these proposals.

Over time, once the working relationship between AEMO and the Independent Panel is established, a more agile review process may work better to ensure that project costs are assessed in a timely and efficient manner, facilitating transparency and appropriate scrutiny without resulting in undue project delays.

### **Operation of the new framework – 'business-as-usual' costs**

To avoid regular reassessment of BAU costs by ERA, which AEMO understands is not the intent of the proposed framework, it is important that the indexation applied to BAU baseline expenditure is set taking into account drivers of AEMO's cost increases such as wage growth driven by existing Enterprise Bargaining Agreements, and energy consumption driven differences between increases in AEMO's costs and market fees.

Also critical to the operation of the proposed framework is clarity on what constitutes a 'Project' that must be considered by the Independent Panel and what may be defined as a 'business-as-usual' (BAU) cost that is assessed by the ERA. EPWA has proposed that the ERA guidelines outline how the two cost categories interact over time as project-related costs become BAU operating costs. AEMO is keen to work with ERA in the development of these guidelines to ensure that these costs, which are a consequence of the project, are not at risk of being unrecoverable once they become BAU.

### **Timing for implementation of a new framework**

Transitioning to the new framework will require lead time to accommodate giving due consideration of stakeholder feedback to this consultation, preparation of Amending ESM Rules, changes to ERA processes and guidelines to assess proposed BAU expenditure, and the establishment of the new Independent Panel. Given these transitional needs, AEMO would welcome the opportunity to work closely with EPWA to review and, if necessary, adjust the current interim fee-setting arrangements to ensure continuity of funding and alignment with the new framework requirements.

### **Closing remarks**

While the detail of many design elements has yet to be resolved, AEMO is encouraged by EPWA's proposed Allowable Revenue Framework as outlined in its consultation paper. Its ability to meet the objectives of the review will depend on the level of pragmatism applied in the ERA guidelines and by the Independent Panel in assessing project plans. AEMO is committed to working collaboratively with both the ERA and Independent Panel to help make this replacement Allowable Revenue Framework a success. Further to this, AEMO thanks EPWA again for the opportunity to contribute to the development of workable solutions that meet stakeholder expectations regarding transparency, accountability, and efficiency.

AEMO looks forward to continued discussion regarding the detail of the Allowable Revenue Framework and related Amending Rules and implementation of the new framework. Should you wish to discuss any of the matters raised in this submission please contact Steve Kelly, Finance & Governance Manager (WA) on [REDACTED].

Yours sincerely,

DocuSigned by:  
[REDACTED]

Nicola Falcon  
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Western Australia